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China Social Enterprise and Social Impact Investment Development Report

is jointly researched, written, and published by Shanghai University of Finance & Economics Social Enterprise Research Center, Peking University Center for Civil Society Studies, the 21st Century Social Innovation Research Center, and the University of Pennsylvania School of Social Policy & Practice

Editorial Committee:

Weiyan Zhou   Xiaobin Zhu

Tianxue Qiu   Ruijun Yuan

Jingya Chen   Tongkui Chen

English language version edited by David Hayward Evans, and translated by Manning Ding

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The term “social enterprise” is still unfamiliar to most in China. The term has been in use for three decades, having been first coined by Freer Spreckley in 1978. Bill Drayton, founder of the world’s largest social entrepreneur support network, Ashoka, first began using the term “social entrepreneur” in the 1970s. In 2006, Professor Muhammad Yunus of Bangladesh became the first social entrepreneur to receive the Nobel Peace Prize for the Grameen Bank’s efforts to alleviate poverty through microcredit.

In China, the first book on social entrepreneurship, How to Change the World, was published in 2006. That same year, two Harvard graduates left high-paying jobs to establish China’s first self-described social enterprise, SHOKAY, in Tibet. The 2008 Wenchuan Earthquake in Sichuan not only caused the flourishing of many civil public welfare organizations, but also provided fertile growth conditions for China’s early stage social enterprises. The well-known Aba Qiang Embroidery Support Program became emblematic of post-disaster recovery efforts. The Aba Songpan Grameen Microcredit Company was also established in the Aba minority region as a direct response to the Sichuan Earthquake. I had the opportunity to help facilitate the founding of these two social enterprises and provided them with funding and strategic support. However, because I was then the executive director of the One Foundation founded by Jet Li, I was not able to participate in the detailed on-the-ground operations of these organizations.

In 2009, the British Council launched its long-term “Skills for Social Entrepreneurs” training program in China. As a part of the program, the British Council facilitated study trips for social sector leaders to visit the UK to learn about social enterprises. To date, over 800 individuals have directly benefitted from the British Council’s training program. Moreover, as a result of the advocacy by leaders in the public sector, “social entrepreneurship” has become a new favored sector. The number of individuals and organizations participating in social enterprises and social impact investing has grown rapidly. Charity organizations, the middle class, business leaders, government departments, academic institutions, and the media all took an interest in social enterprises. Social enterprise is a key manifestation of development in our era.

In 1970, Europe experienced economic slowdown and persistent high unemployment rates. Pressures on the welfare state and social safety network created fertile conditions for collaboration between the public and nonprofit sectors. From this collaboration was quietly born a sector different from the traditional nonprofit sector -- social enterprises. This new sector made huge contributions to the transformation of the welfare system, creating employment opportunities, increasing social cohesion and building social capital, and stimulating local development and social culture. Gradually, it grew to play an important role in
ensuring a society’s sustainable development.

In 1995, the Belgian government approved a new legal corporate status called “Company with Social Purpose” (“société à finalité sociale”). The legislation outlined requirements for commercial entities looking to become organizations whose mission is to create social profit and not the accumulation of wealth by its principals. Any commercial business that fulfills the following seven requirements may apply to be recognized as a company with social purpose and receive government grants:

1. The partners agree not to seek profit or to seek only limited profit.
2. The enterprise defines a precise social goal or goals, whose purpose may not be to procure indirect profit for the partners.
3. The enterprise’s policy of allocating profits and building reserves must reflect its social goals.
4. The enterprise must produce a special annual report indicating how it went about achieving its welfare goals, including information on investment spending, operating costs and remuneration of staff.
5. Any member of staff must be allowed to become a partner after a year of commitment to the enterprise.
6. Any member of staff who terminates their work contract loses their status as a partner;
7. In the event of liquidation, any surplus, after all liabilities have been met and the partners have been reimbursed for their outlay, is allocated in keeping with the enterprise’s welfare goal (in practice, by being given to another société à finalité sociale or association à but non lucrative)

In 2004, the British Government passed the Companies (Audit, Investigations and Community Enterprise) Act. This Act introduced a new type of company called the community interest company (CIC). By granting social enterprises a special and distinguishable legal status, the British government made clear that social enterprises are distinct from traditional charity organizations and must abide by certain supervision. In 2004, there were 15,000 social enterprises, comprising of 1.2% of total British enterprises. These social enterprises employed 450,000 employees and 300,000 volunteers. As of 2009, the number of British social enterprises reached 62,000, generating 24 billion pounds in profits. 29% of these social enterprises are located in the poorest fifth of UK regions.

The policy support and guidance offered by European governments had an important impact on the development of European social enterprises. The cooperation between government, the third sector, and social sectors allowed the latter to develop and thrive.
At the inaugural Hong Kong Social Enterprise Summit held in December 2007, the then-Chief Executive of Hong Kong Sir Donald Tsang Yam-kuen pointed out that “the distinguishing feature of social enterprise is to use entrepreneurial thinking and business strategy to achieve societal goals.” In recent years, Shanghai, Guangdong, Shenzhen, and other areas in China's coastal provinces have began to see local experimental social enterprise incubators, supported by local government’s exploratory first steps.

We hope that China Social Enterprise and Social Impact Investment Development Report can objectively reflect the current situation of Chinese social enterprises and create an ecosystem that supports the healthy development of Chinese social enterprises by increasing societal attention and resource allocation and promoting the creation of policies related to Chinese social enterprises. Social enterprises are a product of the times. China is currently in its ideal growth stage. Ten years from now, we have reason to believe that social enterprises will become a core strength of Chinese society. Every one of us hopes for a better society. Change starts from this moment.

My sincerest gratitude to Professor Yuan Ruijun of Peking University, Professor Zhu Xiaobin of Shanghai University of Finance & Economics, Qiu Tianxue of the University of Pennsylvania, Xiao Huang of ECSEL, Gao Guangshen of Sun Culture Foundation, Chen Jingya of 21st Century Business Herald, and other colleagues for their collaboration. Last but not least, my sincerest thanks to UBS for their exclusive sponsorship.

Due to time limitations, I ask readers to forgive any shortcomings of the report and welcome suggestions for improvement. Our contact information is: jiawei@serc-china.org. We look forward to your valuable suggestions. Thank you!

Amy Zhou Weiyan
SERC report organizer, Founder of Yi Weilai Haojiazhang Future Parents Community Assistance Center, Co-Founder of Yongzhen Charity Foundation

March 2013
UBS is very honored to support the *China Social Enterprise and Social Impact Investment Development Report*. We believe that financial services organizations have a responsibility to promote social innovation, help address pressing social issues, and provide finance-related services for socially innovative organizations and projects. Moreover, we believe that in the future, China will become a leader in the area of social innovation and social enterprises. We hope this report will accelerate the arrival of that future.

Yan Lau

Head of Family Services, APAC

UBS Wealth Management
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Localized Conceptual Framework for Social Enterprises

Social Enterprises, A Calling of our Times

In the past few years, an increasing number of commercial entrepreneurs are no longer satisfied with pure economic returns. Instead, they hope to make a significant social impact by using commercial means to address social issues. At the other end of the spectrum, an increasing number of nonprofit organizations are trying to decrease their dependence on traditional donations and achieve financial sustainability. The first wave of Chinese social enterprises has arisen from the confluence of these forces. Simply put, social enterprises use commercial methods to achieve social goals. But why does our society need social enterprises?

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

Second, government alone cannot solve all problems confronting society. Government resources are limited and direct income from taxation can only be directed towards a finite number of projects. In addition, operational inefficiencies exist within the government, and it is unrealistic to expect the government to resolve all social issues.

Third, it is unrealistic to expect NGOs to solve societal issues. NGOs are by and large charity organizations. Charity organizations require a continuous flow of donations for their operations. Therefore, their impact is limited and dependent on the continuous inflow of funding. Such an organization cannot solve many problems that society faces at present.

If government, NGOs, and businesses cannot solve these problems, then we need a new form of solution. Social enterprises are born in this environment. Social entrepreneurs have begun to appear en masse, social impact investors are eager to participate, academia is heavily interested, local governments have begun experimenting with social enterprise incubators, and the media is calling for a spirit of social entrepreneurship. After years of preparation, a group of outstanding social entrepreneurs and social impact investors are emerging.
Yet, the definition of “social enterprise” in China remains nebulous. “Social enterprises” operate in many different areas using many different operational models. A social enterprise may be a nonprofit organization employing a business’s operational management model. Or it could be a financially profitable organization transitioning into the nonprofit area. It could also involve joint investments by several nonprofit organizations in order to achieve social objectives created by a for-profit company. The definition of “social enterprise” in China is still being heatedly debated. Therefore, we devote the first chapter of this report to an in-depth discussion of the definition of “social enterprise”, and to establishing a framework for thinking about social enterprises that is suitable for the environment in China.

Three Key Elements in the Definition of Social Enterprise

“Social enterprise” is a concept that originated in Europe. As early as 1844, the UK had a number of “co-operatives” based on similar modes of operation, employing entrepreneurial activities not for commercial profit but to achieve a social goal. Since the late 20th century, some industrialists have started focusing on social welfare issues, employing the management and operational models of commercial businesses to solve issues related to human rights, the environment, health, among other areas. These industrialists have been said to practice “social entrepreneurship”. Thus, “social enterprise” began thriving around the world.

Combining the history of the development of social enterprises with numerous more recent case studies, we believe a robust definition of “social enterprise” should contain three key elements: goal setting, operational model, and profit sharing.

“Goal setting” refers to the main goal or mission of the organization: what is the motive for the existence of the organization?

“Operational Model” refers to the methods employed by the organization to reach its established goal.

“Profit Sharing” refers to how the organization uses its profits, if any.
According to the definitions set out above, we have selected the official definitions of “social enterprise” set forth by several relevant government organizations and NGOs for further discussion. The examples are below:

**Table 1: Examples of social enterprise definitions**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Definition for social enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong Government</td>
<td>In general, a social enterprise is a business to achieve specific social objectives such as providing the services (such as support service for the elderly) or products needed by the community, creating employment and training opportunities for the socially disadvantaged, protecting the environment, funding its other social services through the profits earned, etc. Its profits will be principally reinvested in the business for the social objectives that it pursues, rather than distributed to its shareholders.</td>
</tr>
<tr>
<td>Government of Italy</td>
<td>A social enterprise must fulfill the following conditions: (a) Must be a private entity (b) Must provide social utility goods and services via business means (c) Operated for the purpose of public interest and not for profit</td>
</tr>
<tr>
<td>European Commission</td>
<td>Social enterprises are positioned between the traditional private and public sectors. Although there is no universally accepted definition of a social enterprise, their key distinguishing characteristics are the social and societal purpose combined with an entrepreneurial spirit of the private sector. Social enterprises devote their activities and reinvest their surpluses to achieving a wider social or community objective either in their members’ or a wider interest.</td>
</tr>
<tr>
<td>Social Enterprise Alliance</td>
<td>Social enterprises are businesses whose primary purpose is the common good. They use methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas. 1. Social enterprise directly addresses an intractable social need and serves the common good, either through its products and services or through the number of disadvantaged people it employs. 2. Social enterprise’s commercial activity is a strong revenue driver, whether a significant earned income stream within a nonprofit’s mixed revenue portfolio, or a for profit enterprise. 3. The common good is its primary purpose, literally “baked into” the organization’s DNA, and trumping all others</td>
</tr>
</tbody>
</table>

All four definitions encompass one or more of the parameters of “goal setting”, “operational model”, and “profit sharing”.
Goal Setting

All four definitions above emphasize that the main or whole purpose of a social enterprise should be to achieve “social goals” or “common good”. The Italian government highlights the social enterprise’s provision of social utility goods and services, while the Hong Kong government highlights specific domains such as environmental protection, social justice, and related issues such as creating employment and training opportunities for the socially disadvantaged. The European Commission and the US-based Social Enterprise Alliance concur that a defining feature of social enterprises is an emphasis on social goals. No matter the wording, all definitions are intended to emphasize the usefulness of social enterprises in solving relevant social issues.

It can be seen that the relevant bodies uses “goal setting” as a key criterion in differentiating social enterprises from traditional businesses. Some broader definitions of social enterprise even emphasize that any organization which achieves goal of social benefit may be called a social enterprise. While it is important to emphasize the social goal of a social enterprise, this emphasis also brings with it several questions. Should the organization’s goal setting be the main criterion for defining which organizations qualify as “social enterprises”? Should the performance of the social enterprise be mainly evaluated based on how well it achieves its stated social mission?

Operational Model

The Social Enterprise Alliance suggests that social enterprises should operate using methods and disciplines of business and the power of the marketplace. It adds in its supplementary definition that a social enterprise’s commercial activities should be an important source of profit for the organization. Along this dimension, the other definitions emphasize that social enterprise is a kind of “business”. This indicates, at least to some extent, that social enterprises use business operation methods in their activities. It is worth considering: should social enterprises be strictly defined as businesses? Must social enterprises follow business rules and commercial methods to make a profit? Could a profitable charity organization be called a social enterprise? Will a broad and diverse definition or a strict definition of a social enterprise’s operating model be more beneficial for the development of social enterprises in the future?
Profit Sharing

The Hong Kong government’s definition of social enterprise emphasizes the profit sharing model: profits must be principally reinvested in the business for the social objectives that it pursues, rather than distributed to its shareholders. The European Commission’s official definition also emphasizes the direction of profit flow: the surpluses should not be used for the purpose of maximizing profit, but must be reinvested to achieve a wider social or community objective. This differentiates social enterprises from regular businesses. Even if a social enterprise is profitable, the profit motive and profit flow are always directed towards the implementation of its “social goal”. It can be seen that these governments or institutions see the directional flow of profits as a key differentiator of social enterprises. Using “profit sharing” as a evaluative dimension makes the “social goal” concrete. Because there is data to quantify an organization’s profit flow and profitability, "profit sharing" provides a rational basis on which to judge whether a business is a social enterprise. However, should this dimension become the main defining criterion for social enterprises? Will strictly defining profit sharing requirements be limiting to the future development of social enterprises?

Conceptual Framework for Local Social Enterprises

We believe social enterprises need a definition that is specific for China. The definition should be based on three principles of benefit, namely being beneficial for the promotion the development of social enterprises, beneficial for the implementation of effective supervision, and beneficial for the maintenance of Chinese cultural norms. In addition, we need to take into account of the fact that different actors have different motives and are inclined to have different focuses, from that of cultural promotion to policy making to national sentiment. We provide a three-level framework for conceptualizing social enterprise. We also believe: social enterprise is not just a new registration form for certain entities but also a new evaluative standard that can be accredited and certified.

Category A Definition

“Businesses with the core mission of creating social benefit” is a definition that serves the wider purpose of shaping the direction of culture. Promoting this type of social enterprise can direct the development of business culture towards increasing social value. At the same time, as capital naturally requires a return, such a definition - which doesn’t specify a method for profit sharing - can effectively stimulate private capital inflow and eliminate the need for preferential government policies. Category A social enterprises are in themselves a business form, subject to the supervision of the State Bureau of Industry & Commerce (SAIC) and related agencies. The key to approval by these departments is to
produce social impact. As a result, one needs to develop a system that combines financial sustainability with metrics to measure social impact in order to allow investments to achieve their utmost influence.

**Category B Definition**

This definition, “businesses whose primary goal is to benefit society and the majority of whose profits are reinvested towards the realization of that goal”, approaches social enterprise from the perspective of policy makers. Promoting this type of enterprise can effectively standardize enterprise behavior, thus aiding the government in formulating preferential policies to support the development of social enterprises. This type of definition has several notable characteristics:

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Actors</th>
<th>Primary Motivation</th>
<th>Definition of Social Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A:</td>
<td>Investors</td>
<td>Promote the inflow of private capital</td>
<td>Businesses with the core mission of creating social benefit</td>
</tr>
<tr>
<td>Broad Definition</td>
<td>Educators</td>
<td>Promote widespread recognition of social enterprise</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Entrepreneurs</td>
<td>Encourage the practice of social entrepreneurship</td>
<td></td>
</tr>
<tr>
<td>Category B:</td>
<td>Government agencies</td>
<td>Contribute to the development of policies and regulations</td>
<td>Businesses of which the primary goal is to benefit society and of which the majority of profits are reinvested towards the realization of that goal</td>
</tr>
<tr>
<td>Strict Definition</td>
<td>Third-party rating</td>
<td>that support social enterprises</td>
<td></td>
</tr>
<tr>
<td></td>
<td>agencies</td>
<td>Promote the effective management and supervision of</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>social enterprises</td>
<td></td>
</tr>
<tr>
<td>Category C:</td>
<td>Government agencies</td>
<td>Retain organizational characteristics unique to the</td>
<td>Civil non-enterprise units with the majority of income comprised of operating revenue</td>
</tr>
<tr>
<td>Special Definition</td>
<td>Social organizations</td>
<td>Chinese system</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Promote the transition of public welfare enterprises into</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>social enterprises</td>
<td></td>
</tr>
</tbody>
</table>
1) Clarifies the form of social enterprise: business

A number of countries have not yet set out provisions clearly outlining social enterprise as a legal entity, and at present it may be classified as a business or a charity. Although this appears to expand the scope of what qualifies as a social enterprise, one cannot ignore the fact that the lack of de jure status weakens society’s confidence in this new type of organization. Classifying social enterprises as businesses has the dual benefit of not needing to re-educate the public to recognize a new entity and giving relevant government regulatory agencies a precedence to follow in its legislation making.

2) Social Enterprise Quality: Assessing Social Benefit

Many definitions list having a social goal as the criterion for determining whether an entity qualifies as a social enterprise. This illustrates that social enterprise operates around the primary goal of maximizing social benefit rather than profit. In order to effectively monitor whether an enterprise operates according to stated goals, one should develop appropriate performance metrics to assess social impact and enlist the participation of third-party evaluation institutions. Social enterprises should publish both an annual report like those of ordinary businesses and a social effectiveness report (which can be audited by a third-party agency such as the Ministry of Civil Affairs, or MCA). If the enterprise’s primary objective changes, the government should withdraw its accreditation as a social enterprise. However, it is important not to judge whether or not an organization qualifies as a social enterprise based on the size of its social impact.

3) Standard for Social Enterprises: Based on Social Investment and Use of Profits

Whilst the social goal is valuable in assessing the quality of social enterprise, it is dangerous and subjective to use social objective as the sole criterion for distinguishing social enterprises. The social enterprise model is in itself a mechanism for creating and distributing gains, with the primary goal of sustainable social impact. One can therefore logically infer that the key measurable criterion is the use of profits. We believe that the use of the majority of profits to benefit social welfare, is an appropriate baseline for differentiating social enterprises. The definitions set forth by some Western countries stipulate that social enterprises
cannot pay dividends. For our purposes, in order to stimulate the vitality of social enterprises and promote investment and return, we only specify that more than 50% of the social enterprise’s profit must be reinvested into socially beneficial activities.

The primary mission of social enterprise thus defined is to create social benefit and improve people’s wellbeing. This is in line with the thinking on social innovation promoted by China’s government. General Secretary Hu Jintao emphasized in an important speech at the opening session of a Study and Discussion Session on the Special Theme of Social Management and Its Innovation for Principal Leading Cadres at the Provincial and Ministerial Levels that China should “firmly improve the scientific level of social management with the aim of establishing a socialist social management system with Chinese characteristics”, “strengthening the social management and service functions of various kinds of enterprises”, and to “further strengthen and refine the management of non-public economic organizations (feigongyouzhi jingji zuzhi) and social organizations (shehui zuzhi).” The state employs taxes as a method of wealth redistribution. Because social enterprises directly redistribute wealth to improve individual livelihoods and increase overall social benefit, social enterprises should be granted corresponding preferential tax benefits.

**Category C Definition:**

One type of social enterprise with local characteristics is the civil non-enterprise unit (minban feiqiye danwei in Chinese, CRNEU), of which the main source of profits comes from operating income. In the process of engaging in socially beneficial activities, a CRNEU may, according to national regulation, collect appropriate fees to cover costs and make a slight profit. The non-profit identity of a CRNEU is framed around an understanding that the organization does not exist to make a profit. A CRNEU fulfills the two main criteria for social enterprises: its operational model is based on commercial activities, and its primary goal is public welfare. However, under the current legislative framework, such entities belong to the category of social organizations, supervised by the MCA. They can accept charity donations, but cannot distribute dividends. We therefore classify civil non-enterprise units as social enterprises in a special sense.
The table below further elucidates the three categories of social enterprises

**Table 3: Comparison of the Three Categories of Social Enterprise Definition**

<table>
<thead>
<tr>
<th></th>
<th>Category A: Broad Definition</th>
<th>Category B: Strict definition</th>
<th>Category C: Special Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Status</td>
<td>Business</td>
<td>Business</td>
<td>Social organization</td>
</tr>
<tr>
<td>Business Model</td>
<td>Business operations</td>
<td>Business operations</td>
<td>Business operationsTraditional donations</td>
</tr>
<tr>
<td>Primary Goal</td>
<td>Social, Economic</td>
<td>Social</td>
<td>Social</td>
</tr>
<tr>
<td>Profit Distribution</td>
<td>No Limitation</td>
<td>Over 50% of profits are reinvested into achieving social benefit</td>
<td>No dividends</td>
</tr>
<tr>
<td>Supervisory Agency</td>
<td>SAIC</td>
<td>SAIC, MCA</td>
<td>MCA</td>
</tr>
<tr>
<td>Preferential Government Policy</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Investment Income</td>
<td>Full return on investment gains</td>
<td>Limited return on investment gains</td>
<td>No return on investment income, viewed as donations</td>
</tr>
<tr>
<td>Main Criteria</td>
<td>Social benefit, financial sustainability</td>
<td>Social benefit, profit distribution</td>
<td>Operational Income</td>
</tr>
<tr>
<td>Value in Definition</td>
<td>Promote a culture of social entrepreneurship, social impact investment</td>
<td>Assist government in effective management and policy making</td>
<td>Maintain Chinese characteristics in social enterprises</td>
</tr>
</tbody>
</table>
Ecosystem: Legal and Policy Environment for Chinese Social Enterprises

As a new mode of innovative social organization, social enterprises combine the efficient, professional, and flexible characteristics of a business with the goal of taking on and resolving social issues. As such, social enterprises can efficiently participate in the process of social management and development, providing a lively and innovative new method for the construction of a harmonious society. Social enterprises are becoming important participants in the sphere of social management. At the same time, in practice, social enterprises can cut through the red tape, flexibly and efficiently solving many of society’s overarching issues.

Due to their unique qualities, social enterprises have increasingly attracted the widespread attention of government, academia, and society. In recent years, a growing number of organizations of all kinds have begun to call themselves social enterprises. An increasing number of social entrepreneurs have also begun participating in the areas of education, environmental protection, fair trade, and poverty alleviation, helping to resolve many complex social problems.

At the same time, academia, media, and other social forces have all devoted unprecedented attention to social enterprise. A number of international conferences and forums have been held exploring means to import and localize this new form of organization. The popularity of social enterprises has also begun attracting the attention of local governments. In June 2011, the Beijing Municipal Committee published Suggestions by The CPC Beijing Municipal Committee on Strengthening and Innovating Social Management in order to Advance Social Construction. The policy paper advised that local governments should “explore various effective means of attracting social resources and social capital into public service, proactively support the development of social enterprises and develop social services.” It was the first time that social enterprises were mentioned in an official Chinese government document.

Presently, the legal framework supporting social enterprise is still underdeveloped. As a new organizational form, social enterprises have not yet received clear legal designation and lack the relevant judicial and supervisory framework, creating many issues for their future development. As social enterprises are increasingly being put into practice and collaboration with foreign counterparts deepens, there is an increasing need for the development of relevant legal frameworks. Therefore, it is necessary to analyze holistically the development of social enterprise from the perspectives of legislation and public policymaking.

Welfare Enterprise Legislation: Existing Issues

Because China has yet to establish relevant legal framework for social enterprises, we begin our analysis with "welfare enterprises", which, among the many social enterprise-like organizations currently existing in China,
most closely resemble social enterprises in organizational nature, mission, operational area, among other aspects.

Welfare enterprises have played a significant role in the development of Chinese society. Therefore, although academics and business managers employ many different ways of classifying social enterprises, all agree that welfare enterprises are a type of social enterprise. Below, we begin our analysis with the development history of welfare enterprises. We analyze existing issues with regards to the content, policy development history, and practical effects of current legislation on welfare enterprises with the hopes of employing these lessons in the future policy-making process for social enterprises.

1. The Nature and Development of Welfare Enterprises

Welfare enterprises refer to special economic organizations (businesses) that employ the labor (including partial labor) of disabled individuals and are distinguished by a set ratio of disabled individuals as a proportion of total employees. The State offers this type of organization (business) special tax reduction or exemption benefits, and the welfare enterprises use the tax savings as enterprise development capital and group welfare funding.

Welfare enterprises were created during the period of central economic planning and experienced the transition to the market economy. They have 60 plus years of development and policy history and have become a key means of resolving the employment issues of disabled individuals. There are four key phases in the development of welfare enterprises:

First Stage, Initial Development Period (1949-1977). Early stage welfare enterprises were production units that offered support for poor persons, disabled persons, families of revolutionary martyrs, disabled veterans, and other beneficiaries. As welfare enterprises developed, they gradually became public institutions involved in social welfare and responsible for the employment placement of persons with disabilities.

Second stage, Steady Growth Period (1978-1984). In March 1978, supervision of welfare enterprises was handed from the State Administration of Industry & Commerce (SAIC) to the Ministry of Civil Affairs (MCA). Accompanying this supervision handover was a series of changes in preferential policies related to income tax, loans, construction tax, and value-added-tax (VAT). These policies were aimed at encouraging the establishment of welfare enterprises by central and local organizations. At the end
of 1994, the total number of Chinese welfare enterprises reached 6,710, employing 116,000 employees and making a profit of 130 million RMB. Compared to 1978, the number of enterprises increased 7.3 times, the number of disabled persons employed increased 3.3 times, and profit increase 1.6 times. During this period, alongside government-sponsored welfare agencies, community-sponsored welfare agencies began to appear, with the main form being neighborhood-run welfare enterprises.

Third Stage, rapid expansion period (1985-1995). In September 1985, the MCA held a meeting on National Welfare Reform Work Experience Exchange, putting forth clear advice for welfare enterprises, calling for support for welfare enterprise development, and publishing and refining a series of legislative regulations including Provisional Regulations on Social Welfare Enterprises Employing Workers with Disabilities, Interim Measures for the Administration of Social Welfare Enterprises, and Law on the Protection of Disabled Persons of the People’s Republic of China. In order to ensure standards of management quality and efficiency, government regulatory agencies gradually refined specific preferential policies to promote the healthy development of welfare enterprises. Through the introduction of policy papers such as Decisions Regarding Strengthening the Administration of Social Welfare, Notice Regarding Strengthening the Annual Inspection of Social Welfare Agencies, and Notice Regarding Further Strengthening Government Supervision and Strict Inspection of Welfare Enterprises and Clearing Fake Welfare Enterprises, the government proceeded to clear out and reorganize existing welfare enterprises, improved the systems for accreditation and inspection, and strengthened governmental supervision and enterprise management for welfare enterprises. During this time, China’s welfare enterprises exhibited a trend of rapid growth. In 1995, Chinese welfare enterprises reached their historical peak. The number of welfare enterprises reached 60,237, employing 939,000 workers. Compared with 1978, the number of welfare enterprises increased 65.5 times, the number of disabled persons employed increased 26.8 times. In 1995, welfare enterprises realized profits of 4.91 billion RMB, 61.4 times that of 1978.

The fourth stage, rapid contraction period (1996-present). Due to macroeconomic adjustments and the effects of the Asian financial crisis, China’s economic growth slowed,
causing a series demand shortages. As a result, the operation of welfare enterprises began to encounter serious difficulties. To promote the development of welfare enterprises, the government introduced a series of preferential policies - for example, Notice Regarding Several Suggestions to Further Improve the Employment Opportunities of Disabled Workers. These policies offered support to protect and assist in the systemic transformation of welfare enterprises. However, these policies could not reverse the downward trend in the number of welfare enterprises. As of 2005, there remain only 31,211 welfare enterprises, 51.8% of the number in 1995.

2. Current Legislation System for Welfare Enterprise

Welfare enterprises aim to solve the employment of disabled persons and therefore operate under the double constraints of regulations concerning disabled persons and regulations concerning welfare enterprises.

First, in terms of employment security for persons with disabilities, the Law on the Protection of Disabled Persons of The People’s Republic of China is the first specific law to protect the legitimate rights and interests of disabled persons. It provides basic guidance for job placement of disabled persons and has acted as a basis for subsequent legislation. Among its provisions are guidelines for placing disabled persons using a combination of centralized and decentralized approaches, adopting preferential policies and assistance measures to enable the universal, stable, and reasonable employment of disabled persons via various channels, levels, and means. Government and social bodies sponsor organizations such as welfare enterprises and blind massage institutions in order to centralize the employment arrangements of disabled persons. The State grants preferential tax benefits to organizational units that reach or exceed the ratio of disabled to able-bodied employees, and to disabled individuals who operate their own private businesses. Further, the State offers assistance in production, operation, technology, finance, materials and sites to qualifying welfare enterprises and disabled individuals. State policies also stipulate that relevant departments in local governments at or above the county level should determine products and projects that are appropriate for disabled persons. In addition, priority for producing these products or completing these projects should be given to welfare enterprises employing disabled individuals, and exclusive production contracts should be granted when appropriate. Lastly, all other conditions being equal, the government should, during government procurement, give priority to the products and services produced by welfare enterprises.

Building on the Law on the Protection of Disabled Persons, the State Council issued the Regulation on the Employment of Disabled Persons in 2007. The regulation clarified the responsibilities and rights of government, business, and disabled employees in terms of employer responsibility, safeguard measures, employment services, and legal responsibility. It also outlined the legal repercussions in the event of violation. In 2008, the Party
Central Committee and the State Council issued *Views of the CPC Central Committee and the State Council on Promoting the Employment of Disabled Persons*. It was the first programmatic document on the subject of career development of disabled persons, and it further encouraged and supported the establishment of welfare enterprises.

Secondly, in terms of policy and regulation, the MCA and other relevant ministries are mandated to give appropriate policy support to welfare enterprises with respect to examination and approval, management, and preferential taxation. In 2007, the MCA issued *Measures for Welfare Enterprise Accreditation of Qualification*, setting strict standards for application and definite regulations specifying the minimum proportion and number of persons with disabilities that a welfare enterprise must employ. Specifically, welfare enterprises are defined as enterprises registered with the State Administration for Industry & Commerce (SAIC) or its local branches, employing no less than 10 disabled persons, with disabled employees comprising at least 25% of total employees. The policy paper also increased the application requirements for welfare enterprise accreditation from the original five to ten. The additional requirements call for the applicant to provide proof of wage payment, social security contribution, and accessible facility certificate.

In the same year, the Ministry of Finance and the State Administration of Taxation issued the *Circular of Taxation on the Preferential Tax Policies for Facilitating the Employment of the Disabled People*. The State Administration of Taxation, the Ministry of Civil Affairs, and the China Disabled Persons’ Federation issued *Circular on the Measures for the Collection and Management of Preferential Tax Policies to Stimulate the Employment of the Disabled*. These two circulars put forth regulations with preferential policies for turnover tax and enterprise income tax. In terms of turnover tax, relevant tax authorities will either refund a limited amount of value-added-tax (VAT) or reduce the enterprise’s sales tax according to the actual number of disabled persons staffed. The specific limit on the annual amount of VAT refunded or sales tax reduced per disabled employee is determined by tax agencies at the county level or above, using the figure of six times the minimum wage set by the people’s government at the provincial-level (including autonomous regions, municipalities directly under the Central Government, and cities specifically designated in the plan) that is applicable to the county where the enterprise is located (including county-level city, districts, and towns). The maximum amount reduced or refunded shall not exceed 35,000 RMB per employee per year. For income taxes, welfare agencies shall deduct 100% of the actual salary paid to disabled employees from its pre-tax income. If the sum of actual wages paid to disabled employees is more than the enterprise’s income tax payable for the current year, the welfare enterprise may deduct the amount of actual wage paid that is not greater than the tax income payable for the current year, with the remaining wages paid not deductible for the present or future years. In addition, the value of VAT rebate or sales tax reduction a welfare enterprise receives in accordance with
regulations is exempt from corporate income tax.

3. Policy Adjustments and Implementation Results

The 2007 publication of the MCA’s Measures for Welfare Enterprise Accreditation of Qualification and Circular of the Ministry of Finance and the State Administration of Taxation on the Preferential Tax Policies for Facilitating the Employment of the Disabled People marked a turning point for the development of Chinese welfare enterprises. These two policy papers put forth several changes in the accreditation of qualifications and preferential tax policies of welfare enterprises. These changes symbolized a new era in the development of welfare enterprises.

In particular, the first change in the policy was to open welfare enterprises to diversified investment. Welfare enterprises that enjoy preferential tax policies grew from the original nationalized and collective welfare enterprises owned by the MCA or neighborhood and township governments to include domestic enterprises with diversified ownership, established largely by diversified community investments.

Second, the policy changes lowered the barrier to entry for qualifying as a welfare enterprise. The proportion of disabled persons as a proportion of total employees was lowered from over 50% of total production team to over 25% (including 25%) of total official employees. This policy is beneficial for encouraging the establishment of more welfare enterprises and absorbing more disabled employees.

Third, the policies standardized the qualifications for receiving preferential tax benefits. Government policies instituted uniform provisions for preferential treatment of turnover tax and corporate income tax. At the same time, they set the limits for tax reduction according to the actual number of disabled persons employed. By setting the tax reduction or exemption ceiling at the fixed amount of 35,000 RMB per employee per year, the policy de-coupled the connection between the amount of tax benefits received and the amount of corporate income tax liability.

The transition from “subsidizing per enterprise” to “subsidizing per head” eliminated the issue of excessive corporate tax reduction, put into practice the principle of fair tax burden, and took into account the interests of the state, the investors, and the disabled workers.

Fourth, the policy changes clarified responsibilities between departments. The new policies put into place separate approval systems for the qualification accreditation and tax return qualification of welfare enterprises. This change effectively prevents enterprises from taking advantage of loopholes in tax collection and administration and using tax relief policies and false invoices to engage in tax fraud and evasion by providing fake placements.

In accordance with existing management systems, the MCA oversees the accreditation of qualification, the State Administration of Taxation oversees tax reduction or
amount of tax benefit enjoyed by enterprises that place few disabled persons and have high profit margins. These enterprises, therefore, no longer have an incentive to apply for welfare enterprise treatment. In addition, enterprises with poor placement ability or that employ less than 10 disabled employees no longer qualify as welfare enterprises under provisions in the new policy and thus drop out of the ranks of welfare enterprises. These changes will negatively impact the disabled workers who are currently employed, likely causing the phenomenon where “surplus” disabled workers will lose their jobs as enterprises streamline their operations. This is not conducive to arousing the enthusiasm of welfare enterprises in placing more disabled employees.

From Welfare Enterprises to Social Enterprises: Legislative Difficulties and Trend Analysis

The employment of disabled persons in China as a whole follow the framework set out under Law on the Protection of Disabled Persons of The People’s Republic of China. It adopts an approach that combines centralized and decentralized arrangements, using preferential policies to support and protect disabled persons. The policy aims to achieve the universal, stable, and reasonable employment of disabled persons via various channels, levels, and means. The
centralized management of disabled persons’ employment placement allows for relatively low costs, more targeted policy support and funding, and easier operation. In China, disabled persons still encounter employment difficulties. As such, welfare enterprises that centralize the employment of disabled persons still serve as an important channel for solving the employment problem of disabled persons.

1. Legislative Suggestions Concerning the Further Development of Welfare Enterprises

Based on China’s current conditions, the most economically efficient strategies for promoting the further development of social welfare enterprises are preferential taxation and continued protectionist policies. Given the grim employment outlook and the difficulties encountered by social welfare enterprises, it is essential for the government to give such enterprises preferential tax treatment, as well as policy assistance and protection.

First, the government should refine and complete the current legal framework for welfare enterprises and increase the amount of subsidies and preferential policies directed towards welfare enterprises. Looking at the social and economic development trends, it is necessary to modify and refine policies relevant to issues of the centralized employment placement of disabled person. The government should utilize a combination of basic living condition guarantees (tuodi baozhang) and special governmental policies to formulate a multitude of employment protection policies targeted towards different disabled groups and welfare enterprises. Regarding the management policies for welfare enterprises, we recommend protectionist legal policies for certain social service projects and industries. Regarding tax policy, the government should take into account the unequal economic development of different regions and avoid a “one-size-fits-all” tax rebate ceiling. We recommend that the government adopt a proportion-of-total-employees method for calculating tax reductions or exemptions. This method will be more suitable to the specific economic conditions of different regions and encourage welfare enterprise development in more economically developed areas, better advancing the centralized employment of disabled individuals.

Second, encourage different forms of participation; support the development of large-scale new-form welfare enterprises. The government should take the lead in building a social security system and mobilizing the voluntary participation of enterprises to better meet the needs of disabled persons. At the same time, it should use policy measures to attract social forces in order to establish public welfare organizations with social goals. The government
should clarify the legal characteristics of the following types of organizations: public welfare organizations with social objectives but employing commercial means of operation; enterprises registered with the SAIC but which have a social primary mission; and non-profit organizations established using non-nationalized assets. It should also give these three types of organizations increased support and assistance, building on the existing preferential taxation policies.

Further, the government should put into practice existing policies, encourage multiple forms of policy innovation, and increase the impact of policies on government procurement and exclusive production. Various regions continue to explore new policies through practical implementation, and some have already achieved mid-stage results and favorable policy outcomes. The city of Shanghai is one such example. In 2010, the Shanghai municipal government introduced policies regarding government procurement and exclusive production contracts, explicitly requiring all districts to prioritize the procurement of products produced by welfare enterprises. After researching the operations and products of the city’s welfare enterprises, the Shanghai Municipal Government, along with the Shanghai Municipal State-Owned Assets Supervision and Administration Commission, named 44 welfare enterprises that were in need of product (project) support. Moreover, the government proposed to adjust and optimize the operations of existing welfare enterprises and develop 300 new, high-quality welfare enterprises during the 12th Five-Year Development Plan. Municipal government policies encouraged the community to establish 50 modern, service-oriented enterprises, place 3,000 educated and skilled disabled workers; establish 30 new model welfare enterprise bases, and train 1,000 managers. These policy changes set the city on course to become the nation’s top provider of employment security for disabled persons. Aside from Shanghai, the Qingdao Municipal Government has also taken steps to resolve the employment concerns of disabled individuals. In its Suggestions to Further Address Employment Issues of Disabled Persons, the government clearly stipulates that beginning in 2012, government agencies and related institutions must take into account and award quantitative points to enterprises that employ disabled persons when evaluating bid participants in its product and service procurement. In addition, every district (city) must set aside at least one product or service in its annual government procurement to be exclusively produced or provided by welfare enterprises that employ disabled individuals or institutions that assist in the employment placement of disabled individuals.

Lastly, the government should compile employment resources for persons with disabilities and improve the efficiency of placement for disabled persons. Based on the current conditions of various departments in charge of the employment of disabled persons, there exist institutional and organizational factors impeding the overall employment of disabled persons. Therefore, it is necessary to introduce a unified and centralized system in charge of the employment placement of disabled persons.
Suggestions for Legislation for Social Enterprise

Through the above detailed discussion of the developmental history of social welfare enterprises, we can discover that there are strong similarities in the organizational natures of welfare enterprises and social enterprises. Welfare enterprises already have a relatively comprehensive legal system, complete with regulatory and oversight agencies. They received an enormous amount of national policy support during particular periods of their development and made large contributions to China’s economic and social development towards a harmonious society. Through practical explorations, welfare enterprises also accumulated experience at solving a diverse array of problems. The experience of welfare enterprises, it may be argued, lends itself perfectly to the development and refinement of a legal system for Chinese social enterprises. We have made the following suggestions regarding the development of legislation for social enterprises:

First, promote the formulation of laws and regulation systems for social enterprises; gradually improve and strengthen the accreditation system for social enterprises. There is currently no unified and clear consensus on the concept of social enterprise among charities, businesses, and the government. In recent years, with the strengthening of Chinese civil society, there is increased frequency and depth of cross-sector cooperation as non-profits, businesses, co-operatives and other types of organizations begin to establish social enterprises addressing issues in employment, education, environment, poverty alleviation, and fair trade. Such an environment resulted in the development of a diverse array of social enterprises. Any delay in the establishment of relevant legislations will hamper the government’s efforts in standardizing and directing the development of these diverse social enterprises, creating a situation of unclear rights and responsibilities. Such confusion will allow opportunistic individuals to use the charitable goals of social enterprises as a front to derive personal gain. Therefore, it is a top priority to create relevant laws and regulations regarding the legal status of social enterprises. This will mean establishing standards for the process of social enterprise accreditation, turning the abstract concept of social enterprises into actionable, concrete provisions about strict standardization and supervision. Looking abroad, China can borrow from the experiences of United Kingdom’s and Finland’s social enterprise legislations. The United Kingdom combined social enterprise development with community building and introduced the Community Interest Company Regulations. The Finnish government introduced the Act on Social Enterprises. The Act gives clear legal status to social enterprises and clarifies its organizational objective, criteria, profit distribution, and asset management. The development history of welfare enterprises teaches us that qualification accreditation is the basis of all subsequent legislation. The challenges and accomplishments during many of the welfare enterprises’
development stages are all related to legislation regarding welfare enterprises’ accreditation policy. The importance of accreditation also applies to social enterprises. Only after obtaining clear legal status can social enterprises gradually establish relevant legislation regarding organizational management, profit distribution, bankruptcy policy, asset allocation and supervision. Only then can the government effectively standardize and supervise the practice of social enterprises.

Second, social enterprise legislation will, in the immediate future, involve the co-existence of new and old systems and issues of cross-sector cooperation. Because social enterprises are a relatively recent phenomenon in China, there already existed in China many kinds of “quasi-social enterprise” organizations before the arrival of “social enterprises”. These other organizations all belong to their own legislative systems and encountered their own unique development challenges and developed innovative plans to overcome those challenges. Because social enterprises combine the characteristics and advantages of the commercial sector and the non-profit sector, social enterprise legislation must also incorporate legislation for many types of organizations, such as the Regulation for Registration and Management of Social Organizations, provisions regulating charity fundraising, laws associated with corporate governance such as Corporate Law and The Law on Enterprise Bankruptcy, among others. Take for example social enterprises aimed at helping disabled and disadvantaged social groups. China already has - for welfare enterprises - many mature and sophisticated management and operational mechanisms. Although these systems still face many policy and practical issues, these are still valuable practical experiences. When social enterprises enter this sector, they will unavoidably repeat the experiences of welfare enterprises and face similar issues when it comes to specific laws and regulations.

Looking at the world, the UK, the United States, and South Korea have all, in response to the widespread existence of social enterprises, introduced new policies or amended existing laws, setting out qualifications for social enterprises and standardizing their operations. At the same time, laws and regulations related to the original limited liability companies, co-operations, non-profit organizations and other types of organizations also functioned as the basis for assessing the development of social enterprises. This resulted in a situation of the co-existence of old and new legal systems. The existence of this type of situation has a certain rationale and is a product of a certain stage of the development of social enterprise legal system. The special nature of social enterprises pre-determined the fact that their legal system construction is a cross-sector project. The enactment of relevant legislative mechanism must take into consideration a wide range of interests and aspirations. Therefore, when establishing specific laws related to social
enterprises, one should comprehensively consider and embrace existing legal frameworks properly associated with social enterprise legislation. An important question facing social enterprises in its development is how to establish an independent space for development within the existing relevant legal frameworks.

Third, social enterprise legislation should employ accreditation at different levels and embrace different operational models. In order to promote the long-term, sustainable development of social enterprises, we should place restraints on social enterprise as a whole, setting specific rules for organizational mission, income source, profit distribution, asset disposal, etc. At the same time, we should realize that social enterprises are highly diverse, with large differences of sector, asset, profit, and size. Taking into account the fact that social enterprises are at different stages of development and the complexities involved within the different stages, we suggest that the government initially put into place a multifaceted approach to management that targets different stages and different sectors. For the accreditation of social enterprises, we should set different accreditation requirements for different levels of development. In addition, we should also establish a certain relationship between accreditation and enjoyment of government support policies. Social enterprises should respect the current laws and the practical experiences of the enterprises that have entered the same industry sector before them, and operate under a dual oversight system. After analyzing China’s current law on the protection of disabled
persons, we discover large differences in policies geared towards social welfare enterprises and enterprises founded by disabled persons. Social enterprises aimed at helping disabled persons can combine the characteristics of these two types of laws and can also include new distinguishing characteristics. Therefore, strict and specific analysis is needed in the area of formulation of laws and regulations.

**Fourth, social enterprise legislation should focus on balancing protecting creative energy and providing a standardized systematic framework.** At present, disagreement still exists about whether social enterprises should receive government policy support. The mainstream view is that social enterprises have taken on large responsibilities for the construction and development of a harmonious society. They have made huge contributions in terms of addressing unemployment issues, supporting vulnerable groups, developing education, promoting fair trade, and encouraging social entrepreneurship. In addition, the societal impact of social enterprises will increase with the gradual completion of the accompanying legislative framework. Government policy support has had far-reaching effects on the development experience of welfare enterprises. The adjustments to the new and old regulations directly determined the benefits of balance between operational cost of welfare enterprises and corporate social responsibility. Social enterprises face development environments similar to those faced by welfare enterprises. The legislation for social enterprises should focus on balancing the protection of internal motivation with the standardization of system operations. From the perspective of development, social enterprises face many strict restraints in terms of income source and profit distribution. In order to attract more socially conscious talent into this sector and to promote the sustainable development of social enterprises, we need to create a good policy environment for the development of social enterprises. With regards to the basic question of social enterprise definition, we believe social enterprise will choose its own place on the spectrum between non-profit organizations and businesses. U.S. social enterprises are more corporate in nature and, under relevant corporate law, receive treatment similar to those of businesses. These enterprises are relatively less constrained in the areas of income source and profit distribution. But due to the same reason, they enjoy less tax reduction and exemption and other government support policies. For British social enterprises, their development is closer to that of nonprofit organizations. They are subject to certain constraints with regards to asset lock and dividend distribution, as laid out in the *Policy on Community Interest Companies*. Although the British government does not give preferential treatment to the taxes of social enterprises, the government does give priority to social enterprises and social organizations when
outsourcing government projects. The British government also uses policy to direct private community funding towards social enterprises. Of course, before deciding on the relevant government support policies, the Chinese government needs to have a clear view on whether it wishes to treat social enterprise as a concept whose value it wishes to promote, or whether it wishes to treat it as an industry sector supported by policy mechanisms.

Fifth, social enterprise legislation should be integrated with the general legislative environment and core areas of community management. Social enterprises are a new form of social organization and therefore possess a flexibility, innovation, and diversity that other institutions do not possess. Therefore, social enterprises can choose the social milieu and policy framework in which to most effectively integrate themselves, given the landscape of government priorities and social issues. The development of British social enterprises provides a worthwhile example to consider. During the 1960s and 1970s, the UK - as a result of decline in traditional industrial enterprises - suffered social issues of unemployment, population ageing, and economic inequality. Individuals began contemplating a new philosophy of social welfare and settled on a method that combines social enterprise with community programs. This solution effectively leveraged social enterprise’s advantages in familiarity with the community, diversity, and flexibility to help resolve delicate and difficult issues at the grassroots level. It may be argued that the rapid development of British social enterprises cannot be separated from the way they are able to integrate themselves freely within society. This embeddedness and close links to the community gave energy to the development of British social enterprises. The experience of social welfare enterprises has also shown that simultaneous development with the neighborhood is an important opportunity for the growth of an enterprise. Therefore, legislation for the additional standardization of social enterprises should select an appropriate definition of social enterprises that would allow this new type of organization to best integrate into its community, showcase its organizational flexibility, and contribute to societal development.
Social Enterprise Numbers and Scope, Innovation and Impact

Chinese Social Enterprise Development Stage, Distinguishing Characteristics, and Operational Scope

Although, as described in the previous chapter, certain characteristics of social enterprises appear in welfare enterprises, social enterprises on the whole are a foreign import, the British Consulate and the British Council played a key role in the introduction and promotion of social enterprises in China, through its "Skills for Social Entrepreneurs" program.

In recent years, social enterprise member organizations, incubators, and conferences continue to appear. As a result of advocacy by the media, capacity-building by foundations, and incubation by businesses and various sources of capital, the field of Chinese social enterprise has begun to develop. Social enterprises have a short development history in China. At present, there is no uniform definition and concept for social enterprise. If we borrow from the international standard of social enterprises, as of now, there are only a handful of strictly defined social enterprises of real scale in China. According to our interview with social enterprises, their distinguishing characteristics are the following:

- A significant portion of social enterprises transitioned from NGOs. Possible reasons include: first, NGOs share social enterprises’ strong sense of social mission; second, NGOs have motivation to transition due to funding constraints; third, many of the British Council’s training participants came from the NGO community. NGO-turned-social enterprises typically work in their traditional sectors of poverty alleviation and support for disadvantaged groups. These are similar to the sectors they had been in as NGOs. The successful transition of an NGO depends largely on leadership capacity. The largest challenge to NGO-turned-social enterprises is the lack of operational business experience, talent, and infrastructure. There is also a large difference between the NGO and business culture, resulting in failure for a significant number of the NGOs attempting transformation.

- Some social enterprises at inception did not classify themselves as “social enterprises”, but the organization’s mission statement clearly showed such a value orientation. One example is Global Leadership Adventures (GLA). Their founders did not know the concept of social entrepreneurship. The business model of GLA is through organizing youth training camps to participate in volunteer projects in poor countries with the goal of cultivating young people’s compassion and sense of social responsibility. However, this is an organization with the potential to be a social enterprise. For this type of organization, the founders typically have a certain amount of business operational experience, but are not overly restricted by rules and possess innovative thinking.

- Unclear profit distribution model. An important
metric for the current international definition of social enterprise is the distribution of profits. As far as China is concerned, if social enterprises are registered as a civil non-enterprise unit, according to Chinese law, civil non-enterprise units cannot pay dividends. For example, the Beijing Fuping Development Institute is founded by a number of shareholders and operates according to market rules. They have two subsidiary microfinance companies with an annual profit of 3 million RMB, and Fuping Corporation has an annual profit of 300,000 RMB. However, profits are reinvested into the development of the organization and, since its establishment in 2002, Fuping has not paid any dividends.

If social enterprises register as businesses, based on results from current surveys and interviews, very few enterprises or organizations have clearly defined protocols for distributing profit. This may be because many social enterprises are still in their infancy, they have limited ability to pay of their beneficiaries, or because or the high operational cost of these enterprises. Social enterprises that do not make a profit or are currently making a loss have not given too much thought to profit distribution. At the same time, this also reflects the confusion of social enterprises as businesses. Although there is continuous debate about whether regulation should dictate dividend payment by social enterprises, it should be noted that many countries that regulate profit dividend for social enterprises do so to prevent social enterprises’ pursuit of maximum profit and in the process overlooking other social goals. Many scholars and practitioners still doubt whether one can achieve this objective through a rigid regulation of dividend payment, especially in an environment where many Chinese businesses have relatively underdeveloped self-regulatory abilities. However, if social enterprises do not have clear regulatory metrics, it will be difficult to ensure their social nature in the long run. This standard specification can include many aspects, for example: employment standards, procurement standard, production or service standard. Profit allocation standard should also be one of the important metrics.

Most social enterprises interviewed are relatively small, and few have annual turnover of more than 1 million RMB. This is mainly because social enterprises are still in their infancy - most are no more than three years old - and have limited funding and experience, and a profit model that still needs to be affirmed. Many NGO-turned-social enterprises must maintain financial sustainability through diverse revenue streams such as donations, government procurement, and sales revenue.

Beijing Hongdandan Education & Culture Exchange Center (hereinafter refereed to as Hongdandan) is a non-profit organization that provides barrier-free cultural products and services for the visually impaired and aims to create an inclusive and supportive environment for the visually impaired. Because Hongdandan was unable to locate an affiliate business unit, it is registered as a business. Despite its business registration, Hongdandan employs a decision-making council and the operation models of a non-profit and does not distribution its surpluses. In 2011, Hongdandan officially launched Braille culture products for the visually impaired. Examples of its products include large print...
Shenzhen Canyou Group Company is a high-tech company with headquarters in Shenzhen. It provides centralized employment solutions for disabled persons. In September 1999, Canyou founder Zheng Weining used 2 RMB to register the individual enterprise “Shenzhen Futian Canyou Internet Workshop”, which began with five disabled employees and one personal computer. At the beginning, Zheng Weining did not expect to empower persons with disabilities. He was just “trying to divert myself from my own loneliness and provide myself with another way of living.” It may be said that during the founding stage, Zheng Weining was trying, through entrepreneurship, to change his own fate and become a self-sufficient individual. After years of development, Canyou Group now has 32 subsidiary companies, 1 charity foundation, and 8 non-profit organizations. To date, Canyou has established subsidiary companies in 11 provinces, employing over 3,700 individuals, 95% of whom are disabled. It is seen as China’s most prestigious social enterprise.

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Can you Group

Calendars, Braille desk calendars, Braille business cards, etc. After turning commercial, Hongdandan developed a series of new products and services to assist the blind. Examples include helping the Beijing branch of China Construction Bank design products, selling blind coin identification cards and Braille travel maps. The designing and retailing of these barrier-free cultural products brought new profit growth to the enterprise. At the same time, Hongdandan began receiving government procurement. Government procurement grew from 56,000 RMB in 2011 to 410,000 RMB in 2012. In 2012, product sales revenue, government procurement revenue, and donations from foundations and businesses each made up one third of Hongdandan’s revenue. In addition, Hongdandan also received funding from Lenovo's venture philanthropy arm.

Innovative Practices of Social Enterprises

Although we have discovered from numerous visits and interviews with Chinese social enterprises that many of their operation models and inspirations are derived from the experiences and models overseas, there has also been unique innovations in the localization process of these international models. Below we use several case studies to analyze the innovative practices of Chinese social enterprises.

**Can you Group**
Zheng Weining Charity Foundation owns 90% of the shares in Canyou Social Enterprise Group. At Canyou, the operational decisions are made by the Foundation. Canyou pays dividends to the Foundation, and the Foundation uses the dividends in two ways: investing in the opening of additional subsidiary companies in order to increase profit, and investing in various charity enterprises. Although shareholders of the Canyou Group can receive dividends, Canyou has never paid dividends. For Canyou subsidiaries, one third of the profits are retained within the enterprise and reinvested into corporate development, one third of the profits are paid to the shareholder (mainly the Foundation), and one third are used for employee salaries. The principals of Canyou Group have salary and year-end bonus, but the bonuses are not dependent on the organization’s profits. At Canyou, employees that do a good job receive monthly, seasonal, and annual bonuses. If they do a bad job, then there are no bonuses.

In 2009, when Zheng Weining was seriously ill, he donated to Zheng Weining Charity Foundation his personal holdings in 90% of the shares in the Group, 51% of shares in the subsidiary companies, and the value of the Canyou brand name. This established the socially owned nature of Canyou. Zheng Weining listed two clauses in his donation will. One is that the future proportion of disabled employees in Canyou Group not be lower than 70%, and the other is the Employee Retirement Support Plan, which gives full salary and living stipend to employees who can no longer work. These employees, in addition, may continue to enjoy company benefits such as free travel, free laundry, and free meals. Although Canyou’s comfortable welfare benefits for disabled employees exhibit a social nature, they escalate the personnel costs at such a large organization. At the same time, there exist severe issues in employee performance management. These are all problems that continue to confront the organization in its development.

### Aba Qiang Embroidery Support Program

After the Wenchuan Earthquake in Sichuan, Yan Junhui and her husband Gao Tunzi envisioned and implemented the Qiang Embroidery Support Program with the purpose of extensively assisting disaster area women in engaging in Qiang embroidery handiwork, encouraging and helping them with obtain other forms of employment, and at the same time protecting and rescuing a national cultural heritage -- Qiang embroidery. Her idea received the support of Ms. Amy Zhou Weiyan, the executive chairman of Jet Li’s One Foundation, and lead organizer of this report. With the support of the CPC Aba Committee and the Aba prefecture government, the One Foundation donated 1.7 million RMB to co-found the Qiang Embroidery Support Center with the Chengdu Gao Tunzi Cultural Organization.

Initially, the local villagers were not confident in the project, and less than 10 women participated in the first phase of the project. In order to gain the trust of the villagers,
Yan Junhui decided that whether or not the first batch of embroideries sold, she would pay the villagers in a timely manner. Thus, the whisper that “embroidering things could really earn money,” spread rapidly through the village. Not long after, Mao County support station, Li County support station, Wenchuan County support station, and Dujiangyan County support station were established in succession. The number of female embroiderers exceeded 8,000, and the impact of the program became increasingly clear by the day. Before the Earthquake, the average daily income of an Aba county rural laborer averaged 1.7 to 1.8 RMB per hour. Now, the hourly payment of Qiang Embroidery is 3 RMB per hour. A practiced embroiderer can earn on average 50 to 60 RMB a day, and a typical embroiderer can earn 30-40 RMB a day. In 2008-2009, the Qiang Embroidery products were mainly purchased through One Foundation procurement. However, as the public’s attention on the disaster area shifted and One Foundation’s support diminished, revenue declined by 70%. At the same time, because Qiang Embroidery’s products are handmade by embroiderers who work during their free time after farming work, the embroiderers’ work hours and work quality are difficult to monitor.

Yan Junhui was inspired after participating in the Hong Kong Social Enterprise Summit and decided to use modern innovative design and business operations to allow Qiang Embroidery to emerge from the mountains and enter the everyday lives of ordinary people. At the same time, Qiang women can realize employment after the earthquake disaster through this traditional handicraft passed on between the generations. In 2010, under the support of the Chengdu Municipal government, Qiang Embroidery opened its first flagship store in a narrow alleyway. The store broke even at the beginning of the second year. As of now, there are 6 stores, and 8 more are planned for 2013, including stores in Dujiangyan, Suzhou, Beijing, Shanghai, and Taipei. Qiang Embroidery also spends a significant amount of energy on product development, combining traditional Qiang embroidery with modern aesthetics to produce handbags, house wares, clothing, and other products.

In 2011, the Qiang Embroidery Support Plan expanded into the “One Needle One Thread” Support Plan by replicating its mode of operation with Guizhou’s Miao embroidery, Xinjiang’s Kesai embroidery, Sichuan’s
Shu embroidery, and Tibetan embroidery, benefiting an increasing number of rural women and their families. Three decades of Chinese economic development has depleted much of China’s rural labor force, resulting in land abandonment, the neglect of the young and elderly, and risks of social instability. “One Needle One Thread” introduced a new model that helps Chinese rural women find flexible employment without leaving their homes in the high/mid elevation regions. One sewing machine, one stay-at-home woman, one purchase order -- that is the social meaning of the “One Needle One Thread” support plan.

Fuping Development Institution

Fuping Development Institute is founded in 2002 by Mao Yushi and Min Tang. The name Fuping sounds similar to “Poverty Alleviation” in Chinese and captures the organizations’ hopes of bring prosperity to civilians. This is also the original founding motivation behind Fuping Home Economics, which provides housekeeping skills training for women from poor areas. Upon initial founding, Fuping established two functions for itself. The first is act as a springboard for rural migrants, assisting migrant farmers in finding employment in the cities and in adjusting to city life. Afterwards, Fuping discovered that the single focus on employment training does not fully fulfill the needs of migrant workers seeking to escape poverty. Therefore, Fuping successively developed its four core operation areas: domestic and community service, early education, eco-agriculture, and microfinance. Youngji Fuping Microfinance Limited Company became the first Chinese commercial microcredit company to be located in a rural area. The Fuping mission is: using social entrepreneurship and social enterprise methods to promote social innovation, benefit the poor, promote social justice, harmony, and sustainable development. In the future, Fuping Development Institute will focus more on professional development, training better
infant care teachers and elderly caregivers to take advantage of China’s growing early childhood education and elderly care market. It will also expand in the agriculture technology market, providing specialized marketing, technology and management services for family farms and co-operatives.

■ China Foundation for Poverty Alleviation (CFPA) Microfinance

The poverty alleviation through microfinance method advocated by Professor Muhammad Yunus has spread across the world. China also has a large amount of microcredit projects, one of the most successful of which is CFPA Microfinance. CFPA Microfinance is derived from a microcredit poverty alleviation project by the China Foundation for Poverty Alleviation. It has been practicing microfinance poverty alleviation since 1996. In the past decade, CFPA Microfinance has lent almost 4 billion RMB of microcredit to nearly 500,000 farmers, directly benefiting 1.5 million poor people. As one of China’s earliest microcredit projects, CFPA Microfinance continues to stand out even while more than 300 microfinance projects have disappeared. It is not only China’s largest microfinance institution, but also represents China’s microcredit lending on the international stage.

CFPA Microfinance’s product design philosophy does not follow the traditional method of examining the customer’s current asset situation. Instead, it believes in the customer’s future ability and willingness to repay, and therefore developed an unsecured (no collateral) group loan jointly guaranteed by five households model that is suitable for the rural farming community. In order to make sure that truly poor farmers can receive credit, in its product design, CFPA utilized small loans (below 12,000 RMB), non-discounted interest (higher than bank interest), joint guarantees by five households, centralized on-the-ground loan distribution, and lump sum loan repaid in parts. These methods effectively lower the probability of farmers who are not poor receiving loans.

CFPA’s innovation lies in its cooperation with large-scale commercial banks, such as China Development Bank, Standard Chartered Bank, Agricultural Bank of China, and the Bank of Beijing. The larger banks provide wholesale loans, and professional microcredit institutions implement grass-roots business. This combines the funding advantages of large-scale banks with the practical experiences of smaller organizations. This not only solves the large bank’s difficulties in directly servicing low-income farmers, but also fulfills the funding needs of charitable microcredit
institutions. Most importantly, it allows more poor rural households to receive loan support, successfully benefiting large banks, small microcredit firms, and poor farmers.

As a social enterprise, CFPA Microcredit is different from normal business enterprises. On the premise of achieving self-sustainable management through efficient operations, CFPA Microcredit emphasizes achieving social impact and realizing social value. As a result, at the same time as providing funding support, CFPA Microfinance is focused on developing the poor farmer’s ability to grow and achieve sustainable poverty reduction. CFPA Microcredit, according to product region and agriculture characteristic, provides customers with a diverse range of free agriculture technical training. At the same time, various branches utilized a variety of activities to improve clients’ financial awareness and financial literacy. Even more noteworthy is that CFPA Microcredit continues to adhere to the employment philosophy of “locals servicing locals”. The local branches utilize a fully local management, hiring local staff. Each township appoints a loan officer, employing door-to-door service in order to ensure the fullest extent of the organization’s reach. The internationally known microcredit rating agency Planet Rating, through on-the-ground visits and evaluations, awarded CFPA the rating of B+, which places it in the top 20% of all international microfinance organizations.

Hetong

Chinese society increasingly faces an aging problem. In 1995, the first Hetong Elderly Home was established in Tianjin. After 17 years of effort, Hetong is an organization with annual revenue of 30 million RMB and has grown to be a sizable umbrella group in the elderly services industry. Organizations under the umbrella include Hetong Senior Citizen Welfare Association, Senior Citizen Charity Foundation, 7 elder care homes, 1 geriatric hospital, 7 elder care vocational training schools, and one national professional occupational ability evaluation center. Not-yet-registered pilot operation programs include unassisted recreation center, catering center, elderly product research institute, and a commercially-registered public welfare real estate company.

The goal of Hetong and its subsidiaries is to promote elderly welfare. The organization does not pursue maximum profit, and therefore does not have shareholders or pay dividends. Apart from employee salaries and administrative overhead, all remaining funding are used to support the development of special projects for senior citizen welfare and nursing home care. Hetong follows the international standard of senior citizen to nursing staff ratio of 1:4.5. It also proactively develops and imports specialized elderly care products, as well as German geriatric care techniques. It has a large number of nursing home staff with better-than-average professional training level. In order to maintain a reasonable fee and good finance balance, the organization offsets the higher cost of its specialized nursing staff with efficient management.

Hetong owes its success first and foremost to the spirit and vigor of social entrepreneurship. Hetong’s welfare nature and specialized service, public management and personal
The charisma of its managers established a positive reputation, allowing Hetong to attract donations and customers. Hetong’s vitality comes from its similarities to a corporation in terms of decision making, allowing individuals plenty of space for independent decision-making and personalized management. Aside from this, Hetong not only attaches importance to elderly care, but also through the development of its foundation, promotes special charity projects in elderly service, increasing its brand name and brand recognition.

Boxue Ecological Village

An important social issue confronting China is the destruction and disappearance of villages as a result of the construction and expansion of cities. The disappearance of villages is a tragic loss of human capital. Beginning in 2009, then-Window of the South senior reporter Chen Tongkui returned to his home of Hainan and began establishing Boxue Ecological Village in an ancient Haikou village next to a volcanic crater, gradually developing a new method for village reconstruction. To Chen Tongkui, the re-establishment of university students to their hometowns had a dual meaning. First, those returning home have discovered new meaning to their lives. Second, their happiness also added to the glory of their hometowns. Their choice to sow and farm the seed of new enterprises in areas that most need talent is one of the most effective means of addressing the rural-urban inequality.

In 2011, Chen Tongkui raised nearly 800,000 RMB in funding to establish Hainan’s first bed and breakfast in Boxue Ecological Village, called Rosewood Homes. Among the 800,000, more than 100,000 RMB are borrowed through the microblogging site Weibo. At that time, the bed and breakfast had entered the renovating stage and was short approximately 100,000 RMB in renovation fees. Chen Tongkui leveraged the emerging social network Weibo’s “Micro Charity” page to post information and collect funding, pledging that “Every individual who provides 10,000 RMB in loans will from 2012 enjoy one week of free lodging at the bed and breakfast every year for 10 years (reservations need to be made just one month in advance), and enjoy an annual interest of 8%. The loans will be returned within 2 years from month of loan.” This Weibo post was forwarded and reposted many times that day, and it took only half a day to raise 150,000 RMB in loan commitments.

Chen Tongkui leveraged his personal influence and credibility on the Weibo platform, using as “selling points” the image of an attractive, pastoral lifestyle that is the dream of many individual. In return, he received the support of social capital. The most defining characteristic of social enterprises is to use “small money for large impact”. To achieve this requires the support of both social capital and
It is worthwhile to mention that Rosewood Homes received 2nd place and 50,000 RMB in cash prize at the 2011 social impact investing conference sponsored by Hainan Airlines Group and 21st Century Business Herald. These kinds of competitions and the associated prize money often serve as start-up capital for the recipient social enterprises. Chen Tongkui’s purpose for building this bed and breakfast is not personal profit, but to address development problems in his hometown, leading villagers to transform the town from a traditional village into an ecological tourism destination that combines organic farming, leisure experience, and ecological protection.

Chen Tongkui led the creation of the “Boxue Ecological Village Development Council”. One of the council’s purposes is to train villagers to become “knowledgeable farmers”. The second purpose is to serve as a resource center for accepting external human, financial, and material resources, using the power of community resources to aid in the transformation and development of a traditional village. At the same time, the Development Council also serves as a decision-making and executive body for the community. Among the community building methods put forth by the Council, one suggested that for a village community with relatively dispersed social forces, one must start from community training. First allowing some interested individuals to take action under the guidance of established theories, accomplish small achievable goals, and then trigger a magnet effect that will attract the participation of more residents, gradually affecting structural change in the community.

On the topic of profit distribution of the bed and breakfast, Chen Tongkui allowed the decision to be made by the Boxue Ecological Village Development Council -- the bed and breakfast will contribute 10% of its profits to the community fund and the restaurant business will contribute 5%. This is equivalent to approximately 25% of the profits being used for community public services. Under this resolution, any business operating in Boxue Ecological Village must contribute funds to support the community building efforts of the village. On the topic of bed and breakfast operation management, Chen Tongkui also displayed ingenuity. He applied to become a host station for Youcheng Foundation volunteers, allowing Youcheng Foundation to send students from the Small Eagle Project and full-time volunteers to co-manage the bed and breakfast. Each full-time volunteer will be on-the-ground for 10 months. Chen Tongkui defined the bed and breakfasts as a “residential type of station.” In addition to students from the Small Eagle Plan, it also hires 1 or 2 monthly residential volunteers to manage the bed and breakfast and promote community building. In 2012, there was even a Korean artist in residence at Boxue Ecological Village who led the villagers in the creation of public art. Chen Tongkui led the villagers in building Hainan’s first village mountain biking path, culture center, gym, and public infrastructure projects such as road improvement. At the same time, he obtained public financial support for the construction of water supply and irrigation facilities and upgrading of the power network.
These changes laid the foundation for the community transition from a poor, backward village to a mature rural eco-tourism destination.

Next, Chen Tongkui hopes to attract “new residents” into Boxue Ecological Village to undertake community building, launching the project “An Acre Test Plot”: the villagers provide the land, the “new residents” provide funding and invest in the construction of a new bed and breakfast. The villager owns the bed and breakfast, but the new resident possesses the use rights of one room in the bed and breakfast (for personal or family holidays; cannot be operated autonomously but can be delegated to farmers to operate). The rest of the rooms are used in the operation of the bed and breakfast, and the new resident has a 30-year benefit right. 10% of profits are paid to the village public fund, and the remaining 90% are split equally between the new resident and the farmer.

In 2013, Chen established a new dream: Boxue Ecological Village will establish a 100-acre community park which serves the dual function of housing for returning college students, establishing in Hainan a social enterprise that will encourage college students to return and pursue start-ups in their hometowns. This community park will be composed of four main areas: one is a “family farm” displaying natural farming methods, two is a “volcano cuisine canteen” to promote local cuisine, three is a “farmer’s market” to promote ecologically produced products, and the fourth is “Kang Mu Xiang Pear Flower Art Gallery” which combines art with the local specialty of Canadensis pears, allowing individuals to practice hands-on woodworking or carving at a “DIY Workspace”. The Park will thus not only serve as a gathering place for villagers, but also provide a venue for community building workshops and galleries. Chen Tongkui also initiated the annual Forum for Returning College Graduates, in order to encourage more students to return and start businesses in their hometowns.

V-Roof

One of V-Roof’s founders, Huang Ke, originally worked at a subsidiary institute of a state-owned enterprise that provided consulting for the landscape design of the Shanghai Expo Park. After the conclusion of the Expo, Huang Ke and eight other designers collectively left their jobs to pursue entrepreneurship and promote the spread of green rooftop designs. Their mission was to weaken the heat island effect and optimize the air quality of cities. The guiding theory of V-life is committed to optimize city environments by utilizing idle resources in the hopes of providing solutions to the urbanization problems of food security, ecology, and employment.
When speaking of her vision, Huang Ke said, “Our motto is, ‘Green city, Better life’. We discovered that modern society has increased the distance between individuals. We hope that city dwellers will maintain contact with nature, especially in the heart of city high-rises. This can bring people at least some spiritual solace. Rooftop garden are open spaces that play a role in urban community development. Gardens on the rooftops of apartments can decrease the distance between neighbors. Rooftop gardens attached to office buildings provide a relaxing and comfortable environment for employees to communicate and network. Public rooftop gardens also serve rich and diverse community functions, such as venues for dating, socializing, and hosting special events. At the same time, “sky gardens” offer the solution to another social problem. They allow new migrants from the countryside to be integrated into the city in a respectable manner: “migrant workers that come from the countryside are experts at farming. City-dwellers do not understand farming techniques but are often inclined to the pastoral life. If we hire rural migrants to maintain the sky gardens, they will become teachers and the urban residents will turn to them for technical guidance. This will increase their self-confidence and preserve their dignity. Our social enterprise is one that can promote social stability, change lives, and ensure the sustainable development of a country and society.”

Germany, Japan, and other countries are internationally recognized leaders in “Green Rooftop” technology. They also have the highest density of green rooftops. Practical experience has confirmed that rooftop gardens and farms in cities not only reduce the cost of transporting vegetables and decrease wasted energy in food production, but green rooftops can also reduce electricity consumption by 15% in the summer, helping the city conserve energy.

In 2011, not long after its founding, Huang Ke and V-Roof entered the “Green Living” contest sponsored by the British Council and received 30,000 RMB in seed funding. Afterwards, Huang Ke and the team designed the plan for sky farm: 50% for planting, 30% for viewing, and 20% for providing leisure services. The rooftop also combines rainwater harvesting system and solar energy facilities, allowing more people to enjoy a low-carbon lifestyle. This innovative plan won the favor of the Shanghai Municipal Government’s Science and Technology Commission, which provided V-Roof with 800,000 RMB of government-backed funds, thus solving the issue of start-up capital. At present, Huang Ke’s goal is to develop some boutique business hotels, using rooftop gardens as the hotels’ unique characteristic for attracting customers. At the same time, the organization hopes to approach the development of office building rooftops with an “individual rentals” approach that involves looking for white-collar workers to sub-let office buildings. Because improving urban air pollution is of interest to every citizen, V-Roof’s model of providing a lifestyle that allows individuals to contribute to society while benefitting themselves, should attract the participation of
Huang Ke has many plans for the future. For example, she hopes to set up a restaurant with a wall of green fruits and vegetables and increase profits by selling various vegetables and fruits planted in the wall. She also hopes to open a children’s farm that will promote parent-child education and allow children to embrace nature. Huang Ke also hopes that China will establish a carbon exchange, because a “Sky Garden” absorbs carbon emission. Other enterprises can trade their excess carbon emissions with Sky Garden via the carbon exchange, resulting in a potentially viable business model for V-Roof.

Buy42.com

When Buy42’s founder Zhou Xian was studying abroad in England, she was inspired by the glittering charity shops in the streets of London. Upon her return to China in 2011, she established Buy42. Unused goods are a wasted social resource. Buy42 encourages people to donate items they no longer use, purchase or recycle the unused goods of others, and therefore reduce carbon emission. After the donated item is cleaned and consolidated, a photo is taken and uploaded onto the website for charity auction. The cleaning, product photography, video production, distribution and logistics are done by disabled individuals. Buy42 hopes to use this method to help disabled individuals gain a sustainable and dignified employment. Part of the proceeds from the sale is used to support public projects. All proceeds from the sale of online goods are donated to designated public accounts: a part is used to support the daily operations of the store, another is used in the job placement and training of its disabled partners.

In order to facilitate ease of donation, donors located in the regions of Jiangsu, Zhejiang, and Shanghai need only to make an appointment online and logistic companies will pick up the donations at their door. Buy42 has a very strict selection criterion. The donated items are only put up for sale after selection, cleaning, and organization. After the company receives the donations, the donors can go online to search the present condition of their donated item - for example, whether it is being cleaned and organized, whether it is on the shelves, whether it has been sold. All data -- how many items you have donated, how much money they have been sold for, where the sales proceeds went -- can be found by the donor on the Buy42 website. In addition, Buy42 publishes a semi-annual transparency report. Every online buyer can, through the trace system, see the ultimate beneficiary of this transaction. Buy42 uses Internet technology to connect all stakeholders (caring donors, charity purchasers, charity organizations, beneficiaries) in the same platform and to facilitate effective interaction. Its financial data is completely public and updated in a timely matter. Everyone will be kept informed of the relevant data and information.
Aside from the test of transparency, Buy42 also needs to face a number of other risks, for example, intellectual property. For expensive items, such as a bag with the LV logo, there may be a risk of counterfeit items. At present, Buy42 does not have a strong identification system. Fortunately, donations are made under the donor’s real name and Buy42 will repeatedly confirm with the donor regarding the authenticity of the product and warn buyers of the risk beforehand.

In 10 short months since its founding in 2011, Buy42 realized public donations of more than 300,000 RMB, provided over 10 public institutions with public funding ranging from 5,000 to 60,000 RMB, and created sales revenue of over 700,000 RMB. In 2012, it realized public funds of more than 600,000 RMB, sales revenue exceeding 1.81 million RMB, and has 11,156 public shareholders. From 2011 to 2012, Buy42 provided training and employment opportunities to more than 40 disabled partners, aided more than 20 public projects, and improved the employment conditions of more than 10 types of disabled partners.

In 2013, Zhou Xian plans to develop a mobile app. Because every item in the Buy42 store is unique and cheaply priced, there are many buyers for one item. Developing an app can allow individuals to purchase faster on their mobile phones. Buy42 will combine “e-commerce” with “charity shop”, creating an innovative non-profit model. Buy42 advocates that “everyone has value”. Zhou Xian said: “Many are perhaps curious as to why our website is called Buy42.com. 42 stands for “for two”. In the process, no matter the donor or the purchaser, we first solve our problems and make ourselves happy, and then help another person. Every person, every item, every employment, every disabled partner has value. No matter the donor or the buyer, every action has value.”

### Chongqing Jian’ai Art

Chongqing Jian’ai Art (the Chinese meaning Shears of Love) paper cutting is China’s first social enterprise focused on addressing the survival and treatment of hemophilia patients. Although it is a relatively rare disease, in China there are approximately 60,000 to 130,000 hemophilia patients, with approximately 90% not receiving standardized treatment. Due to the high annual treatment costs, there are many families made poor by the disease. In 2006, Ms. Peng Maolin united more than eighty Chongqing families with hemophilia patients and registered the “Chongqing Hemophilia Care Home” with the civil affairs department. This is the first care home established by the mother of a hemophiliac patient in China. In April 2007, “Care Home” officially changed its name to “Chongqing Hemophilia Rehabilitation Association.” In 2008, it founded “Jian’Ai Papercutting Design Studio.” In September 2010, “Jian’ai Crafts Limited Liability Company” was registered with the
bureau of Commerce & Industry. In September 2011, Jian’ai registered as a “social welfare enterprise” with the Ministry of Civil Affairs. In seven short years, Jian’ai experienced legal statuses as a social organization, a civil non-enterprise unit, a company, and a social welfare enterprise. In order to create a sustainable way of helping the hemophiliac patients, it ultimately decided on the social enterprise model. Its development model is very representative of the experiences of Chinese social enterprises.

Jian’ai accepts hemophilia patients and their families, as well as persons with disabilities. In addition, it leads hemophilia patients in the Southwest region of China onto the road of self-help entrepreneurship. As of now, Jian’ai has 12 full-time employees (including managers and designers), 15 part-time employees (including hemophilia patients and their families), 30-plus volunteers. It has created over 50 plus jobs allowing patients to work from home and became a project site for the China Population Welfare Foundation’s Happy Family project.

Jian’ai’s products include paper cuttings, paper sculptures, and paper designs of knitted products. Its products also cater to the needs of modern city renovation, decoration, festival celebrations, and wedding celebrations. In the paper cutting market, most companies produce by machine. However, Jian’ai’s products are all handmade. It is located at the high end of the market, and the product it develops hold independent intellectual property rights. Moreover, the company has the paper-cutting patent technology called “multi-level three-dimensional plane of representation.” Jian’ai’s work “Chongqing’s Tomorrow Will Be Even Better” won the silver medal at the second annual Arts and Crafts Exhibit. Along the River During the Qingming Festival and A City Between Two Rivers and a Mountain received gold and silver, respectively, at the third annual Arts & Crafts Exhibit. Wujiang Sister was collected by Professor Lin Yifu, the former Vice President of the World Bank. Night View of Chongqing People’s Grand Hall was collected by Du Dawei, the World Bank’s chief representative in China. New Bride and Entering the World Expo were both exhibited at the Shanghai World Expo; New Bride was presented for auction at China’s Zhongnanhai Diaoyutai Hotel and was sold for 150,000 RMB, setting the highest selling price in the history of the industry’s products. Making items by hand not only ensured the high quality of Jian’ai’s products, but also provided more benefits to hemophilia patients. Jian’ai founder Ms. Peng said, more important than making a profit was to allow patients to gain satisfaction and self-confidence. If we used machine production, even if we produce products that sell for a lot of money, the patients will not have the same sense of achievement that they receive by making the products by hand. The characters in Jian’ai’s company name are homonyms of the Chinese translation of Charlotte Bronte’s Jane Eyre. The theme of Jane Eyre is: personal value = dignity + love.

Jian’ai utilizes the operation model of “uniform management, uniform procurement, uniform selling channels, uniform design, decentralized production.” Its
model primarily combines gift coupon sales and franchise sales, complimented by the sale of products in stores and tourist sites. Its products are sold in Chongqing, Chinese coastal cities, and the overseas market. Jian’ai investors are the employees who are hemophilia patients and their families, and all strategic decision-making is left to the shareholders. 70% of the organization’s profits are used to increase production, 20% are used for projects that aid hemophilia patients, and 10% used to support the Hemophilia Rehabilitation Association. Financial statements are available to shareholders and relevant stakeholders.

In the future, Jian’ai will focus on developing in the prayer and festival window decoration market, practical products paper cutting market, DIY paper cutting market, and the art market. It will increase the value of its brand by providing the back story to the Jian’ai brand name -- a story about the entrepreneurial hardships and persevering spirit of the hemophiliac patients. Through the culture force and its brand name, Jian’ai hopes to maintain production capability, to raise society’s awareness and concern for hemophilia patients. It also hopes to extend its production into the rural areas, providing those areas with technology skills training and help them achieve “at-home employment.”

Beijing “Zhihui Elderly Health Care Cloud Service Platform”

Beixin Deshi Company is a high-technology software company that was established in May 2007 by the Beijing Information Management Research Institute for tracking and servicing China’s Department of Health and the Center for Disease Control and Prevention’s in its work on disease warning and prevention. This company developed “Zhihui Elderly Health Care Cloud Service Platform” with the mission of enhancing elder care health service capacity and management level. It uses Internet-of-Things, cloud computing, and other advanced IT technology to build a virtual nursing home that provides health care and spiritual comfort, allowing different types of senior citizens to enjoy their retirement life in a dignified, worry-free, safe, and secure environment. The database currently contains the healthcare data of 1.4 million residents, and that number continues to increase.

“Zhihui Elderly Health Care Cloud Service Platform”
product architecture and network infrastructure diagram below:

**Remote Recovery and Care Subsystem**

Senior citizens living at home in retirement generally have a high risk of chronic diseases such as diabetes and cardiovascular diseases. These diseases are protracted and require long-term treatment. As a result of these diseases, remote recovery and care guidance through information technology have become basic needs of the elderly. Features of this system are:

Intelligence: the sensors detect the user’s physiological parameters, which can be automatically uploaded over a wireless network to a central database;

Personalization: The community doctor provides personalized diagnostics according to the senior citizen’s specific characteristics, objectives, and requirements.

Humane: The design utilizes wireless sensor technology and wireless network technology to provide independent, safe, and accessible health care without affecting the normal life of its users. Through the remote diagnosis of the telemedicine module, elderly citizens can receive medical advice and consulting while at home.

**Healthcare Services System**

With the accelerating ageing of the Chinese population, there is a rapid growth in the number of the elderly needing long-term care. Most of them suffer from chronic diseases and have difficulty in mobility. Current care for the elderly is mainly dependent on elder care workers and hourly workers who come from less developed rural areas. These workers lack the necessary medical knowledge. Therefore, it appears particularly important to explore through “Healthcare Service System” a new model of providing care to China’s elderly.

**Over-The-Counter Drugs Knowledge Self Learning System**

Over-the-counter drugs do not need a doctor’s prescription and can be purchased readily in drugstores. These drugs are used by the patient on the basis of the patients’ own judgment of his or her condition, the drug prescription directions, or the advice of a physician. This system targets the current phenomenon of the widespread abuse of OTC drugs by the elderly. It gathers the already published information on OTC drugs and provides a new perspective, developing a special service system customized for elderly needs.

**Mental Comfort Service System**

As society progresses and living standards rise, the spiritual needs of the older retired group are growing increasingly prominent. This need is reflected via emotional communication, interpersonal communication, cultural entertainment, education, self-empowerment, and other areas. This system starts from the point of moral and spiritual cultivation. Its contents allow the elderly to explore various cultural and recreational activities and services, creating for the elderly an opportunity to meet and interact with their neighbors.
“Time Bank” Inspired Mutual Aid Management System

This system quantifies and stores data on elder care assistance and services. Those that promise to provide services to elder citizens can receive an equal amount in other services. This establishes a “one for all, all for one” long-term mutual aid service of credit institutions. The “Time Bank” model is relatively mature in Europe and other developed areas. Service process is managed by a computer system, with the government aiding the system’s development via legislation, setting strict guidance for operational funding source, mutual rights and obligations of parties involved, and training requirements.

Social Enterprise Impact Estimation

In China, there is yet no impact assessment system of independent third-party assessment agency for evaluating the social impact of social enterprises. Instead, the impact assessment of social enterprises comes from social enterprises’ own records and assessments. For example, during the interview with Fuping Development Institute, relevant managing personnel stated: “Fuping Development Institute’s microfinance service has issued over 10,000 loans, lending nearly 100 million RMB, benefiting over 3,000 rural households. Since the 2002 launch of Fuping Development Institute’s home and community service projects, as of 2012, it has trained over 23,000 students and solved the employment issues of more than 20,000 individuals. In total, it provided housekeeping services for 12,000 Beijing residents and created approximately 100 million RMB in direct economy value.”

However, we discovered that most social enterprises do not actively assess their social impact. Although most social enterprises have a clear mission, their managers are often too occupied with the survival of their enterprise to expend energy on following up with and assessing their social impact. Most enterprises have not given thought to what kind of indicators to establish or assessment methods to use. Therefore, as of now, it is very difficult to assess the impact of social enterprises to Chinese society.

Even if individual social enterprises did perform an assessment, its influence will be negligible due to its small size relative to all social enterprises. At present, the impact of social enterprises on young entrepreneurs, NGOs, and the
Currently there are many social issues in the world that cannot be solved by government or philanthropic individuals alone. Many countries continuously face issues related to the environment, education, resources, and other social issues during the course of their development. In 2011, domestic charities attempted to work with the commercial sector to efficiently solve these social issues. However, the “Guo Mei Mei” scandal, which uncovered the complex relationship between China Red Cross Bo’ai Asset Management Ltd and the Red Cross Society of China, the 1.5 billion RMB Sino-Africa Project Hope Project scandal, and other incidents, have left Chinese citizens sensitive and suspicious - and some even resistant - to the collaboration between charity and business. At the same time, a new combination of investing that combines business with charity has begun to emerge in the United States and many European countries. It has gradually received increasing attention in recent years -- impact investing aims to efficiently solve society’s problems by closely combining financial investment with charity.

A research report published by J.P. Morgan and the Rockefeller Foundation in 2010 titled “Impact Investment: An Emerging Asset Class”, first differentiates impact investment from other types of investments and classifies it as an emerging alternative asset class poised to enter the mainstream. The report further points out that impact investment can not only create positive impact by effectively addressing the world’s social problems but can also generate financial return, a combination that will undoubtedly elicit the attention of the financial and charity sectors.

The main purpose of impact investing, in a broad sense, is to create a positive impact on society by efficiently addressing social issues without excluding financial return in the traditional sense. Profit is measured not only in terms of financial returns on investment, but also in terms of social impact as expressed through quantifiable social metrics.

Following the classification of impact investing put forth in research published by the Monitor Institute\(^1\), this report further defines social impact investing from two different angles:

1. Financial First Impact Investing

These type of investor primarily seeks financial return while achieving some social and environmental good. Because financial return is the primary factor in their decision-making, they seek a relatively high return, closer to market-rate returns.

\(^1\) Investing for Social and Environmental Impact Monitor Institute (2009)
2. Impact First Impact Investing

This type of investor primarily aims to generate quantifiable and positive social and environmental impact with the secondary aim of financial return. Therefore, they are often willing to accept a lower-than-market financial return.

The reason why we classify impact investors in this way is because currently various institutions in the investment sector subtly differ in their understanding of the field. The origin of this difference is that impact investment combines elements from the charity and financial investment worlds. For example, as a market-oriented financial product, financial gain is certainly an important metric. However, as a philanthropic capital investment, investors can accept negative financial return or treat it as an interest-free loan or a donation.

Because impact investing is a term borrowed from English, individuals in China do not have basic knowledge of this new concept and easily confuse impact investing with other similar concepts. Therefore, we compare impact investing with other types of investments in the following sections.

Impact investing and charitable donations

If we view donation as a generalized act of investment, then this type of investment does not seek any financial return and is purely for the purpose of achieving a social impact. This type of impact, in addition, is often clearly specified in the donation. Therefore, the probability of financial return is not incorporated into the investment decision. Social impact investing, whether finance first or impact first, must consider investment from the angle of financial return, namely, whether the investment will generate an expected return. This is the fundamental difference between charity donation and social impact investing.

The financial returns from social impact investment can be re-invested; however, charity donations require the continuous input of new capital. This difference will result in differences in the extent and efficiency of social impact between the two forms of investment. Due to the above-mentioned differences, some philanthropists and foundations with strategy, vision, and focus on result and efficiency have chosen to abandon the traditional donation model in favor of social impact investing.

Impact Investment and Venture Philanthropy

Venture philanthropy combines charitable concepts with venture capital techniques to achieve philanthropic goals and create a larger social impact. From an investment angle, venture philanthropy lies closer on the spectrum to philanthropic donation. Its main purpose is to create
positive social impact and to benefit society. Compared to charitable donations, however, sustainable impact is one of the considerations of venture philanthropy. Venture philanthropy differs from charitable donation in that its main consideration is not whether the recipient most matches the charitable objective of the donor, but whether the recipient can use the investment to expand their operations and their social impact sustainably. Venture philanthropy overlaps considerably with impact investing, but may entail lower rates of financial return.

**Impact Investing and Socially Responsible Investing**

Socially responsible investing in the traditional sense uses securities traded on the open market to invest in companies that do social and environmental good and to avoid investing in tobacco, alcohol, gambling, weapons manufacturing, and other companies that create societal harm. Narrowly defined socially responsible investing focuses primarily on avoiding investments in “harmful” companies and does not necessarily require investee companies to actively improve social or environmental issues and create positive social impact. This is the main difference between social impact investing and socially responsible investing. However, viewed from a broader angle, eliminating harmful effects of itself creates positive impact. Therefore, socially responsible investing and impact investing are deeply interrelated, and the main difference is the former being more passive and the latter more proactive.

**Impact Investing and Traditional Investing**

Compared with traditional investing, the goal of impact investing is not only to achieve a certain financial return, but also to achieve a certain social impact. The investors not only gain profit but also participate in charity and do their part in addressing specific social issues. The dual investment purpose of impact investing is its primarily distinguishing feature and advantage over traditional investing.

From the comparisons and descriptions above, one can see that impact investing lies on the spectrum between the two extremes of charitable donations focused on social mission and traditional investment focused on economic value. Venture philanthropy and socially responsible investing also lie between these two traditional extremes. By comparing impact investing with these four types of investment, we gain a clearer picture of the role of impact investing.

**Universe of Chinese Impact Investors**

In China, diverse participants constitute the current pool of social impact investors -- from government-backed
agencies to business organizations and academic institutions. The different types of actors and their different levels of participation have caused the sector to develop along various lines. The main impact investors in China include the following:

**Private Foundations**

Foundations used to be off-limits to private individuals. However, starting in 2000, the Legislative Affairs Office of the State Council and the Ministry of Civil Affairs amended Measures for the Management of Foundations and completed Regulations for the Management of Foundations. On June 1, 2004, the new regulations were put into effect, initiating a new era for Chinese foundations. The new regulations encouraged the development of foundations created by private citizens and corporations. According to the website of the China Foundation Center, as of August 20, 2012, there are 2,747 foundations, of which 1,259 are public foundations. The number of private foundations now exceeds public foundations, reaching 1,488. Private foundations are typically founded by high net worth individuals, and these individuals often provide key funding for impact investing and provide a channel for funding from corporations and other private investors. In Asia, these individuals invest as much as $8.6 trillion. Private foundations founded by individuals will likely become the largest force in the Chinese charity sector.

How can this force be best deployed? In the wake of a number of scandals, the overlap between these types of foundations and business enterprises began to attract community attention and discussion in recent years. On December 17, 2011, the Narada Foundation, the Tencent Public Charity Foundation, and Peking University's Non-Profit Organization Legal Research Center took the lead on organizing a seminar discussing the “Cooperation Between Charity and Business”. Twenty-four foundations signed a jointly formulated regulation called Nine Codes of Conduct for the Cooperation Between Charity and Business, with the purpose of using commercial activities to provide charities with sustainable financial income and at the same time maintain the non-profit nature of charity organizations.

Traditional Foundations, such as Narada Foundation and

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3 Chua, Cynthia et el. "Avantage Ventures Annual Report."
Youcheng Foundation, will provide funding and investment to social enterprises within these guidelines. In the past two years, many new private foundations have been established, focusing on impact investing and supporting social enterprises. Beijing Leping Social Entrepreneur Foundation was founded in November 2010 by Tang Min, Mao Yishi, Yu Jinglian and other well-known economists. The Foundation’s team has already achieved preliminary results in the areas of poverty alleviation, vocational training for migrant workers, and micro-loans for rural development. The long-term focus of Leping Foundation is three-fold: developing industry benchmarks for social enterprises, training social entrepreneurs, and participating in impact investment. Shanghai Shengli Foundation was founded in March 2013 by former Chairman of Shanghai Guosheng Group and former Director at the Shanghai Bureau of Civil Affairs Mr. Shi Derong, along with other entrepreneurs. The mission statement of Shengli Foundation states that the Foundation will focus on “training and supporting the development of social enterprises”.

Government Agencies

The “social innovation” advocated at the 4th session of the 16th plenary meeting of the CPC marks a paradigm shift in the government management model. The Party’s 17th report also stressed the need to a reconfiguration of social resources, recommending that China “standardize and guide social organization and social resources, adjust the relationships of various social stakeholders in response to the demands of the society.” Under the Guidance for Social Management Innovation, government procurement of social services became a new management method currently under experimentation. This suggests that the government will allow access to government budgetary support to more social organizations and businesses in wider fields of social provision.

For example, the Shanghai Bureau of Civil Affairs and the Shanghai Charity Development Foundation (public foundation) took the lead in initiating the 2012 Shanghai Community Venture Philanthropy Fund. The fund offered 5 million RMB total budget to support public service organizations and projects aimed at elder care, supporting the disabled, saving orphans, and poverty alleviation. The innovation of this venture philanthropy fund was that charity funds were raised from the public welfare lottery. Shenzhen, Dongguan, Nanjing, Suzhou, Ningbo, and other cities also

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replicated similar models.

This type of support for venture philanthropy produced a large impact, because it broke the total monopoly of government providers, and opened provision of social services up to bidding. The series of complicated processes - from project development to bidding and assessment - felt entirely novel to government employees.

**Overseas Foundations**

The concepts of social enterprise, impact investing, and venture philanthropy all originate from the U.S. and Europe. Many overseas foundations with mature and sophisticated operations have begun to focus on China’s economic development and existing social services market gap. In addition to the Hong Kong registration in 2009 of the Ashoka support network, many other pioneers in the field of social enterprise and impact investment have begun to fund projects in China, including the Ford Foundation and the SOW Asia Foundation.

Compared to domestic organizations and foundations focused on impact investing and venture philanthropy, overseas foundations have clearer positioning and more experience. However, due to issues surrounding legal status and funding sources, these foundations still need to continually adjust and assess their plans and points-of-entry in China.

**Private Equity Funds**

Private equity funds have begun to play a role in social impact investing. One example is China’s first local private equity foundation -- Lanshan Social Investment. The foundation emphasized in its mission statement that it puts social impact first, financial return second, and aims to invest in high-growth social enterprise. The foundation operates using a partnership model with a fund size targeting foreign funds of 100 million RMB, with a further USD 200 million available in credit facilities. The duration of the fund is 5 years + 2 years + 2 years and the investment size ranges from 200,000 RMB to 10 million RMB, with investment periods ranging from 2 years to 5 years. Hong Kong investment firm Advantage Ventures (AV) has also utilized its network to establish Avantage Ventures Impact Fund. In addition to providing consulting for social

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8 Tsing Capital. 15 August 2012. <http://www.cefund.com/tsingcapital_about_content_zh_cn.asp?pageid=2&pagename=%E9%9D%92%E4%BA%91%E5%88%9B%E6%8A%95>.
enterprises, AV, via the Fund, can also invest in triple-bottom line businesses that are socially, environmentally, and financially sustainable. AV’s investment goal is to find a method to combine its triple-bottom line investments with the mainstream financial markets. AV’s structure combines methods in strategy consulting, commercial banking, venture philanthropy, and private equity.

Venture Capital

China’s twelfth five-year plan was ratified on March 2011. The plans key themes include the transformation of socioeconomic structure, the key role of technological innovation in sustainable economic development, and the transition towards a lower-carbon future.

Presently, Tsing Capital is one of China’s most influential triple-bottom line (economic, social, environmental) investment institutions. It is a leader in China’s venture capital industry and a pioneer investor in the industries of renewable energy, energy efficiency, environmental protection, new materials, sustainable agriculture, and cleaner production. Tsing Capital is notable due to the steady growth of its economic returns. It currently has under management four international environment funds totaling 600 million dollars and two domestic clean-tech funds totaling 1 billion RMB. Its six funds have successfully invested in 39 companies. However, Tsing Capital does not position itself as a social impact investor. From its publicity materials, the firm positions itself as a “Corporate Social Responsibility” (CSR) Investor. Its concept and structure positions Tsing Capital as a hybrid between the traditional venture capital firm and the new impact investment firms. Its focus on clean energy reflects its relatively stable investment strategy in emerging markets. Other mainstream traditional venture capital firms, such as KPCB and Barings Asia are also exploring the market and opportunities of impact investment in China.

Socially Responsible Business

At present, the idea of using business means to address societal issues is also affecting the direction of corporate social responsibility (CSR) for large enterprises. The previously mentioned concept of venture philanthropy has been incorporated into the CSR development plans of many large enterprises. One well-known example is Lenovo’s Second-Stage Venture Philanthropy Project. During the first phase of the project, Lenovo provided nearly 3 million RMB in venture funding to 16 civil philanthropic organizations across China. At the same time, members of Lenovo’s management team also participated to provide diagnostic and strategic consulting for these organizations. Other projects similar to Lenovo’s Venture Philanthropy Project include Hainan Airlines’ “HNA Group Social Innovation Venture Capital Competition.” The competition invited social enterprises, NGOs, non-profit organizations, student groups, and individuals from across China to provide proposals and ideas to address Hainan’s
social development issues using business methods. However, these social venture competitions still remain at the stage of donation support, and the competitions’ sponsors do not expect economic return.

In corporate social responsibility, investing in the supply chain of a company’s products, or within social issues where the company is itself a key stakeholder, is widely considered to be the most effective investment method. This method not only addresses societal issues, but can also generate additional net income. For example, on World Water Day in 2007, Starbucks Foundation, in partnership with Give2Asia, announced that it would contribute 4.6 million RMB to the China Women’s Development Federation (CWDF) to support a water education project aimed at improving local health and environment called “Water, Women, Health and Development”.

As a business, the ideal social impact investment achieves dual social and economic returns by allowing the business to support societal development in areas such as environmental protection, aiding disadvantaged groups, and cultural education, at the same time as increasing the business’s own supply chain competitiveness. The future research direction for local and international businesses operating in China should focus on how to develop such dual-return investment strategies, how to allocate funding and relevant personnel, and how to build a team or department dedicated to social impact investment.

China Social Impact Investment Development

Rapid Growth of Social Impact Investment Institutions

In recent years, with the appearance of different types of impact investors, there is a rapid growth in the establishment of specialized social venture capital funds. At the same time, an increasing number of social impact venture capital case studies have been written, proving the practical feasibility of such funds. The table below provides a list of organizations participating in social impact venture capital in China in recent years. The list if not exhaustive and omissions are unavoidable.
Table X: Major Social Impact Investment Institutions in China at a Glance

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Year Established</th>
<th>Founding Institutions</th>
<th>Number of Investments (in China)</th>
<th>Total Investment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transist</td>
<td>2012</td>
<td>Schoenfeld Foundation</td>
<td>2</td>
<td>Unknown</td>
</tr>
<tr>
<td>China Impact Fund</td>
<td>2012</td>
<td>World Resources Institute</td>
<td>4</td>
<td>Unknown</td>
</tr>
<tr>
<td>LGT Venture Philanthropy</td>
<td>2008</td>
<td>LGT Foundation</td>
<td>2</td>
<td>Approximately $300,000</td>
</tr>
<tr>
<td>SA Capital</td>
<td>2008</td>
<td>SA Capital</td>
<td>2</td>
<td>Less Than $500,000</td>
</tr>
<tr>
<td>Avantage Ventures Impact Fund</td>
<td>2012</td>
<td>Avantage Ventures</td>
<td>3</td>
<td>Expected to be approximately $20 million</td>
</tr>
<tr>
<td>Lanshan Social Investment Fund</td>
<td>2011</td>
<td>Private Equity</td>
<td>7</td>
<td>160 million RMB</td>
</tr>
<tr>
<td>Beijing Leping Social Entrepreneur Foundation</td>
<td>2008</td>
<td>Fuping Development Institute</td>
<td>5</td>
<td>Unknown</td>
</tr>
<tr>
<td>SOW Asia Foundation</td>
<td>2009</td>
<td>SOW Asia Foundation</td>
<td>1</td>
<td>500,000 RMB</td>
</tr>
<tr>
<td>Xinhu-Yu Fund</td>
<td>2012</td>
<td>Xinhu Group, Venture Avenue</td>
<td>2</td>
<td>Unknown</td>
</tr>
<tr>
<td>Narada Foundation</td>
<td>2007</td>
<td>Shanghai Narada Group Co., Ltd.</td>
<td>Unknown</td>
<td>Unknown</td>
</tr>
<tr>
<td>YouChange Foundation (China Social Entrepreneur Foundation)</td>
<td>2007</td>
<td>Entrepreneurs from Mainland China, Taiwan, and Hong Kong</td>
<td>Unknown</td>
<td>Unknown</td>
</tr>
<tr>
<td>Tsing Capital</td>
<td>2002</td>
<td>Tsing Capital</td>
<td>&gt;30</td>
<td>Unknown</td>
</tr>
</tbody>
</table>
China’s earliest social impact investors came from philanthropy, typically from traditional private foundations. Narada Foundation serves as an example. The mission of Narada Foundation is the promotion of social innovation and the development of a civil society. It specifies in its mission statement that it will: “prioritize the public interest. Public interest takes precedence over any direct or potential interest of companies or individuals.” Most foundations resemble Narada in their prioritization of public interest. For them, business profits only serve as capital to support the sustainable development of the foundations’ public interest projects. These types of foundations do not conform to the “triple standard”, as they do not prioritize social and economic goals equally. YouChange Foundation (China Social Entrepreneur Foundation) was founded on the combined support of many business entrepreneurs, and YouChange’s council members include the Chairman of Hong Kong Sino Group Huang Zhixiang, the Chairman of Taikang Life Insurance Chen Dongsheng, among others. Following the trend of foundations supporting social entrepreneurship, Youchange, very early on, began directing financial support, know-how and other social resources, towards eligible social enterprises, non-profit organizations, and research institutions. YouChange uses long-term sustainable social value as the primary measure of return on investment. As such, the concept of YouChange is very close to the standard definition of “impact investment”. Another of YouChange’s innovations is its establishment of its own asset management company. It hopes to invest the foundation’s reserve funds in order to ensure the safety of the fund under management and to maximize the value-added benefit. This method of investing and expanding the funds of high net-worth individuals into public welfare projects using standard capital market operations may in the future become a widely adopted method of investing business profits. The “patient capital”, under this type of management, can better focus on producing social benefits, allowing a certain leeway for producing economic returns.

As increasing domestic attention turns to public welfare and charity, overseas foundations have also begun participating in the China market, leveraging their relatively mature social impact investment techniques. The SOW Asia Foundation uses humanity as its key value guideline for investment decisions. SOW Asia focuses on education, environment, and poverty alleviation. In 2009, SOW Asia invested in the Shanghai-based environmental technology company GIGAbase. In addition to supporting GIGAbase with a five-year interest-free loan, SOW Asia also used its networks to help the GIGAbase (a WOFE, wholly owned foreign enterprise) to overcome its legal and technological issues.

Since 2010, there has been continuous establishment of private equity and venture capital funds focused on social enterprise. Chinese impact investing, thus, is no longer pure philanthropy but has also begun exhibiting characteristics of commercial investment. In 2012, the China team of the World Resources Institute founded the China Impact Fund. It is China’s first impact fund that specializes in financing and accelerating small and medium-sized enterprises (SMEs) providing environmentally friendly products and services as well as start-up companies with an environmental value proposition for the country’s Base of Pyramid (BoP) population, primarily those in sustainable land use, clean energy and water access. In March of the same year, Xinhu Group, Amity Foundation, and Yu Venture Philanthropy co-founded Xinhu-Yu Venture Philanthropy Fund. Xinhu-Yu’s founding capital is 10 million RMB, managed by Yu Venture Philanthropy. Through start-up capital and operational management support, the Xinhu-YU VP Fund aims to help China’s high-potential social enterprises achieve social impact and scale up their operations.

**Development of the Impact Investment Chain**

In addition to the appearance of social impact investors and investees, many third-party agencies have also begun appearing, completing the social impact investment chain.

**Construction of social impact investment parks.**

In some provinces, the government has supported the construction of a number of social enterprise incubation centers, other known as centers for social innovation. Examples include Guangdong Province’s Shunde City and Zhongshan City, Jiangsu Province’s Suzhou City, and the Municipality of Shanghai. The social innovation center in Shunde, for example, was developed using a government investment of 30 million RMB. The social enterprise industrial park in Suzhou covers an area of 2,800 square meters, and the local government has pledged rent subsidies to social enterprises and organizations that relocate to the park. At present, there are approximately 20 social enterprises and organizations that intend to rent space. On the basis of government support, more social capital will be directed to investing and supporting these social enterprises.

**Development of social enterprise incubators.**

Social impact investors can find suitable projects through appropriate social enterprise incubators. Compared to the many business, technology, and internet start-up incubators in China, Chinese social enterprise incubators are just beginning to surface. For example, Transist, which was founded in 2012, makes diversified investments but states directly in its mission statement that it “works closely with leaders in the field of venture capital, and especially
Financial Services Designed for Social Enterprises. The social impact investment process requires the support of a professional and complete set of financial services geared towards impact investment. As part of its global strategy, the Development Bank of Singapore (DBS) launched its “Social Enterprise Philanthropy Plan” in October 2012. The plan supports the development of Chinese social enterprises that help poor and disadvantaged community groups improve their employment and life prospects and aid sustainable development more generally. During the first stage of the project, DBS (China) will provide grants to four social enterprises to offer training programs to over 2,300 underprivileged individuals in Beijing, Shanghai, Shenzhen and Chengdu in the next two years. These training programs aim to help the disadvantages acquire skills to improve their employability. The Bank also wants to facilitate the development of sustainable business models by social enterprises. Using its financial expertise, DBS will also implement a series of social enterprise financial service packages, becoming the first banking institution in China to provide specialized financial services to social enterprises.

Development of Social Impact Investment Consulting Advisory Agencies. Professional consulting firms can make important contributions to social impact investment in the form of third-party project assessment and strategic planning consulting services. Take, for example, Venture Avenue, a professional public interest consulting firm. Aside from the core business areas of due diligence assessments and not-for-profit consulting, the firm is also involved in corporate social responsibility, social enterprise operations management, social investment project management, venture philanthropy, social enterprise case studies and other new business areas.

Transist is an incubator founded by returned overseas young individuals and supported by a team of mentors with rich practical experience. It uses debt or equity to invest in young, growing companies, products, and services. It is especially interested in investing in disruptive technologies and designs that drive economic and social advancement for the underserved; models that prove the power of business to create both social and financial value; companies and teams with the potential for scalable, catalytic impact. Transist provides incubation and funding of between US$10,000 to US$1 million to early-stage entrepreneurs, technologies, or ideas. Through its resources and networks, Transist offers the companies it incubates a chance to test their products. The appearance of impact investment funds and incubators like Transist have definitively changed the landscape, and encouraged entrepreneurs to think about the overlap between business profit and social impact.

At present, Venture Avenue’s projects and collaborations include the One Foundation, the Wenchuan earthquake reconstruction survey and assessment project commissioned by the French IDA Foundation and others, and an assessment of the thirty-one social enterprises that received social entrepreneurship skills training from the British Council.

Besides Venture Avenue, there are also consulting organizations that classify themselves as non-profit organizations, such as Shanghai’s Social Venture Group, and organizations that provide consulting services for corporate social responsibility and foundation management. These include SynTao, Recende CSR, and Corporate Citizenship in Action. These organizations promote public welfare governance and socially responsible investment via research, consulting, implementation, and training. Although the core business of these firms is dominated by specialized functions in CSR, they also act as bridges linking businesses, NGOs/NPOs, and the government, allowing the pooling and sharing of resources among the three industries, thus building a sustainable ecosystem for the social entrepreneurs who are the recipients of impact investments.

**Impact Investment Academic Research and Educational Training.** A new investment concept and model requires the support of theory and empirical evidence. A new market participant needs a channel for obtaining education and training. Shanghai University of Finance and Economics Social Enterprise Research Center was founded in 2008 as China’s first social enterprise and social investing research center. The Center focuses on the foundational theories and practical researches related to social enterprises, and has been actively involved in the practice of community building and agricultural development. In addition to publishing social enterprise case studies, the Center also conducts research on basic theories related to social enterprise and social impact investment, completing, in collaboration with the SOW Asia Foundation, China’s first social impact investing case study. In 2012, Shanghai University of Finance and Economics held its first “social entrepreneurship” MBA class with the aim of providing future business leaders with a chance to understand the opportunities and trends within social enterprise and social impact investing. Educational institutions offering similar courses and undertaking similar research include Beijing Normal University Institute of Social Innovation and Hunan University’s China Public Welfare Research Center, among others. Furthermore, “Skills for Social Entrepreneurs”, launched by the British Council and attended by many Chinese foundations and enterprises, has to date trained over 600 social entrepreneurs in China and provided many project resources for social impact investments.
investment. YouChange Foundation also collaborated with Peking University to develop a for-credit course called “Social Entrepreneurship and Social Innovation in Practice”.

**Increasingly Prevalent Activities Related to Social Impact Investment**

As interest in social enterprise and impact investment builds, many organizations have begun to hold activities to promote communication between investors and to increase the mainstream investment community’s and the public’s understanding of these fields.

Businesses now hold social entrepreneurship competitions. For example, the instant messaging giant Tencent, for several years in cooperation with the China-Europe International Business School (CEIBS), has held a business plan contest, spreading social entrepreneurship education among the MBA cohorts, and providing funding support for outstanding projects. Intel also launched its “Core World” public welfare innovation plan competition, encouraging the use of technology to improve available social services, and providing outstanding groups with financing and consulting support.

Academic institutions and media have sponsored seminars and forums in 2012. In March 2012, the “21st Century Social Innovation Salon - Beijing Station” was held in Beijing and co-sponsored by 21st Century Business Herald, SDIC Trust Co. Ltd., and Stanford Center for Philanthropy and Civil Society. During the Salon, experts from the media, NGO, businesses, and academia discussed the topic of impact investment in depth. In November 2012, Shanghai University of Finance and Economics’ Social Enterprise Research Center, in collaboration with the 21st Century Business Herald and Knowledge & Innovation Community, successfully held the inaugural Social Entrepreneurship and Social Venture Capital Discussion Summit, advocating for more social capital to promote the development of the social enterprise industry and sharing the concept of impact investment with over 260 attendees from various industries. During the forum, the Social Enterprise Research Center was also inspired to establish the Social Innovation Club, which regularly hosts road shows by member social enterprises, as well as other internal activities. Hong Kong’s Avantage Ventures also sponsored its inaugural impact investment forum in Beijing in November 2011. The topic of the forum focused on how to effectively utilize the market, directing investment towards projects addressing social and environmental issues, achieving return on investment at the same time as making positive social progress.

The British Council’s “Skills for Social Entrepreneurs” is not only a training program, but also a channel for social impact investment. For example, during the training program, Xinhu Real Estate and other businesses established a social enterprise innovation award that supports business plans with innovative models that can throw light on particular social issues. The prizes total 600,000 RMB.
Social Impact Investment Methods and Tools

Social Impact Investment Evaluation Methods

Commercial Evaluation System

To evaluate the business performance of social enterprises, it is typical to use project assessment methods similar to those employed by private equity and venture capital. Factors to consider include: whether there is a clear business model, sustainable financial returns, effectiveness of products and services, composition and values of management team, execution, future business expansion, replicability, suitability for collaboration with investors, and so on.

Social Evaluation System

One challenge facing impact investment is in its metrics for social impact. Different investment companies employ different evaluation models. These can be divided into those employing external systems and matrices or those that depend on investees to describe their own social impact in their own terms.

Tsing Capital stands out among investors employing the system metrics. The firm uses systematic means to evaluate and periodically inspect the social and environmental impacts of its portfolio companies. The core of its system is completing a social and environmental audit pre- and post-investment period. The audits focus mainly on the pros and cons of the company’s labor management, health safety, corporate management, pollution, resource management, and other areas. The audits also assess the portfolio companies’ legal compliance, organizational regulation, and best practices.

The private equity firm Lanshan Fund uses the two dimensions of depth (a quality of life index) and breadth (scope of social impact, number of beneficiaries, etc.) to evaluate the social impact of an organization. Specifically, a business or philanthropic organization qualifies as a social enterprise as long as it employs sustainable methods to address social issues, especially if those methods improve the quality of life of the Base of Pyramid population. Other considerations, such as the founder's and shareholders' motives, whether the company pays dividends, and organizational model, are less important in Lanshan’s considerations. “Sustainability” can refer not only to generating a financial surplus to ensure self-sufficient development, but also can include obtaining long-term access to external funding or government procurement via the provision of valuable social services, and even becoming part of government mechanisms. The “quality of life” mentioned in the impact assessment definition can be defined using five internationally accepted basic human quality of life indicators: material well-being, physical well-being, social well-being, security, and freedom. Aside from those, the scale of social impact, sponsors, investors, government, and beneficiaries of this model need to be replicable, and there needs to be growth potential in the number of
beneficiaries and geographies of service, forming a large-scale solution to social issues. Other organizations use internationally promoted standards to evaluate social impact. For example, Avantage Ventures Impact Fund uses the common international standards of Global Impact Investing Ratings System (GIIRS\textsuperscript{15}) and Impact Reporting and Investment Standards (IRIS) to evaluate the social impact of a project.

In addition, a number of investment firms, when assessing social impact, do not rely on tools and standards developed by a third party, but obtain impact numbers directly from their portfolio companies. For example, the SOW Asia Foundation uses several questions to evaluate an enterprise’s social impact, including: (1) whether the portfolio company addresses a social issue and turns the social issue into market demand. (2) How the portfolio company produces social impact and how it conducts self-evaluations. For companies that focus on the potential for social impact, quantitative measurability is an important consideration, for example, how to measure with maximum flexibility. Similarly, Richard S. Roque, founder of SA Capital Limited in Hong Kong, a private impact investment company focused on triple-bottom line investing, has said he focuses on the project’s mission, the mission’s corresponding social impact, the importance of the social impact, and its integration with business models.

This outlines the present situation of China’s impact investment evaluation system. Financial and business evaluations, borrowed from traditional investment models, are relatively mature. However, there is yet no standardized industry-wide evaluation model for assessing social impact. There is debate about whether social impact can be measured using directly observable output or using a change in the mindset or consciousness of the public. Various institutions have their own methods. An employee of the SOW Asia Foundation acknowledges the challenge facing social impact investment: “Because each social enterprise has a different mission, it will undoubtedly have a different evaluation system. When investing, we need to conduct enterprise-appropriate evaluations. Sometimes, we look at the number of beneficiaries (receiving the service), but sometimes we need to look at whether the beneficiaries received other types of support or subsidies.”

\textsuperscript{15} Global Impact Investment Rating System (GIIRS) is a ratings organization jointly launched by 15 philanthropic funds and investment institutions. Using Morningstar as a guide, it seeks to undertake the task of evaluating social impact investment projects.

\textsuperscript{16} Global Impact Investing Network provides support for the all-around development of social impact investments as an asset class. GIIN’s Impact Reporting and Investment Standards project aims to identify criteria and define indicators in order to summarize and compare the social and environmental performance data of various asset classes.
### Potential Tools for Social Impact Investment

Social impact investment tools are a combination of tools used in traditional venture capital investment and charitable services.

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**Expected Risk Adjusted Return**

Source: Avantage Ventures Analysis 2011

The diagram above reflects the global financial instruments in the field. Brown represents instruments already utilized by social finance, green represents under-utilized instruments. Current financial instruments utilized in China include: commercial loans (secured), patient capital (unsecured), debt investment, equity investment, and donations.
Patient Capital

China Impact Fund’s Ye Weijia believes the challenges and roadblocks that will confront impact investment in China are not different from those confronting Chinese mainstream investments. However, at present, impact investment has not yet received the attention in Chinese government policy debates. Specifically, the investment will be restricted in form, as at present the Chinese government has not yet formulated explicit legal provisions allowing investing institutions to collaborate with enterprises in financing activities apart from through equity investments. In other words, outside the banking system, debt arrangements between businesses are not fully protected by the law. However, impact investment, due to its flexible requirements with regards to return, loan duration, and yield, is often most suited to debt financing.

In all debt investment, patient capital, also called unsecured investment, can refer to loans that are not secured by the assets of the social enterprise. This is different from the traditional mainstream banking services, as commercial banks provide mainly secured loans. Patient capital refers to long-term loans that have lower-than-market interest rates. Take SOW Asia Foundation for example. Beginning in 2009, SOW Asia provided the Shanghai green-tech informational database company GIGAbase with 500,000 RMB in interest-free loans, and agreed that GIGAbase should repay the loans within five years. Through SOW Asia’s patient capital, GIGAbase experienced rapid development, completed their own online database and hired marketing employees, gradually developing their business.

Xinhu-Yu Venture Philanthropy Fund is another such example. Xinhu Real Estate Group donated 20 million RMB to establish this foundation, which is managed by Amity Foundation. This venture philanthropy fund has two main functions. The first is to provide funding for philanthropic organizations engaged in social innovation, and the other is to invest in social enterprises. Xinhu-Yu achieves its goals through various means, such as inviting bids and providing financing for innovative philanthropic organizations and projects, or investing via the Xinhu-Yu Venture Philanthropy Fund Management Company, which is managed by Shanghai’s Venture Avenue. This fund invests, via equity and debt, in social enterprises that focus on disadvantaged groups and address social issues. The profit made by the enterprise is donated and reinvested.

Equity Investment

Compared with debt investment, equity investment is a high-risk investment method that allows investors to inject equity into rapidly growing early-stage or mid-stage social enterprises. As an increasing number of social enterprises in China register as commercial entities, they possess the right to sell shareholder equity and can accept equity investments. Over the medium and long term, mature organizations, via several rounds of investment and expansion, can seek further development in the stock market. For example, Hong Kong’s Avantage Ventures Impact Fund invested USD $1 million in shareholders equity in the Beijing social enterprise...
LangLang Learning Potential Development Center (“LangLang”). LangLang serves dyslexic children with difficulty reading and writing. The social enterprise hopes to promote the concept and awareness of dyslexia in society, scale their operations in Beijing to target up to 4 million student recipients of their learning concept, and then further expand the business and its social impact across China using a franchise model. Avantage Ventures Impact Fund’s social investment is expected to generate annual returns of 10 to 20 percent.

**Donations**

Donations are the traditional means of charity that injects charitable capital into philanthropic organizations in order to sustain the organization’s operations. Donations do not promise any kind of financial return. Even though donations are different from the mainstream view of investments, in certain circumstances donation is the most appropriate or only feasible investment vehicle. Many Chinese social enterprises are legally registered as public welfare organizations (for example civil non-enterprise units). Their legal status prevents them from accepting equity investment. However, if these organizations have the potential to expand their social impact, social investment institutions are happy to support their expansion via charitable donations. Yet, donations make up only a small proportion of available investment tools. For example, one venture philanthropy fund donates tens of thousands of dollars to the China Foundation Center project, but the venture fund also makes other, non-donation investments in China. After the “Guo MeiMei” scandal, we believe that the industry’s credibility and transparency are very important. Even though donations do not require financial return, they do require the recipient to provide periodic reports of how donated funds are being used.

**Mixed Investment Model**

Mixed investment models combine many social investment tools into one complete plan. Fuping Social Investment Company offers this following case study. An overseas Chinese acquaintance of the Fuping management team returned to China and discovered a lack of quality kindergartens. The acquaintance therefore founded a kindergarten, which has been in operation for ten years and serves children of the middle class. Fuping discussed with the kindergarten’s management team about potential collaboration, putting forth the following proposal terms: first, Fuping would not control the equity, leaving the employees with ample decision power. Second, in addition to the initial investment, Fuping would provide 2 million RMB every year to help with research and development. If Fuping cannot raise the promised sum, the money will come directly from the Fuping Foundation. At first, the kindergarten team did not believe the conditions and suspected ulterior motives. Fuping acknowledged that it was difficult to gain their trust. However, Fuping said that they saw in the kindergarten team a combination of two very important qualities. First, the team had solid professional capabilities, and second, it was
completely focused on doing social good. Supporting the development of this kind organization is time consuming. It requires not only strategic, long-term, and holistic support, but also patient capital. Patient capital, Fuping notes, is necessary in promoting social investment.

Other Forms of Support Services

Aside from traditional financial services, many social investment institutions also provide accompanying support services. For example, many early-stage social enterprises not only require financial support, but also management support. Therefore, many social investment institutions will assign mentor partners or professional volunteers to act as consultants for the portfolio company, helping the social enterprise define its needs, recruit talent, and solve specific problems related to finance, marketing, and other areas.

Market Challenges

There is a lack of understanding regarding the market for impact investment. Impact investing is a foreign concept. As more and more overseas institutions have begun to focus on the China market, they have also brought with them impact investment concepts and strategies and, in collaboration with their colleagues in China, have begun to push for the development of such a market. However, due to cultural differences, lack of understanding of the local market, and legislative limitations, these foreign entities have limited development potential in China. The market potential for impact investment and its future development and expansion all await thorough investigation.

Chinese social enterprises have five to six years of development experience, and the corresponding social impact investment market is also in its early stage, with full potential unknown. China’s broad economy has experienced a major boom in recent years with strong inward investment. China has a number of sectors that offer many investment opportunities, including, eldercare, water, agriculture, and so on. However, many social enterprises are at a very early stage. They have not been proven to have effective, replicable business models. Under the present conditions of unsaturated markets with plenty of opportunity left for traditional business, impact investment, which is somewhat
Abstract and lacking in successful case studies, will struggle to be accepted by the mainstream investment community. Some social entrepreneurs interviewed have commented regretfully: in China, when you talk to venture capital firms about impact investment, it will make them feel very nervous and afraid. This reflects the fact that the mainstream trend in the investment market still puts profit first.

Institutional barriers for market development remain. According to Mr. Xu Yongguang of the Narada Foundation: there exist in China five “cannot” policies - the investor cannot enjoy any rights to assets, cannot receive dividends, cannot obtain loans, cannot establish subsidiaries, and cannot enjoy tax exemptions. These five “cannot” policies severely restrict the enthusiasm of social investors. Civil non-enterprise regulations were formulated in 1998, and were relatively advanced for the time. However, the rate of economic development has exceeded the rate of renewal for the social management system. This requires a new breakthrough in regulatory framework. One example is the eldercare industry. The high-end Shanghai elderly care home Cherish-Yearn Co., Ltd. is said to have invested 600 million RMB. Yet, it does not possess any property rights and is non-profit in nature. This kind of dilemma confronting civil non-enterprise investment help cause the development difficulties for the eldercare industry as a whole. In fact, many civil non-enterprises investments in education and eldercare industries are hugely profitable, especially in education. But urgent action is needed to reform such industries, to create a level playing field, and avoiding bottlenecks for the development of social enterprise and social investment.

**Challenges Facing Social Entrepreneurs**

Many social entrepreneurs are relatively young and come from philanthropic backgrounds. Chinese social enterprises, especially during early stages, are often small in operational size, high in operational costs and young in the age and experience of team members. A typical example is GIGAbase, a Shanghai green-tech database company. At first it was comprised of two foreign architects without much experience of commercial operations. However, even website development and maintenance requires a significant amount of human and financial resources, not including business promotion and development. Many participants in the British Council’s “Skills for Social Entrepreneurs” training come from a philanthropy or professional technology background and are not familiar with business management and operations. Start-up management teams naturally encounter many difficulties when building social enterprises. The challenge of balancing profit and impact. Although it is generally agreed that social enterprises should prioritize social goals, the balance between profits and
social impact is often blurred in actual practice. According to one Chinese social entrepreneur, the concept of impact investment is actually not that attractive, because the word impact will cause people to think that they need to absorb a certain loss in financial profit. However, in practice, it is actually difficult to show investors that your activity can be both socially impactful and revenue generating. Many social entrepreneurs, in practice, tend to lower or sacrifice their requirements for social impact and gravitate towards the pursuit of profit.

Social entrepreneurs’ weak self-recognition. There are many entrepreneurs in China. However, they do not recognize themselves as social entrepreneurs. Instead, they simply believe that they are doing the right thing or putting into practice a mission, in order to address environmental and societal issues and, in the process, developing innovative approaches. Although the name is not the most important aspect, it is important to inspire these individuals to recognize themselves as social entrepreneurs in order to establish a network through which they can access to needed resources and funding.

Challenges Facing Social Impact Investors

There are an increasing number of social impact investors. However, they still face limitations. Every year, there are different forums on social innovation or impact investing. Interestingly, the participants and organizations seem to change very little from year to year. Mainstream investors who have begun to dabble in venture philanthropy or impact investment, often do so with only a small absolute amount of their assets. This is why Shanghai University of Economic and Finance’s Social Enterprise Research Center held the Social Entrepreneurship and Social Venture Capital Discussion Summit, in order to attract the participation of diverse individuals from various disciplines and to promote cross-sector discussion.

Current impact investors in China are using relatively simple investment model. At present, it is true that an increasing number of institutions have begun the practice of investing in social enterprises, otherwise known as impact investment. However, most active impact investing institutions continues to be charity foundations, and their investment methods are predominantly made up of donations. The market still awaits the entry of mature capital market institutions that focus on financial return, or a social impact investment fund really similar to a venture capital fund. Therefore, it is still rare to see equity or debt impact investment models in China.

It is unknown how impact investments can effectively harvest profits and achieve exits. Any investment needs to take total return into consideration. The pioneers in social impact investment still face this problem, and there is no agreement on the most appropriate exit mechanisms in China. “In certain countries, the typical exit strategy is for the management to buy back shares,” said Lanshan Fund’s Xiao Han. “In many countries, philanthropic investments take the form of convertible bonds, which are capital injected in the form of debt that has the option of being converted
into equity at a certain investment stage and is eventually returned with principal and interest. For certain social enterprises with good operating models, an initial public offering is also a good exit strategy. Abroad, there is a continued exploration of social enterprise exchange markets, and microfinance companies have also listed on main stock exchanges, providing a pathway for the next-stage financing of social enterprises. In China, however, there still exists debate about how social enterprises might be brought to public markets.

Investment team’s specialty and professionalism. It is very difficult to retain a financial industry investment professional. This issue is further compounded for the investment professionals in an impact investment team, where compensation may be relatively low. For new impact investment funds, with the exception of the founders who for the most part have strong financial background, many of the team members lack investment experience. In fact, the investment teams of many foundations come from philanthropic backgrounds. This fails to fulfill the requirements for personnel in the impact investing industry: professional experience, insight, and network in specific industries, along with experience and knowledge in social impact assessment and management. This gives rise to concerns that unnecessary weight will be given to either the enterprise's financial performance or to social impact.

We provide macro- and micro- suggestions for how best to develop impact investment in China.

**Foundations for Developing Impact Investment**

Support the establishment of industry chains and multi-party cooperation. The primary targets of impact investment in China are still at an early stage of development. The maturation of the impact investment ecosystem requires the establishment of supporting resource providers to fulfill the various demands of the portfolio companies. These include consulting firms, social enterprise incubators, associations for impact investors/social enterprises, and other organizations. It also requires the collaborative efforts of government, academia, and business in promoting the development of this industry. Specifically, impact investors must help social enterprises to incorporate mainstream business models into their operations and to expand their impact using existing channels and platforms. Social enterprises should not compete head on with businesses in the same markets.

Develop effective impact measurement indicator systems. Impact investment may be more easily understood by the public if there are clear and simple social impact
indicators. At present, investment companies use their own assessment methods, or ask their portfolio company to describe its impact. These inconsistencies in method may lead to subjective measurement errors. A more appropriate method is to develop third-party impact evaluation systems, with the goal of forming a consensus among different actors. Social impact should be the top metric of focus for investors and investees, because it is social impact that separates this form of investment from others.

Promote the advocacy, research, and education of impact investment. Impact investment is still unfamiliar to many, but is not a complicated concept. Therefore, we suggest the promotion and advocacy of this concept through thought leaders and educational institutions. This requires collaboration between impact investors, research institutes, media, and NGOs in order to produce case studies of domestic and international impact investments, systems for impact assessment, and suggestions for government policy. They should also, on the basis of the research, hold industry- or public-exchange activities with media participation for the purpose of sharing experiences and case studies, and bridging the understanding differences of various actors.

Promote government involvement in impact investment. The government can act as a key player in impact investment, especially in an environment such as China where the government usually acts as a compass for the market. The government can play a key role in attracting impact investment, formulating tax policy, setting standards for social impact, and coordinating government agencies. In addition, the government can - through pilot sites or the construction of social innovation parks, create fertile conditions for impact investment. Encouragingly, we have discovered that an increasing number of local governments have adopted the venture philanthropy model. For example, Shanghai, Beijing, and other major cities allow for the participation of social organizations or social enterprises in social services. This “social service procurement” bidding process suggests that social welfare may be one area that the government may be willing to open up to impact investors.

Developing the Community of Impact Investors

Attracting more funding towards social impact investment. The mainstream investment market has a large capacity. Even if only a small portion of that market funding is directed towards social impact investment, it will be large in absolute value. We suggest that we first distribute social impact investment business case studies to large institutional investors, facilitating the integration of this non-financial element into their overall investment strategy and portfolio. Next, we should hold more training and education activities
for philanthropists and China’s increasing number of private foundations. This will allow philanthropic decision-makers to adopt a more strategy- and results-oriented approach.

Diversify impact investment methods and channels. Impact investment requires special skills and the support of human capital and intellect. Even though many domestic private foundations still maintain a primarily donation-driven operating model and have not completely accepted the concept of impact investing, they are increasingly gravitating towards international foundation standards of transparency and operation. This provides hope for their future participation in impact investment. Among them, currently the largest foundation by assets under management is Heren Charitable Foundation. The establishment of the foundation was a milestone in the history of Chinese philanthropy: Heren Foundation was established by the Chairman of Fuyao Glass Group, Cao Dewang, through the donation of 300 million shares of jointly owned by his spouse and children. Although the Heren foundation presently entrusts its operations, including the development and monitoring of projects, to other charitable foundations, its innovative funding methods lead one to be optimistic about the foundation’s future innovations in investment methods. It is possible, with government support, for this type of foundation to combine an international standard of operation with the autonomy of private individuals and enterprises. These types of foundations can learn from prominent foundations such as the Gates Foundation and the Anne E. Casey Foundation, and designate funding for program-related investments (PRI).

At the same time, the injection of funds alone cannot be sufficient during the early stage of social enterprise development. Trail-blazing impact investors quickly discover that their portfolio companies face challenges in terms of management capabilities and resource networks, and they will provide corresponding non-financial support.

Adjustment period for cooperation between investor and investee. Investor and investee institutions may not necessarily need to be excellent business partners from the outset. Shenzhen Canyou Group, which received international awards for social enterprise, was initially

founded in 2000 by 5 disabled individuals interested in computers. Eventually, the company grew into a group with more than 3,000 disabled employees and 20 to 30 subsidiary companies.

Recommendations for Social Enterprise Dividends

It is still a matter of controversy whether social enterprises can issue dividends. However, this matter will directly affect the enthusiasm and returns expectations of impact investors. According to Hong Kong impact investor Zhang Ruilin, “It is necessary to pay dividends. Do not use morality as a justification for not paying dividend.” Allowing social enterprises to pay dividends can initiate a virtuous cycle. For example, Zhang Ruilin invests in Dialogue in the Dark, which pays an annual dividend of 5%. Compared with the mainstream investment market, there is a stronger individual motivation driving impact investment. However, if one can assure a stable financial return while doing good, one can attract the participation of more mainstream investors. Mr. Xu Yongguang, Chairman of the Narada Foundation, says, “Since social investment capital comes from the market, its characteristic investment criteria must be to make a profit, and to distribute dividends. Investments that combine market capital with charity donations must also be profitable and pay dividends.” Looking at the universal practice of stock markets, enterprises repay their investors through dividends on profits. If they make a loss, then enterprises naturally do not pay dividends.

Development for Impact Investment Managers

Impact investing requires professional skills. A pure financial investment background or philanthropy background does not fully meet the professional requirements of social impact investing. A mature impact investment team can only effectively serve its portfolio companies if it possesses skills related to both investment and social impact. More importantly, an impact investment team needs to possess a passion for building a better society. This creates a unique team culture. Various ways of improving the team include hiring professionals with finance experience or philanthropic background who possess specialist skills, and then supplementing their background with additional training.

Impact Investment Institutions Overview

Beijing Leping Social Entrepreneur Foundation

Beijing Leping Social Entrepreneur Foundation was founded in November 2011. It is a private foundation incorporated with the Beijing Municipal Bureau of Civil Affairs with 8 million RMB of initial funds. The managing board of directors includes four directors and many leaders in business, public sector, and academia. The directors include Tang Min,
Lin Rongqiang (Co-Chairman), Mao Yushi (Founding Director), and Wu Jinglian (Founding Director).

Beijing Leping Foundation’s long-term focus is three-fold: developing industry benchmarks for social enterprise investment, training social entrepreneurs, and advocating for the impact investment industry.

Prior to the establishment of Beijing Leping Foundation, the founders were already using socially innovative methods to serve poor individuals via the platforms of Beijing Fuping Development Institute (a non-profit organization) and Beijing Fuping Venture Capital Limited Liability Company (a philanthropic investment company). The establishment of Beijing Leping Foundation allowed these two businesses, which officially began operations in 2002, to receive better resources and governance structures. Leping also became the collective social investment platform for the three corporations - Beijing Leping Social Entrepreneur Foundation, Beijing Fuping Development Institute, and Beijing Fuping Venture Capital Ltd. Co.

Leping’s mission is to support service provision that benefits the poor. Corporate values are simple and happy service innovation. Its organizational goal is to become the leader in Chinese social investment, effectively assisting Chinese social enterprises in developing appropriate governance, sustainable investment, cost sharing, professional operations, and standardized services, effectively promoting the growth of the new public investment capital market in order to achieve both maximum social goals and sustainable business returns.

The Beijing Leping Social Entrepreneur Foundation has two main components: a social investment platform and social enterprises group. The social investment platform aims to provide social enterprises with training and funding, promoting the development of the social enterprise industry. It includes two entities: Fuping Development Institute and Fuping Venture Capital Limited Liabilities Company. The former is focused on the research and development of social innovation projects, industry benchmarks, and the training and development of social enterprises and social entrepreneurs. The latter invests in social enterprises that have been successfully trained by the Fuping Development Institute. The social enterprise group includes microfinance loans for rural development, skills training for migrant workers, early education for low-income families, eco-agriculture, among other activities. It includes five entities: Yongji Fuping Microfinance Co., Ltd.; Beijing Fuping Domestic and Community Service Center; Beijing Guyu Qianqianshu Education Consulting Co., Ltd.; Chengdu Dayi Fuping Microfinance Co., Ltd.; and Beijing Fuping Chuangyuan Agricultural Technology Development Co., Ltd.
**Innovate 99**

Innovate 99’s mission is to be a companion for social enterprises on their journey from the first 1% to the remaining 99% of their potential. Its business model includes:

1. **Strategy and business model**: provide affordable service to organizations, helping them with branding and revenue streams to enable scale up.

2. **Financial Modeling**: Helping social enterprises to evaluate their current financial situation, formulate a five-year financial plan including budget, cash flow and market evaluation, and create an investment plan.

3. **Operational Monitoring**: Helping to build up the governance structure, monitor operations of, and evaluate the progress and impact of social enterprises.

4. **Financial Planning**: Helping social enterprises in their search for investors, investment negotiations, and completing relevant due diligence and contract formalities.

Steve Koon, Innovate 99’s founder, has a rich professional background and expertise in enterprise planning, management and execution. As the senior visiting advisor to Ateneo De Manila University in Philippine, Steve helped the University set up the Philippines first major social enterprise. As the earliest promoter and practitioner of social enterprises in China, Steve has served as the chief consultant to the British Council’s “Social Innovation” program since 2008, which guides people in developing social enterprises with innovative models. In the past four years, the program has trained 800+ social entrepreneurs. Steve has also worked as a mentor to ECSEL program since 2011. He now serves as a strategic consultant to many social enterprises. Steve works as the strategic consultant to multinational companies. He has over 10 years of experience in industries such as pharmaceutical, engineering, Internet and software.

Jolin Wang is a professional in media community, investment, and charity. She has rich experience in enterprise management, investing and financing. She used to work as the director and anchor for CCTV and has rich experience in public media communication. Jolin served as the director of the New Business Department of a Zhejiang Holding Group, responsible for project initiation, evaluation, subsidiary setup and incubation. She is the executive director of the Caring Fund of China Red Cross Foundation and Chunnuan Fund of China Siyuan Foundation for Poverty Alleviation. She is also the founder of i-dB Project. She focuses on children left behind and the rehabilitation of children with hearing disabilities, and has raised over 20 million RMB for her projects.

Kathy Wang has four years of experience working in non-profit management, particularly in financial consulting,
training and evaluation. Since 2010, Kathy has been appointed financial trainer to the British Council’s Skills for Social Entrepreneurs Program, and has since then trained over 600 social entrepreneurs. She also delivers training and sits on the judging panel for the E-Idea project. Previously, Kathy had 16 years of experience in corporate finance, particularly in financial accounting systems, internal and external audits, budget planning, and corporate financial management. Kathy served as project auditor at China Telecom and CFO at a real estate developer.

Avantage Ventures Impact Fund

Avantage Ventures (“AV”) Impact Fund is an Asia-based social investment and advisory company registered in the Cayman Islands, with offices in Hong Kong and Beijing.

AV’s mission is to invest in key development sectors in Asia-Pacific that address the most pressing challenges and opportunities of our time. Specifically, AV has identified healthcare, rural development, education, clean energy and disenfranchised communities as key sectors in the region where long-term investments are much needed. Its unique investment approach seeks to deliver a set of returns that embrace the principles of sustainability as well as risk reduction.

At the same time, AV offers investors an early exposure to investment opportunities which meet the socioeconomic and environmental needs that will underpin Asia’s development in the 21st century. Specifically, AV provides capital and management support to investees and social entrepreneurs as they grow, with the ultimate goal of improving the social and environmental issues currently facing Asia.

Guided by its mission, AV bases its investment strategy on the following principles:

(1) Support non-profit organizations, social purpose-driven business, and socially responsible business, not individuals.

(2) Search for triple bottom-line enterprises: socially, environmentally, and financially sustainable.

(3) Support investors that aim to make a positive social and environmental impact via funds or investments.

(4) Combine public sector development methods with private sector commercial principles in providing consulting advice.

(5) Promote the flow of capital into social enterprises by connecting social enterprises and investors, at the same time searching for a way to connect them with the mainstream financial markets.

Avantage Ventures’ team members include many corporate strategy developers and investment experts. Among them, AV’s co-founder and Chairman Chandran Nair is a well-known figure in the field of sustainable development in Asia. He is an Adjunct Professor at the Hong Kong University of Science and Technology, an invited
expert at the United Nations Development Program (UNDP), a speaker at the World Economic Forum, a contributing writer for The Financial Times, and a partner of the Clinton Foundation. Co-founder and CEO Yvonne Li has over 12 years of experience in strategic planning, social investment, equity capital markets, equity derivatives trading, and commercial banking.

Partner, Managing Director, and Head of China Operations William (Dongxiang) Wang has over 20 years of experience in direct investment, private equity, business development, and finance. He has served as director to a number of public and private companies.

All in all, Avantage Ventures focuses on providing enterprises with a comprehensive support ecosystem that includes not only funding, but also the value-added investments of training and consulting. AV has three main focus areas: social enterprise consulting, investor services, and publishing related industry research. The firm’s specific areas of thematic focus include medical care and elderly care, professional training and development, energy conservation and environmental protection, consumer services, and other early-stage investment opportunities. AV pays equal attention to social impact and financial return, and supplements its revenues by providing consulting services to businesses in the areas of corporate management, market and customer development, and capital investment.

**SOW Asia Foundation**

SOW Asia Foundation is a donor-supported charitable organization, registered under Section 88 of the Inland Revenue Ordinance in Hong Kong. The three letters of SOW stands for Self-sustainability, Opportunity, and Well-being. These three words capture the essence of SOW’s mission: to invest in organizations and individuals intent on creating sustainable and positive social/environmental impact. It also reflects SOW’s strategy for realizing that mission: to provide resources for Asian social enterprises focused on poverty alleviation, environmental protection, and education.

SOW’s investment strategy is two-pronged. First, SOW Asia invests in social businesses. It supports early-stage and growth-stage social businesses that create positive impact on a self-sustaining basis. The organization uses processes that are similar to venture capital funds, but aims to achieve a high rate of social/environmental return. SOW primarily focuses on investing in greater China and Southeast Asia. Presently, SOW Asia focuses on education, environmental protection, and poverty alleviation. Second, Grow the Space. SOW Asia aims to promote and disseminate sustainable and scalable approaches to address Asia’s social/environmental challenges. Currently, SOW Asia is working to foster a culture in which the objectives of social businesses are better understood and opportunities are more readily available. SOW seeks to work with strategic partners to inspire and train young leaders in the area of social innovation. Investing in social businesses ultimately means investing in the future leaders who will work to advance social progress.

SOW Asia has two registered entities and one operating team. The first is SOW (Asia) Foundation, a donor-supported
charitable foundation under Section 88 of the Hong Kong Inland Revenue Ordinance. At the same time, to facilitate the foundation’s investments, SOW Asia is also registered as Noble Path Co., Ltd, with SOW Asia owning 100% of the company and using the company for its equity investments.

The operating team includes Darius Yuen, Scott Lawson, Charmian Lam, and Athena Lam. Darius Yuen, SOW’s founder and president, was a former managing director for BNP Paribas and senior managing director for Bear Stearns in Asia. Scott Lawson, SOW’s Chief Executive Officer, has rich experience in cross-cultural bridge building with many not-for-profit cultural, education, and religious organizations. SOW Asia has a six-member decision making board composed of experienced investors and entrepreneurs, which provides SOW with clear strategic direction. Finally, SOW Asia engages high-caliber Knowledge Volunteers who serve the community through their professional skills by providing appropriate support to social businesses across a range of sectors and issues.

YouChange PuRong

Beijing YouChange PuRong Information Advisory Co., Ltd. (“YouChange PuRong”) was created as an integrated solution provider of comprehensive inclusive financing, with the ultimate goal of assisting rural microfinance institutions (MFIs) in sharpening their capacity, solving their capital shortages and other problems, and achieving sustainability, so as to help poor rural farmers escape from and stay away from poverty.

The name “YouChange” is derived from its parent, the China Social Entrepreneur Foundation, also known as YouChange Foundation, and “PuRong” means inclusive financing in Chinese. Based on YouChange’s spirit of “uniting friends, building philanthropy”, the organization is dedicated to offering financial services to poverty-stricken farmers on an inclusive basis, helping them improve to accelerate improvement in their living conditions.

The core of YouChange PuRong’s shareholders consist of China Social Entrepreneur Foundation and its board member organizations, including Jilifi Investment Consulting (Shanghai) Co., Ltd., Ruigejiade (Shanghai) Storage Company, and Shanghai Fuxing Venture Capital Management Co., Ltd. In addition, the Grameen Foundation has reached an agreement on long-term collaboration with YouChange, wishing to pass on its practical experience to Youchange PuRong and to support YouChange as it gathers momentum. The legal status of Chinese MFIs has long since been a challenge for the industry. YouChange PuRong uses an additional trust structure to overcome the barrier that MFIs cannot register as business entities and thus cannot take out commercial loans. YouChange PuRong will support a nationwide village-based cooperative fund in collaboration with the State Council Leading Group Office of Poverty Alleviation and Development. Moreover, YouChange PuRong is cooperating with the China Association of Microfinance to co-found a microfinance support portal, which integrates all industry resources and links Chinese MFIs with foreign microfinance websites.
Members of the YouChange PuRong board include Wang Yali, Frank C. Liu, Du Xiaoshan, Tang Min, and Li Haifeng, among others. Mr. Wang Yali is the General Manager of Jilifu Investment Consulting (Shanghai) Co., Ltd. Mr. Frank C. Liu is a partner and managing director of Tano China Capital Management Inc. Mr. Du Xiaoshan is the current party official and Deputy Director of Rural Development Institute of Chinese Academy of Social Sciences (CASS), with academic titles of research fellow and professor. He also acts as chairperson of the China Association of Microfinance (CAM). Other members of the operating team include Zhang Qing, Li Hong, Zhu Liyu, and Li Ji, among others. Zhang Qing had previously worked at the Beijing branch of China's major bank ICBC and served as the head of the office leasing division at China Everbright Bank. Zhang currently serves as interim General Manager of YouChange PuRong. Li Hong, YouChange PuRong’s Risk Manager, previously worked at the Beijing branch of Shanghai Gold Partner Biotech Co., Ltd. and HuiCong Network. Currently, she is in charge of the company’s financing business, including pre-loan investigation, post-loan management, as well as undertaking due-diligence and composing due-diligence reports. Zhu Liyu previously worked at Digital China and China Galaxy Investment Management Co., Ltd. Zhu currently serves as Youcheng PuRong’s Director of Investments.

Yu Venture Philanthropy

In September 2011, Venture Avenue and three board directors contributed 2.5 million RMB to start Yu Venture Philanthropy (“Yu VP”)-- one of the first local venture philanthropy entities in mainland China. In March 2012, Xinhu Group, Amity Foundation, and Yu VP jointly formed Xinhu-Yu Venture Philanthropy Fund. The initial fund size is 10 million RMB, and the fund is managed by Yu VP. In March 2012, Mr. Xu Yongguang, Chairman of the influential Narada Foundation, began serving as the head of the Fund’s Strategy Committee to oversee better its social mission.

Yu VP’s vision is that in many cases philanthropy funds can be leveraged to produce a bigger social impact, and social ventures can achieve a deeper impact than traditional NGOs. Yu VP’s mission is to help Chinese high-potential social enterprises scale up with both angel funding and hands-on consultancy. Yu VP focuses on the four areas of education, poverty alleviation, health care, and environmental protection, providing Chinese high-potential social enterprises with angel funding and operational consultancy. At present, Yu VP has completed investments in two social enterprises. The firm’s investments range from 500,000 to 5 million RMB in debt or equity with a payback or exit in roughly five to seven years. Yu typically provides debt investments to social enterprises at below the market rates. For equity investments, Yu VP usually takes minority stakes below 30% and play a management role through a position on the board of directors. Besides funding, Yu VP also provides advisory services to its portfolio companies to improve their management skills and help the companies scale to size.

Yu VP’s investment criteria include: 
1. Clear social objectives: companies need to make a product or deliver a service that can benefit the Base of the Pyramid or address an environmental issue. 
2. Measurable social impact: the impact on social or environmental issue can be clearly measured against the company’s social objectives. 
Appendix 1:
GLOBAL INVESTOR PERSPECTIVES

The growth of social enterprise and proliferation of social investment models represent an undeniable global trend. In the January 2013, in survey data gathered by GIIN (the Global Impact Investing Network), 99 respondents reported they committed US$ 8 billion to Impact Investments, in 2012, and plan to commit US$ 9 billion in 2013. UBS is committed to play a full a positive role in developing this sector alongside other financial services industry leaders. We believe that the skills, tools and resources of the financial services sector will have a huge role to play in addressing social issues in the 21st century.

In China, a number of commentators have argued that social enterprise and social investment models have a critical role to playing in addressing the social deficits and disparities that have arisen alongside China's rapid overall growth and development. We concur with one report which appeared in 2012, which argued: "China's economy is sorely in need of feasible, sustainable and innovative business models that offer an alternative form of economic development."

In considering how we may best complement and amplify the insights of the Chinese researchers contributing to this report, we believe it may be valuable for UBS to serve as a conduit for the experience and perspectives of global investors, who are dealing directly with questions of social investment in a wide variety of contexts and countries.

To this end, we invited a group of internationally recognized practitioners and experts in the social investment field to contribute their perspectives on five key issues arising from the report. The panel members come from a wide variety of countries and types of organizations, but share a common understanding regarding the challenges and complexities of deploying financial capital to help achieve social goals. While some members of the panel opted to contribute anonymously, a partial list of panel members is included at the end of this chapter.

UBS is delighted to offer a summary of the panel responses to five key questions below:

Q1. What in your view are the tools and policy levers that have most effectively accelerated the development of social enterprises around the world?

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In general, our panel of expert investors underlined the value of the right incentives, legal framework and policy mechanisms put in place by governments to support social enterprise. For example, one panelist told us: "With regard to environmental investments, reliable, long-term and transparent legislation is absolutely key to unlock substantial capital flows for these sorts of assets." However, the panel also expressed the view that these arrangements do not by themselves engender and guarantee a vibrant social enterprise and social investment ecosystem. A supportive policy environment is a necessary but not sufficient condition for the sector, which also needs inspiration, role models and leadership from influential non-government actors. Ultimately successful social enterprises will be driven by the private sector.

Citing numerous case studies and examples from around the globe, the panel highlighted five key ways that governments can work to promote social enterprise and social investment:

1. The establishment of incentive mechanisms to drive social innovation, such as the "social impact bonds" developed in the US and UK, but also including preferential tariffs for green energy, subsidies for organic waste fertilizer, etc. In Germany, for example, feed-in tariffs for renewable energy have been instrumental in allowing this industry to mature and become cost competitive. As well as subsidy mechanisms, governments can provide strong incentives through mechanisms which reduce risk for private co-investors.

2. The creation of new legal frameworks for corporate forms for social enterprises, allowing the codifying of social objectives within the fiduciary responsibilities of such organizations. Examples include the Community Interest Company (CIC) format in the UK, and the Benefit Corporation and "L3C" (low-profit limited liability company) in the US. An alternative approach is to promote more informal "quality mark" and registration schemes such as B-lab in the US. However, it is likely that it will take time for such corporate forms to evolve fully, and gain widespread acceptance, even in market such as the US. Many commentators argue that the legal structure of any social enterprise should be driven by the capital structure and business model it intends to pursue, rather than an abstract notion of how a social enterprise “should” be structured. Some therefore argue that there is in fact no single, correct way to structure a social enterprise from a legal point of view, and that consequently corporate form must simply follow function.
3. Funding for government-sponsored discrete pools of capital to act as incubators for social enterprise. Examples cited include loan funds, pools of grant funding, and equity capital supported by government bodies in the US, UK, and India to assist early-stage social enterprises. In the US, President Obama launched a Social Innovation Fund in 2009, and approved extended credit to small enterprises through the Small Business Jobs Act, while internationally, OPIC, the US-supported Overseas Private Investment Corporation has set up various funds accessible to social entrepreneurs.

4. Support for academic research relevant to social enterprise and investment, including the establishment of university-based centers of excellence. Key topics for research and debate are new perspectives on fiduciary duty within social enterprises as well as approaches to social impact measurement and valuation.

5. Convening of potential actors (social entrepreneur, official, investor, academic) at both national and regional levels to educate stakeholders with regard to the possibilities of social enterprise and social investment models. Such convening can either be undertaken directly by government, or initiated through support of intermediaries and platforms.

A number of our panelists cited the UK as a testing ground for approaches by government in stimulating social enterprise. Jay Barrymore, Managing Partner of London-based Impact Investment Partners told us: "I believe the UK is currently leading in its support for social enterprises. The UK has developed effective demand-side and supply-side policies and legislature that could prove to be a model for other governments to adopt." On the demand side, the UK government has introduced the Public Services (Social Value) Act which places a duty on public bodies to consider social value in procurement. This creates compelling competitive advantages for social enterprises seeking to deliver government contracts. On the supply-side, the government has unlocked US$ 900 million from dormant bank accounts for investment into social finance intermediaries channeled through Big Society Capital, a specially established social bank. The government has also created smaller funds to support capacity building among social enterprises and an incubator fund for startups. Together these initiatives are creating an ever-more supportive ecosystem of service providers, to help social enterprises succeed.

A key goal of successful government intervention in the social enterprise sector should be to reduce costs and
lower barriers to entry. A number of panelists stressed the role of intermediary organizations in this regard to reduce search and transaction costs. One example is IIX Impact Investing Exchange established in Singapore. IIX operates three investment platforms to help Social Enterprises connect with impact investors to raise capital at various stages of growth – Impact Incubator, Impact Partners and Impact Capital. Impact Incubator focuses on raising seed capital for start-up SEs while Impact Partners is dedicated to growth-stage Social Enterprises looking for expansion capital. IIX is also developing the Impact Exchange which, when launched, will be Asia’s first trading platform where mature Social Enterprises can raise capital through the issuance of securities. Elsewhere, Rianta Philanthropy Ltd in London has established its own limited access portal, www.Arthaplayforma.com, to serve family offices, social venture funds and foundations interested in social investment in India. Such platforms offer the possibility of not only syndicating social investment opportunities, but also the due diligence process, reducing costs. Dr Audrey Selian, Director of Rianta Philanthropy Ltd told us: In general, we want to stop the silly but oft-repeated phenomenon of socially motivated investors spending (directly or in kind) the equivalent of $50K to invest $50K.”

Overall, whilst panelists did not in general dispute the value of incentive and other policy mechanisms, several also felt that still more important was to offer public recognition of the contribution made by social entrepreneurs, and to promote successful case-studies and examples, as an inspiration to others. One example would be the “Impact Assets 50” an open-source, publicly published database of experienced private debt and equity impact investment fund managers. As Jan Kuhlman, Investment Manager and Partner at Obviam AG, told us: "Documenting and spreading success stories of successful social enterprises is key to raise interest and conviction that social enterprises can work very well, from the social as much as from the financial bottom-line."

Q2. What in your view are successful tools, instruments and policies to generate increased pools of capital directed towards social investment objectives?

Whilst highlighting again the constructive role which can be played by intermediary organizations, the panel also cited various techniques, which may reduce risk for certain investors, through a layered approach (i.e., under which risk may be re-allocated in order to encourage more capital into the social investment sector.) Other mechanisms, such as the fund-of-funds approach endorsed by UBS itself, seek to diversify risk over a wide range of investment targets.

Our panel argued that genuine financial innovation will generate the greatest growth in social investment capital. One well-known example is the Social Impact Bond – a financial instrument that can effectively diversify a portfolio while
providing adequate risk-adjusted returns to institutional investors. Similarly, providing credit guarantees and standby letter of credit facilities have allowed microfinance banks in certain countries to obtain debt financing from commercial banks. Providing tax incentives for seed stage investments into low-profit social enterprises may also incentivize investors to use some of their capital to back early-stage social enterprises with innovative business models.

In the US, Calvert Foundation, Rockefeller Foundation and others proposed a concept called the Enterprise Impact Facility which had the aim to be a public/private partnership. The public component would buy down some of the risk to encourage private sector investment. The aim was to create a multi-billion dollar financing facility. The project is still under consideration by the US administration. One other proposal would be to loosen the regulatory requirements for fundraising for the relatively small amounts of capital required generally required by social enterprise start-ups, which could potentially permit the "crowdsourcing" of finance through online mechanisms. Such an approach has been proposed in the US under the JOBS ("Jumpstart Our Business Start-ups" Act signed into law by President Obama in 2012. However, such de-regulation carries risks and the benefits must be balanced against the public interest. In the US, the Securities and Exchange Commission (SEC) has not issued rules that will outline how the JOBS Act will be enforced.

One panelist argued strongly that capital will only flow to social enterprise through a process under which compliance slowly evolves into a culture of corporate social responsibility. One panelist told us: "In the short term, regulations and incentives (or penalties) can force business to incorporate social enterprise as part of day to day business. Business entrepreneurial innovation is limitless – if forced to perform social activities within their business, it will eventually be made profitable. Over the long term, this process may bring about a change of mindsets among business leaders, leading them to embracing role of business in bringing about positive social change." The panelist cited the Introduction of carbon trading mechanisms, which have put pressure on businesses to actively find ways to reduce carbon emissions. Over the longer term, assessing carbon "footprint" will become normal in the assessment of every business project.

One more tactical approach, particularly over the shorter term, may be to mainstream social investments within existing financial mechanisms, and investor communities. Steven Ying, Chairman of the Foundation for Amazing Potentials, told us: "I have been struck by the background of many Impact Investors today. They have either had a career in Private Equity (PE) and Venture Capital (VC), or have been closely associated with the PE and VC sectors.
If some of these impact investors can close one deal with their former PE/VC colleagues or associates to invest in one social enterprise in an existing PE/VC fund, then the Social Enterprise sector will be able to unlock potential capital pools worth several hundred billions of US dollars.

**Q3. What is your preferred approach to the evaluation of social investment performance?**

Our panel advocated a wide range of different approaches regarding the quantification of social impact from investments, reflecting the relative immaturity of a sector in which broadly accepted standards are only starting to emerge. However, the panelists agreed that measurement needs to be meaningful and should not absorb too many management and financial resources.

One experienced social investor offered the following 'keys' to successful social impact measurement, whilst acknowledging that such measurements have inherent limitations, as the sector is young and evolving rapidly. Measurement tools should be:

1. Simple (i.e. a handful of indicators only which are easy to measure and correlate directly to the theory of change expressed in the business model).
2. Affordable to social enterprises.
3. Contextualized (seen in relation to other financial indicators).
4. Compliant with existing metrics frameworks such as IRIS (Impact Reporting Investment Standards).
5. Integrated to show total performance (making use of social, financial and environmental indicators).
6. Validated by 3rd Parties to promote credibility.

Some of our panelists seek to reduce social metrics to one or two key indices, or composite measures such as Social Return on Investment (SROI). For example, US impact investing firm Unitus Impact focuses on two key areas of measurement: (1) Increase in incomes for the working poor and the number of people impacted; and (2) typical financial metrics to help portfolio companies scale.

Beau Seil, Managing Partner of Unitus Impact told us: “We feel scale can create impact as social enterprises build strong business models to reach hundreds of thousands, if not millions of the working poor, with income generating opportunities and valuable products and services that they previously were unable to access.”

Over the long term, financial sustainability is vital to achieve social impact, and some argued for collapsing social impact into financial measures. Steven Ying, Chairman of the Foundation for Amazing Potentials, argued that, given a social enterprise’s operating model, there is usually a fixed correlation between social impact and financial returns. His team consequently works to design and agree on an algorithm for the correlation coefficient between the
financial and social impact metrics. This way, he argued, the social entrepreneur can focus on driving a handful of financial metrics to deliver social enterprise’s operational performances.

Others choose a more eclectic approach, combining a variety of measures depending on the circumstances and the underlying investment. Cornelius Pietzner, CEO of Alterra Impact Finance GmbH, uses broad social measurement framework comprising three basic elements: 1) general quantitative evaluation; 2) sector-specific variables, also quantitative; and 3) qualitative, anecdotal evidence. He argued all three are essential to provide comprehensive view.

Vivian Gee, Associate Director of the Schwab Foundation for Social Enterprise, also argued for flexibility. She told us: "While some dimensions of social/environmental impact are quantifiable, and thus easy to integrate into financial metrics, for other dimensions, it can be highly subjective and difficult to assign to a dollar value. For example, what financial value do we attribute to the number of lives saved through a health intervention?" Similarly En Lee, Director of IIX Asia told us: "Often, the key challenge is not in selecting the appropriate social indicator or metric but rather to contextualize and weight them for the appropriate country, sector and business model."

One important question unresolved is the benchmark against which social impact is to be measured. In contrast, financial investments are typically measured by the risk-adjusted premium they offer over the risk-free rate of return. With social enterprises one approach advanced by Francis Ngai, CEO of Social Impact Ventures Hong Kong, is to benchmark social impacts against Best Alternative Charity Options (BACO). In case of pure financial instrument such as social impact bond, he argues, the Social Return on Investment methodology (SROI) will be more effective in communicating with potential investors and funders.

Aggregating such data, it is possible to create indices and investment vehicles, which may drive institutional capital towards the sector. One London-based social enterprise, Engaged Investments, launched its pilot of such an index, in December 2012.

Overall, our panelists advocated for a wide spectrum of approaches to social impact measurement, and there was no consensus on best practice in this area.

Q4. Globally, what do you consider to be the main challenges to growth in the proportion of capital directed towards social investment?

A number of the panelists talked about a "mismatch" between the needs and expectations of investors on one side and social entrepreneurs on the other. Investors desire liquidity and capital protection, while social enterprises need long-term growth capital. Investors often complain of a lack of quality social investments while social entrepreneurs frequently cite a shortage of mission-aligned investors with patient capital. This highlights a mismatch in maturity,
scale and expectations. This is further compounded by the lack of effective intermediation to build capacity of social enterprises towards "investment readiness," whilst grooming socially conscious investors with realistic risk/return expectations.

Overall, the panel pointed to an interrelated series of impediments to greater capital flows among both investors and among social enterprises themselves:-

Among investors:

• Restricted capital—Investment policies for institutional investors or charitable trusts and foundations that allow little flexibility for the deployment of capital into the sector.

• Perceptions of fiduciary responsibility of companies--Despite real evolution of related concepts, there is a continuing perception that privileging social investing is not consistent with fiduciary responsibility of private companies, when in fact the opposite may be more accurate.

• Lack of Transparency—in a competitive landscape, investors may be unwilling to circulate success stories widely, when these are greatly needed to build confidence in the sector.

• Differing definitions of what “social” investment is without recognition that a variety of tools/approaches may be valid and complementary to each other.

• Focus on short-term gains and reluctance to put in time and effort into capacity building into the sector.

• Continuing perception that social investment "belongs" within a philanthropy allocation rather than mainstream financial investment, and that the two should remain very separate.

• Perception that social issues are a government responsibility.

• High transaction costs for what may be relatively small deals.

Among social enterprises:

• Low organizational capacity, resulting in few social enterprises which are “investor-ready”

• A low level of commitment to managing for impact by ensuring robust reporting and information systems are in place to document and evaluate social impact.

• A lack of clarity with regard to the specific SE stage of development and whether the capital sought is in alignment with that stage of development.

• Inconsistent presentation of investment
opportunities and poorly presented business plans documenting rationale for investment and assessment of relevant risks and opportunities.

Guillaume Taylor, Founder and Managing Director of Geneva-based Quadia S.A., saw a major challenge in the current level of “investor valuation of Environmental Social and Governance issues as a driver of financial returns.” Certainly, a number of panelists highlighted the importance of documenting successful case studies to build confidence and momentum in the sector. Francis Ngai of Social Ventures Hong Kong talked about the vital important of creating a "culture of social innovation to inspire minds", a process which may take years. Similarly, Audrey Selian of Rianta Philanthropy Ltd stressed how important it was to build a track record of successful exits from investments particularly at the smaller scale, whether these exits are accomplished through owner buybacks, third party sales or emerging exchange mechanisms.

Andreas Ernst of UBS and Beau Seil of Unitus Impact both agreed that it was important to re-define the concept of risk in regard to such investments. Beau Seil argued there is a misperception of risk when it comes to building companies that serve low income populations, even though the populations in those “underserved markets” are much larger than those higher income consumer segments. As a result, these businesses struggle to raise capital. The result is that local entrepreneurs focus their efforts on building companies that serve higher income groups because they know they will be able to raise capital for such companies. As a way to address investor concerns about risk, a number of panelists highlighted multi-layered approaches to financing, combining philanthropic investments and more returns-based approaches in different tranches.

Lastly, Jay Barrymore argued that, in the social investment sector, investors are often too prescriptive about investment targets, rather than allowing for the flexibility permitted in traditional capital markets. For example, rarely in private equity would investors specifically demand their capital only be used only for ‘technology solutions for healthcare for low-income groups in India.’ By not tolerating broader impact investment mandates, investors are preventing funds from raising sufficient capital to allow them to scale their operations effectively.

**Q5. Given you knowledge of investment conditions in China, what recommendations would you propose to strengthen the development of social enterprise in the country?**

Overall, most panelists felt that China is at a relatively
early stage of development for social enterprise and social investment, but that China also has the demonstrated capacity to catch up quickly, and indeed become a global leader in these areas. Several noted the commitment of government and society in China to deploy new resources to address social issues. A number of investors with some experience in China highlighted the challenges of both bringing in and repatriating capital for relatively small deal sizes typical of social enterprises. In order for small social enterprises to attract foreign investors, some are being marketed through offshore subsidiaries, which is a costly and inefficient process, given the small size of their registered capital and investment capital. High registered capital requirements can also be a problem for certain social enterprises that operate in certain sectors. Such large capital requirements often make it difficult to start a new company, with a new business model and investors who want to see the company grow before investing significant funds. For Wayne Silby, Founding Chair of Calvert Funds: "The largest single impediment for foreign investors in China is the difficulty of bringing foreign capital into China into small, social enterprise deals." His main recommendation would be to create a pre-authorized facility for bringing money in to the country for such investments, with a light touch ex post facto regulatory regime. He also favored further development of the QFLP (Qualified Foreign Limited Partner) program currently being piloted in the Qianhai Shenzhen-Hong Kong Modern Services Cooperation Zone.

Patrick Cheung, Chairman of Water Drops Foundation argues: "China has plenty of money looking for good project to invest. So money is not the problem. Chinese are also born entrepreneurs so talent availability should not be the problem. I believe the lack of social infrastructure, or in another word, the missing "eco-system" is the main reason why China is lagging behind other countries." Others also argued for a more supportive “enabling environment” of public policy, legal form, access to public funding to match private investments, tax incentives, and other measures which would offer great support for the development of the social enterprise and investment fields within China.

Among many others, Steven Ying, Chairman of the Foundation for Amazing Potentials, believes the key in China is create more official and public recognition of the contribution made by social entrepreneurs. He argues: "For social entrepreneurs, they believe then they see. For most people, they have to see to believe. To strengthen the development of social enterprise in China, we have to bet on select social entrepreneurs and profile their successes. Their success stories would help people to see then believe."

UBS offers its sincere thanks for the contributions of the panel, and hopes their insights add value to this report.
UBS Panel Members

Jay Barrymore  Managing Partner, Impact Investment Partners, LLP
Patrick Cheung  Chairman, Water Drops Foundation
Andreas Ernst  Head, Impact Investing, UBS AG
Vivian Gee  former Associate Director, World Economic Forum and Schwab Foundation for Social Enterprise
Jan Kuhlman  Investment Manager and Partner, Obviam AG
En Lee  former Director and Head of Investor Team, Impact Investing Exchange Asia
Francis Ngai  CEO, Social Ventures Hong Kong
Cornelius Pietzner  CEO, Alterra Impact Finance GmbH
RS Group, Hong Kong
Dr. Audrey Selian  Director, Rianta Philanthropy Ltd / Artha
Wayne Silby  Founding Chair, Calvert Social Funds
Paul Simon  Associate Partners, Earth Capital Partners, LLP
Guillaume Taylor  Managing Director, Quadia S.A.
Tai Sook Yee  Group Managing Director, IMC Industrial Group
Steven Ying  Chairman, Foundation for Amazing Potentials

1 Partial list, omitting participants who contributed anonymously.
Opportunities and Challenges
Facing Chinese Social Enterprises

Opportunities for Chinese Social Enterprises

From the previous chapters, we can see that Chinese social enterprises have a relatively brief develop history but a very strong development trend. Its development opportunities arise from the following factors:

The Young Generation’s Awakening Consciousness and Strong Sense of Involvement

Individuals born in the 1970s and 1980s are fast becoming the core force of the society. They have both enjoyed the fruits of three decades of rapid economic development and experienced its social consequences. Compared with the previous generation, this generation has a greater sense of involvement and hopes to play a role in social change. Those born in the 1990s have been exposed for most of their lives to the Internet, experiencing media unconfined by country borders. They are a precocious generation with active thought processes and vivid ideals. These individuals make up the new generation that is more enthusiastic about the social enterprise model than their elders.

Mr. Ding Kaijie of the Compilation and Translation Bureau of the Communist Party Central Committee said, “The young generation in the nonprofit sector has great enthusiasm for social enterprise. Their education backgrounds and professional experiences lead them to believe that there must be innovative means to address social issues, and that traditional philanthropic models have not achieved ideal results in China.” Mr. Lü Zhao, founder and director of Shanghai’s NPI not-for-profit incubator, also has a similar perspective: “The backgrounds of (charity) practitioners are changing. In the past, most leaders in charity were government retirees or individuals with work experiences in the social sector. Today, many well-educated young people are entering this sector and becoming familiar with the social enterprise model.”

Throughout history, young people have been active participants and agents of change. The new model of social enterprises appeals to young people not only for its strong social mission, but also because of its potential for economic return. The popularity of commercialism in Chinese society today makes “social enterprises” more appealing than traditional philanthropic organizations both in model and in development potential. In addition, university graduates are encountering increasing difficulty finding employment. As a result, China’s education direction has shifted to encourage young graduates to pursue entrepreneurship.

In 2010, the Ministry of Education issued Suggestions for Promoting Innovation and Entrepreneurship Education in Higher Education and Encouraging Entrepreneurship in College Graduates, in which the Ministry advocated for the development strategies of “improving independent innovation capabilities, building an innovation-oriented countries” and “promoting entrepreneurial-
driven employment”. Promoting the concept of social enterprises among young people can not only guide them to entrepreneurship but also address social issues and achieve positive social results.

Chinese socioeconomic development is likely to encounter a challenging environment within the next two years, with unemployment being a severe challenge facing college graduates. According to a 2012 report published by the education-consulting firm MyCOS Research Institute, 2013 Chinese graduates face a difficult job market as a result of macroeconomic trends. Among the report’s 10,940 survey samples, the employment rate of bachelor-degree holders is 38%, 8 percentage points lower than last year; the rate for Masters-degree holders is 29%, 7 percentage points lower than last year. Despite the difficult employment situation, many graduates still choose to remain in coastal or developed cities with more employment opportunities. In these larger cities, the graduates will face a rising cost of living and considerable survival pressure. However, because the second- or third-tier cities lack employment opportunities, it is difficult for the young graduates to seek employment in their hometowns.

The appearance of social enterprises has the potential to guide many young people to create new opportunities and generate greater wealth in their hometowns. In recent years, an increasing number of college graduates who returned to their hometowns have chosen the model of social enterprises in building their home communities. For example, under the leadership of college graduate Chen Tongkui, Hainan Province’s Haikou city developed the well-known Boxue Ecological Village. In 2009, Chen Tongkui borrowed from the ecological community development model of Taiwan’s “Taomi Ecological Village”. He developed in Boxue Village a new model that combines tourism development, ecological conservationism, and the interests of local villagers, proposing the action plan of “Bringing Wealth to the People, Rebuilding a Charming New Home.” He lead the creation of “Boxue Ecological Village Development Council”, a diverse cooperative platform that combines the expertise and resources of government, society, businesses, public foundations, and citizens. After three years of hard work, the landscape of Boxue Ecological Village has changed drastically. In terms of infrastructure construction, the Village built Hainan Province’s first mountain biking course, as well as a cultural room and a bed and breakfast. In terms of agricultural management, it centralized the acquisition of honey and lychee fruit produced by the villagers to sell in Beijing and Shanghai, thereby increasing the income of villagers and improving the village’s environment.

Little Donkey Farm, founded by Professor Wen Tiejun and his PhD student Shi Yan, advocates Community Supported Agriculture (CSA). In recent years, it has
Enthusiasm from Media, Researchers, and Capital Providers

After several years of preparation, there is a sudden upswing of enthusiasm on the part of media, researchers, and capital providers in 2012. There were many sizable social enterprise forums in that year, including Peking University’s Beijing Forum - Social Enterprise session, the inaugural Social Investment Forum sponsored by Hong Kong’s One Foundation; the Social Entrepreneurship and Social Venture Capital Discussion Summit held by Shanghai University of Finance and Economics; Tsinghua University’s third session of Public Welfare and East Asia Social Enterprise International Discussion Forum; and the Social Innovation International Forum sponsored by the 21st Century Business Herald. Social enterprise educators, researchers, practitioners, and investors from The United States, United Kingdom, France, Korea, Japan, Hong Kong, and China gathered to share experiences, explore opportunities, and discuss challenges.

Even though “impact investing” is still a novel concept without uniform understanding in the international arena, its emphasis on the dual returns of “economic” and “societal” impact has attracted many individuals. Among them, charity foundations and investors with overseas backgrounds have already begun testing the waters. YouChange Foundation (China Social Entrepreneur Foundation), Fuping Development Institute, and Narada Foundation have all participated to various degrees. There has also been the appearance of venture philanthropy funds supported by businesses. For example, the Zhejiang Xinhu Group-supported Xinhu Venture Philanthropy Fund, Lenovo’s Lenovo Venture Philanthropy, and the Hainan Airlines-supported Hainan Liberation Commonwealth Foundation all sponsor venture philanthropy competitions and provide the competition winners with funding. Although projects supported by capital and equity are still very rare, the main reason is not a lack of interested capital, but rather a lack of attractive projects with sufficient scalability. The various entrepreneurship competitions are very attractive to funding-starved entrepreneurs. They have also inspired young entrepreneurs’ passion for social enterprise.

At the same time, the phrase “positive energy” (zheng...
nengliang) has become a key phrase promoted by the media. Social enterprises are certainly in line with the message conveyed by “positive energy”. Even People’s Daily, the most policy-oriented state media outlet, has since 2009 published 67 articles focused on or referring to issues related to social enterprise. On Sina Weibo, Douban, and other new media sites that attract younger users, there have been endless discussion threads related to social enterprise and social innovation.

Researchers at universities have incorporated social innovation and social enterprise into the scope of philanthropic charity research. This China Social Enterprise and Impact Investment Development Report is the best proof of such. A lack of understanding is one important reason why the Chinese government has not put forth clear policies regarding social enterprise. However, the attitudes of Hong Kong, South Korea, Singapore, and other Asian governments towards social enterprises show that the objectives of social enterprises can be closely aligned with government priorities. Therefore, we believe that in the near future, go-ahead local and provincial administrations will introduce relevant supporting government policies. In a government-lead society such as China’s, supportive government attitudes will undoubtedly be an enormous driving force in the development of social enterprises.

Synchronized Development With the World

Today’s technologically connected world has vastly reduced the cost and time of spreading international news, knowledge, and experience. Due to the prevalence of English, modern Chinese youths can better understand Western culture. They access open courses at leading universities such as Harvard and Yale via e-learning, engage in barrier-free exchanges with international peers, and go abroad to study, travel, or work. Under the influence of globalization, today’s post-80s and post-90s generation are the most attuned and aware of global issues and trends. Therefore, the developments in social enterprises around the world are starting to affect China in real time.

The 21st Century Business Herald newspaper has started a Social Innovations page that, in collaboration with Stanford Social Innovation Review, regularly publishes the latest viewpoints in the field of social enterprise. The British Council launched a Chinese-language website with updates about the development of social enterprises in the UK. NPI’s Social Entrepreneur magazine shares with Chinese readers social entrepreneurship case studies from across the globe. Various international forums and discussions will also continue to take place. These exchanges serve as a positive guiding force for the development of social enterprises in China.
At the same time, young people have also begun to put social enterprise into practice. Global Social Venture Competition (GSVC) was first launched by the University of California Berkeley Haas Business School in 1999, and it’s currently an influential global social entrepreneurship competition. GSVC first entered China in 2009 and has been developing rapidly since. The participation has been especially enthusiastic in the past two years. As the representative of Chinese social enterprises, Shenzhen Canyou Group received the 2012 “International Social Enterprise” award from Social Enterprise UK. This is a significant acknowledgement for the still nascent field of Chinese social enterprise, and encourages more Chinese social enterprises to find their own pathways and share the Chinese experience with the world.

**Concept of Social Enterprise Unclear and Not Widely Understood**

Continued debate about the concept of social enterprises. Differences in understanding of the concept of social enterprises exist even in places like Europe and the United States, where social enterprises are relatively developed. Social enterprises are a new concept in China. Therefore, there is still heated debate about the definition and concept of social enterprise. Different stakeholders have various definitions and concepts for the term. If the Chinese government is to introduce relevant supporting policies, it requires a clear definition of the concept of social enterprises. Researchers are also inclined towards clearly defining the definition and scope of social enterprises. However, the practitioners believe in doing first, defining later. Because the core value of social enterprises is social impact, and business is merely a means of achieving social impact, the attitudes and support of government and the public is essential. If there is no consensus on the basic underlying principles, then the concept of “social enterprise” will be abused, harming the long-term development of the sector.

Currently, awareness of social enterprises in China is largely limited to the charity sector. To the mainstream business sector, social enterprise is a relatively unfamiliar concept. Many people confuse “social enterprise” with “corporate social responsibility”. The general public on the whole has no understanding of “social enterprise”. The governments of Hong Kong and South Korea achieved greater public awareness of social enterprise through certification. The British government sponsored a sizable advertisement campaign for social enterprises during the London Olympics. The public awareness and support of social enterprises will not only allow social enterprises to gain greater market share, but also expand their moral influence. This broader impact cannot be valued in monetary terms. This is precisely the ecosystem that Chinese social
enterprises lack. As a result, many social entrepreneurs feel isolated and misunderstood.

Social enterprises concentrated in certain sectors; lack of prominent social benefits and revolutionary innovations

Currently, the most common types of social enterprises focus on employment of disabled persons, poverty alleviation, and elder care. Social enterprises in these areas have a distinct “social” label and therefore easily gain the approval of government or supporting agencies. Case studies of successful environmental protection social enterprises are rare. One reason may be that environmental protection projects that can achieve economies of scale or produce revolutionary influences, such as clean energy and renewable material, require significant investment in R&D, something that most social enterprises cannot undertake.

Another issue facing Chinese social enterprises is a lack of general scale. Social enterprises of true scale, apart from Canyou and Qiang Embroidery, are very rare. The current social impact of social enterprises is not prominent. In addition, to the issues of social enterprise number and size, there are a number of further causes for this lack of visible impact:

1. Social enterprises have not yet touched on core social issues, such as equal access to quality education and health care. Perhaps it is currently unreasonable to expect social enterprises to address social problems of such breadth and depth. However, whether viewed from the angles of market potential or social and moral imperatives, education and health care are the most promising areas for social enterprise development. Yet, in order to access these sectors, it is not enough to depend solely on the power of social enterprises alone. They must receive support from the government.

2. The theory and practice of social enterprises are concentrated in large cities, and there is a lack of participation in rural and under-developed areas. Many of the projects that the public is aware of at present are social enterprise projects that have been transformed from or been supported by NGOs. Social enterprises focused on poverty alleviation or rural cooperatives should have bright prospects in these underdeveloped areas. But major challenges to the development of social enterprises in underdeveloped areas include ideological indoctrination, education, and training.

3. The promotion of the concept of social enterprises currently primarily relies on the younger generation, and there is a lack of understanding within the management levels of mainstream businesses. Even though we see that the enthusiasm of young people has led to the creation of diverse and interesting social enterprises, society is still shaped by large corporations. We seem to be inclined to separate social enterprises from other enterprises. Though social enterprise are more socially-oriented than other profit- and market share-driven enterprises, this does not mean that other enterprises should have no association with social responsibility. As long as these large enterprises can correct practices that seek profits at the expense of society...
and environment, then they, too, can transform themselves effectively into social enterprises. Because they have already achieved scale, their transformation will have a sizable social impact.

**A Lag in Social Entrepreneur Training and Education, China Lacks Real Social Entrepreneurs**

Well-known business schools in Europe and the United States are offering courses on social entrepreneurship. United Kingdom’s Oxford University Said Business School even requires all students to take at least three courses related to social entrepreneurship. In China, however, social enterprise education has not yet entered the formal university curriculum. The challenge lies in the fact that domestic universities lack faculty with a deep understanding and awareness of social enterprise. Social enterprise is a course with heavy focus on the practical. Chinese university professors mostly come from a research background, and few have mature practical experiences outside of the classroom. Therefore, developing course materials and finding appropriate professors will be a major challenge.

“The distinguishing characteristic between social enterprises and commercial enterprises lies in the fact that the mission and ultimate value for social entrepreneurs is public welfare or promoting social reform.” Therefore, genuine social entrepreneurs must possess the following qualities:

1. **Spirit of promoting social change:** Cultivating motivation is much more difficult than cultivating skills. Motivation usually comes from personal background, experience, or education. In a traditional classroom, it is very difficult to cultivate “spirit”, yet “spirit” is perhaps the key ingredient for the success of social entrepreneurs.

2. **Innovation and leadership:** The basic demand of a social enterprise is to solve social problems using innovative methods. Business is only one such method. Others include technology, human resource development, changing social rules, etc. Many of the problems confronting social entrepreneurs usually exist under the condition of market and government failure. Therefore, it requires that social entrepreneurs possess a high degree of creativity, foresight, and leadership.

3. **Skills:** Compared to the previous two, skills are perhaps the easiest to develop and achieve. It is also the current focus of many support and incubator institutions. Skills necessary for a specific social enterprise can be obtained by enterprise by hiring experts via the job markets. However, “spirit”, “innovation”, and “leadership” are the actual qualities that social entrepreneurs should cultivate, but they are also the most difficult to do so.

Social entrepreneur training is a challenge around the world. Social entrepreneurs do not only come from the MBA
participants flock to social enterprise competitions. For many foundations, supporting the development of social enterprises is also aligned with their mission.

2. Many investors lack deep understanding of social enterprises, and there is a lack of actual social venture philanthropy. Although many investors emphasize social impact, they still cannot accept returns in the single digits. China has no established non-profit social investment foundation such as the United States’ Acumen Fund. The goal of social enterprises is to solve social problems under a condition of government and market failures, so the challenges are real and unavoidable. Though “economic” and “social” dual returns are not unattainable, the reality is not so ideal. In addition, the more difficult the challenge that a social enterprise must confront, the lower the return and the longer the return period can be expected to be. Acumen Foundation promoted the concept of “patient capital” because it recognized that the solution to any social problem takes time. Yet in the current conditions where most capital is impatient for a profit in China, real “patient capital” committed to addressing social issues is scarce indeed.

Current experience is that there is little or no real “patient capital” willing to grow with social enterprises in China. Even if social enterprises receive funding, they may deviate from their original social goal due to the pressure for financial returns exerted by their investors. It
can be seen therefore that at the same time as encouraging more commercial capital to flow to social enterprises, it is necessary to set expectations so that these funds become a positive force in aiding social enterprise development, rather than unwittingly undermining them.

**Future Development Trends in Social Enterprise**

According to the analysis of Chinese social enterprises offered in the above chapters, we have the following predictions for the development trends of Chinese social enterprises in the next 5 years:

**Social Enterprises will partially replace the role of Chinese non-profit or non-government organizations**

Non-profit organizations or non-government organizations (NGO) have not been clearly defined in China. Under the current classification system, three types of organizations are registered with and managed by the Civil Affairs system: charitable foundations, social organizations, and civil non-enterprise units. All three are non-profit in nature, and they are collective referred to as NGOs in the community. Among the three, the actual implementation of public welfare projects or provision of social services is mainly undertaken by foundations. Due to encouragement of government policies, foundations, especially private foundations, have developed rapidly in the past five years. However, the development of foundations does not equal the development of the entire Chinese NGO sector. The basic reason is because of the high barrier to entry set by foundations’ capital requirements. Therefore, non-profit organizations that really implement projects or provide services have not been fully developed in China.In recent years, due to the relaxation of some local civil registration requirements, a small group of charitable organizations have registered as civil non-enterprise units. However, this phenomenon is not common. Most of the so-called grassroots NGOs have difficulty registering as civil non-enterprise units due to the government’s requirement of the “dual management” system, and therefore register under the industry and commerce system as a business entity. These commercially registered NGOs, regardless of their mission, are businesses by their very nature. The few NGOs successfully registered as civil non-enterprise units, due to fundraising difficulties, also must undertake certain commercial activities in order to ensure their survival.

When the concept of social enterprise was first introduced to China by the British Council, it received the
welcome and recognition of the NGO sector. Even though
not every NGO project is appropriate for a business model,
the concept of “self-sustainability” promoted by social
enterprises is very attractive to NGOs with perennial funding
problems.

The sectors with high concentrations of social
enterprises, such as employment of disabled persons, elder
care services, vocational training for vulnerable groups,
and poverty alleviation, are the areas traditionally serviced
by NGOs. Therefore, social enterprises will be an easier
and more advantageous choice if there are no registration
difficulties and a clear business model. However, it is worth
emphasizing, social enterprises cannot completely replace
NGOs. There are certain sectors serviced by NGOs, such as
various rights and advocacy organizations, whose operations
cannot be commercialized and must therefore rely on
methods of charity and philanthropy to pursue their mission.

Looking at the experience of Europe and the United
States, even though these countries already have many well-
developed non-profit organizations, in the past decade, more
and more organizations have undergone transitions or begun
exploring so-called “hybrid” structures. Part of the incentive
for these changes comes from the external environment,
as recent economic crises and the reduction in government
funding caused the NGOs to experience increased difficulty
in fundraising. However, a deeper, internal reason is that
many participants hope to borrow from the high efficiency
operational methods of businesses to replace the original
NGO approaches that were low in efficiency or unclear in
outcome. The Chinese NGO remains not fully developed.
Because of the above-described reasons, it is very possible
that in the future, many individuals or organizations
interested in addressing social issues will choose the social
enterprise model. Many sectors traditionally served by
NGOs will be replaced by social enterprises.

Social services, poverty alleviation, assisting
the disabled, environmental protection, green
agriculture will be the most rapidly developing
social enterprise sectors in the future.

In terms of social services and assisting vulnerable
groups, the biggest support will possibly come from the
government. In Europe and the U.S., most public services,
such as services for disabled individuals, low-income
individuals, and other vulnerable groups, are increasingly
carried out by non-profit organizations or social enterprises.
The governments typically support these organizations
through government purchase of services. In 2012, China’s
Ministry of Finance spent 200 million RMB in procuring
social enterprise services, and introduced Guidance
Suggestions Regarding Government Procurement of Social
Services. The Suggestions clearly state, “Government
procurement of social services is an important system
arrangement in which the government uses public funds to
procure social services from qualified social organizations
or enterprise units via market contracts.” Key sectors
supported include: migrant workers in the cities, rural left-
behind children, the elderly, disabled individuals, special
groups (drug abusers, juvenile delinquents, AIDS patients,
the mentally ill, the homeless, those sentenced to community service, prisoners, ex-offenders, etc). The civil affairs bureaus of some economically developed provinces and municipalities, such as Guangdong, Zhejiang, Shanghai, and Beijing have introduced rules regarding government procurement of services. Government support, particularly financial support through procuring services, will promote the growth of many social enterprises serving these sectors.

Poverty alleviation is another sector where social enterprises have room for growth. The most representative example presently is Qiang Embroidery. This poverty alleviation program was originally designed to support Qiang women affected by the Wenchuan Earthquake in Sichuan. After four years of development, it has reached considerable size. In addition to Qiang embroidery, there exists on the market Miao embroidery, Guizhou embroidery, and other similar models. China is a vast land with great diversity that provides ample cultural resources for social enterprises to use or integrate. The key to the success of social enterprises focused on poverty alleviation is whether the social enterprise develops a viable business model, produces competitive products, and supplements their products with marketing and sales abilities. Poverty alleviation social enterprises, if they are able to attain a certain scale, will be very attractive to social impact investors. The participation of capital will in turn further promote the development of social enterprises in this sector.

There are currently very few cases of successful social enterprises focused on environmental protection. However, due to the current global focus on environmental protection, along with the huge business opportunities in new industries, both government and capital are interested in participating in this area. Currently, social enterprises engaged in environmental protection aims to achieve their goal using methods of community-based implementation and simple technological innovations (such as water-saving toilets and rooftop gardens), or changing individual living habits (such as recycling organic waste). These types of projects, due to their potentially broad participant base, are highly promising.

Green agriculture and agricultural cooperatives are another promising field for future social enterprises. Community Supported Agriculture (CSA), as represented by Little Donkey Farm, has been rapidly developing in the past two years. One of the key motivations is the food security crisis in China. However, CSA not only addresses the issue of food safety, but also links farmers to the end consumers, eliminating the exploitation of farmers, guaranteeing sales, thus providing the farmers with income assurance. The issue of food safety may become ever more prominent in the coming years, which means that the markets for green agricultural and green agricultural product processing have huge development potential.
Another impetus for the development of agriculture and agricultural cooperative type social enterprises is the priority given to the three rural issues (agriculture, countryside, and farmers) by China’s successive governments. In the recent Eighteenth National People’s Congress, Hu Jintao urged China to “make great efforts to promote ecological progress, work hard to build a beautiful country.” Many academic experts and local officials further interpreted the message as: in order to build a beautiful China, one must build a beautiful countryside. Agricultural associations and cooperative have been formed under the leadership of university students returning to the countryside. Although the organization and operational governance of Chinese cooperatives cannot be compared with those of European cooperatives that have long development histories, at least a few Chinese farmers have begun using organizations as a way to safeguard their rights and interests and to build their hometowns.

Despite the rapid growth in the number of social enterprises, there are still only a few social enterprises of real scale

Although social enterprises are still in the initial stages of development, their emphasis on dual economic and social benefits fits with the current needs of Chinese society. The government’s attitude towards social enterprises remains unclear, but media, academics, foundations, and practitioners are positive and enthusiastic about social enterprises. Therefore, we expect that if the government introduces a series of policies that encourage and support social enterprises in the near future, social enterprises should grow rapidly. In addition, the concept of impact investing has become increasingly attractive in China. However, compared with social enterprises, the practice of impact investment is less common in China. Nevertheless, there are at least signals that capital is interested and aware of social enterprise. The development of social enterprises cannot proceed without the support of capital.

Although we predict social enterprises will grow rapidly in number, it is difficult to break through the size limit in the short term. The size and scale of social enterprises are subject to the following constraints:

1. Many social enterprises are rooted in community or serve specific groups.

2. Incomplete business models require time for exploration. Many initiatives undertaken by social enterprises are innovative and do not have the experience of predecessors to draw upon. Even if there are similar experiences overseas, those experiences and models may not be suitable for China’s specific conditions.

3. High operational costs. Social enterprises address issues under government and market failure and therefore confront more difficult challenges than many regular enterprises.

Social enterprises must go through a natural evolutionary process. There will be many contenders, many losers, and a few survivors. This is not very different from the process that commercial enterprises must face. Social enterprises, whether international or domestic, are new entities. Our attitude towards social enterprises should be to encourage bold attempts, letting them blossom and compete freely so that they may gradually move from “borderline” enterprises to the mainstream.
Addressing deep-rooted and widespread social issues requires the cooperation of government, capital, and social enterprises

The resolve of social enterprises to address social issues using commercial means is commendable, but many deep-rooted and widespread social issues cannot be overcome by social enterprises alone. For example, government policy plays a decisive role in the important issues of education, medical care and the environment. In addition, compared with commercial enterprises in these sectors, social enterprises are disadvantaged in terms of funding, scale, and human capital.

“In China, social innovation and reform of government regulations and policies are intricately linked. Therefore, Chinese social entrepreneurs must act strategically within the system and find their places among the changes in law, charity, government, and public interest.” Although the government does not have any specific policies or provisions targeted towards social enterprises, the overall policy direction supports social innovation. First, China’s 12th five-year plan stresses the importance of innovation in the public administration system. Second, finance and civil affairs departments at all levels have begun to explore more open policies of government procurement of services. Local governments, such as those in Shanghai and Suzhou, have set up social incubation bases that support nonprofit organizations, including social enterprises. The Shanghai nonprofit incubator has over 50 million RMB in funding, and the one in Suzhou has over 10 million RMB. It can be seen that social enterprises have the ability and potential to gain certain policy preferences.

However, in solving specific social issues, it is uncommon to see the cooperation of government, businesses, and nonprofit organizations, including social enterprises. This is a phenomenon not limited to China but applicable to all countries in the world. This cooperation model, which seems ideal in theory, is difficult to put into practice. One of the barriers is the lack of effective communication mechanisms between parties and a lack of familiarity with the other parties’ goals and resources. If the three parties can cooperate, then social enterprises will develop rapidly and their social impact could expand exponentially.

The development of Qiang Embroidery is a very good example. Qiang Embroidery was launched with the support of the One Foundation, and its later success, aside from integrating itself successfully in the market, was due to the support it received from the government. The Chengdu Municipal government saw Qiang Embroidery as a model post-disaster reconstruction project. It assigned Qiang Embroidery an 800 square meter shop space in one of Chengdu’s most expensive alleyways and organized learning tours for various local government officials. Inspired by the successful case of Qiang Embroidery, these other local governments invited Qiang Embroidery to visit and explore cooperation opportunities, widening Qiang Embroidery’s market opportunity. Of course, this also meant that more poverty-stricken women had the opportunity to benefit from the project. Without the support and attention of the Chengdu Municipal government, it would have been difficult for Qiang Embroidery to achieve its present scale on its own. Government support mainly takes the form of policy, resources, and distribution channels. The next step in Qiang Embroidery’s national development requires capital injection. The support of various governments is undoubtedly a powerful endorsement for Qiang Embroidery in its capital raising efforts.
On the issue of poverty alleviation, it is easy for the objectives of government and social enterprises to coincide, and capital will participate as long as it sees a viable business model. However, education, health, and environmental protection relate to the interests of all. Although there are certain case studies, all these social enterprises operate on the periphery. We have not seen a social enterprise model that touches on the core social issues affecting all citizens. It can be said that in these areas, without some form of support from the government, social enterprises cannot really make a difference. As the new government shifts its objectives from simple GDP growth and economic development to a more human-centric development focus, we hope that within the next five years, as the government improves education and medical care equity and prevents pollution, it can interact with social enterprises that share similar objectives, providing them with more space, positive encouragement, and policy support.

Conclusion

Despite the fact that the concept of social enterprise is still being debated at the global level and it is still nascent in China, its significance is far-reaching. In an ideal society, all enterprises should be social enterprises: providing community members with equal opportunities, creating significant value for society without damaging the environment. However, human selfishness and exclusive pursuit of profits have caused the once-neutral social entity of commercial business to become a mixed blessing, often doing more harm than good. Social enterprises began in developed capitalist countries in Europe and the United States. This perhaps represents a sort of reflection on and transformation of the commercial enterprise system. China has experienced rapid economic development in the past 30 years. Though there is some accumulation of material wealth, the growth has seriously undermined our social values, widened economic inequality, damaged the environment, and caused a series of other consequences. Although social enterprises are no panacea, they at least provide a new method for balancing wealth creation with social and environmental costs. For a China in transition, it has great practical significance. We hope that through this report, more people will recognize and understand social enterprises, and work together to promote their development in China.
Appendix 2:

China’s major social enterprise supporting agencies

1. British Council’s Skills for Social Entrepreneurs (SfSE) Program

“Skills for Social Entrepreneurs” (SfSE) is a large-scale global project initiated by the British Council (abbreviated as BC, operated in China by the Cultural and Education Section of the British Embassy) and its cooperative partners. Currently, China and 13 other countries take part in the program. The program is aimed at supporting social enterprises that solve social and environmental issues with business means, thus making a positive impact in their local communities. The project was launched in 2009 with the purpose of providing training, mentorship, and professional support to NGO practitioners, community leaders, young people, and potential or existing social entrepreneurs.

The program also established cooperative partnerships with a number of organizations and social investors. The partners provide mentorship and invest capital to help project participants (students) establish successful social enterprise in various sectors that can create jobs and provide a variety of developmental benefits to society. In addition, the “Skills for Social Entrepreneurs” program also organizes public activities and policy dialog in order to promote social enterprises and social impact investment, corporate social responsibility, and sustainable economic development.

“Skills for Social Entrepreneurs” Program includes:

(1) Training

“Skills for Social Entrepreneurs” provides basic and advanced training for potential or practicing social entrepreneurs. The training topics cover strategic planning, financial management, marketing, media/communication, social impact assessment, and fundraising.

Participants include managers of early-stage, growth-stage, and mature social enterprises. These participants belong to social enterprises working in sectors of health, eldercare, poverty alleviation, microfinance, and environmental protection, among others. The training is conducted by British and Chinese experts in social media, social investment, and philanthropy. Such training enables students to polish their business plans, improve their management skills, and enhance their persuasiveness when communicating with investors.

2. “Project Hope Inspired in Action” Project

“Project Hope Inspired in Action” Project is co-sponsored by the British Council and the China Youth Development Foundation, with the goal of encouraging more university student participation in community service activities, such as teaching at schools for migrant workers’ children, visiting nursing homes, and promoting sustainable
benefitted up to 12 million individuals, and created over 1,000 social enterprise-related topics and coverage in the Chinese language media.

2. Non-Profit Incubator (NPI)

NPI is a cluster of several intermediary agencies aimed at supporting the nonprofit sector. Its mission is to “advance social innovation and cultivate social entrepreneurs.” NPI’s vision is “All social entrepreneurs and non-profit practitioners can excel in an environment of comprehensive support by government policy and public opinion.” In 2006, NPI proposed the concept of a “nonprofit incubator”. In April 2007, it established the first operational base in Shanghai. NPI incubation offices have now expanded to include Beijing, Chengdu, and Shenzhen.

NPI’s programs include:

1) Non-profit incubator

The non-profit incubator program provides social enterprises and NGOs with crucial resources, including free office spaces and shared facilities, systematic capacity building programs, micro-grants, and assistance with registration and fundraising.

(3) Award Scheme

Every year, the program organizer and its partners set up incentive programs and hold a grand ceremony for the program. The awards for outstanding social enterprises include cash and non-cash subsidies provided by the project partners. To date, the award scheme has awarded 66 outstanding social enterprises over 9 million RMB in funding support. In addition, the program has also awarded mentorship, media outreach, fundraising support, UK study visit, and other high-value noncash prizes.

Award schemes can bring significant follow-on benefits to the recipient organizations. Organizations that received awards generally achieve average annual income growth of 30-40%.

Since 2009, the “Skills for Social Entrepreneurs” program has trained approximately 1,000 social entrepreneurs, together with its partners provided 9 million RMB in funding support to 66 social enterprises, held salons, lecture tours, and other public activities with over 10,000 participating experts, philanthropists, and students, promoted the concept of social enterprises via Chinese social media,
(2) Venture philanthropy

NPI recently collaborated with Lenovo Greater China on the Lenovo Venture Philanthropy Program. In addition, NPI initiated and now facilitates the Shanghai Community Service Venture Philanthropy Competition, hosted by the Shanghai Civil Affairs Bureau. With the overarching goal of improving the operation model of the Venture Philanthropy Fund, NPI is building a platform that can provide start-up NGOs and social enterprises with financial support, all-around capacity building, and network through which to access resources.

(3) Community service platform

The project was initially launched in the Pudong District of Shanghai in 2008 and expanded to Sichuan Province in 2010. The platform focuses on the following areas: undertaking entrusted management of public facilities including the Community Center and other platforms; training social workers to better serve community members; enhancing community functions via capacity building programs, and other activities.

(4) CSR consulting

Corporate Citizenship in Action (CCiA) is a consulting organization launched by NPI that provides enterprises with various CSR consulting services such as CSR strategy planning and mechanism design, charitable project sales planning, management consultancy and evaluation, among others.

(5) China NPO Projects Exhibition

NPI initiated the NPO Projects Exhibition program in 2009, aiming to build a platform for grassroots NPOs to showcase their best practices and help donors connect with innovative projects.

(6) NPO Capacity Building Program

NPI has arranged a great number of capacity building activities including training sessions, consulting services, evaluations and organizations assessments. In addition to introducing international NGO capacity building concepts and curriculums, NPI strives to develop local course materials and case studies.

(7) Fundraising Platform

The Shanghai United Foundation is a public charity foundation initiated by NPI and supported by Shanghai Civil Affairs Bureau. It seeks to guarantee the proper use
of funds by NGOs and social enterprises, assist with NGO development, provide services to more underprivileged groups, and collaborate with stakeholders to solve pressing social problems.

(8) Shanghai Social Innovation Park

The Shanghai Social Innovation Park was established in July 2010 through a partnership between local government and civil society groups and operated by NPI. The Park focuses on providing on-site job training and employment opportunities to disabled people. In addition, it also hosts projects such as graphic design, an art school/gallery and handicrafts, a call center, a restaurant and management training.

(9) Publication

With a history of over eight years, the Social Entrepreneur Magazine (formerly known as the NPO Overview) is a monthly magazine funded by the Ford Foundation. The magazine focuses on social innovation and mainly targets social entrepreneurs and NPO professionals.

Guided by the operating model of “supported by the government, initiated by civil society organizations, managed by professional teams, monitored by the general public and benefitting grassroots NGOs”, NPI cultivates and supports the development of newly established civil charity organizations.
present, NPI incubates about 30 start-up NGOs and social enterprises in China annually.

21st Century Business Herald was founded on January 1, 2001 and is China’s largest national business newspaper by circulation. In February 2005, its subsidiary 21st Century Business Review published How Social Entrepreneurs Will Change Society, the first article to disseminate the concept of social enterprise in China. In early 2006, 21st Century Business Herald published ten articles related to social enterprises. The articles introduced how British and American social enterprises addressed social issues, discussed the importance of integrating social resources, and promoted the initial dissemination of the concept of social enterprises in China.

Out of concern for the future of Chinese society and acting on the social responsibility of financial media, 21st Century Business Herald established the 21st Century Social Innovation Research Center in 2010. It hopes to build a cross-sector platform, bringing together forces from business, politics, academia, and NGO to promote China’s social innovation. Motivated by the mission of “What the Country Needs, Business Will Find a Way”, the 21st Century Social Innovation Research Center sponsored numerous relevant events, hoping to ignite the flame of social innovation in China. The key events include:

(1) Starting in 2010, 21st Century Business Herald has devoted a special monthly section to social innovation. The section provides the latest domestic and international social innovation theories, case studies, and developments to various government agencies and ministries, business and finance leaders, social enterprises, and social innovation researchers.

(2) The center has sponsored “Social Innovation Venture Capital Competition” in collaboration with Hainan Airlines Group. The competition elicits socially innovative project plans and ideas focused on addressing the social issues encountered by Hainan province, giving large monetary awards to the winning plans. The competition not only promotes sustainable socioeconomic development in Hainan, but also set an encouraging example for other socially innovative groups devoted to solving social issues.

(3) There is regular collaboration with academia, businesses, NGOs, foundations, and government departments to invite “social innovation” visionaries and pioneers to discuss current topics in their fields. Events have included a microfinance salon, a series of salons hosted in partnership with the Stanford Center on Philanthropy and Civil Society, among others.

(4) The “Sino-U.S. New Philanthropy Summit” is held in California every November, exploring new methods and theories in philanthropy. The center also holds a week-
long 21st Century Business Herald conference every December with over 3,000 participants. The Conference includes an “International Forum on Social Innovation” that invites social innovation experts and scholars from the U.S. to discuss the future of the industry with their Chinese colleagues.

(5) The center has launched a “Social Innovation Global Documentary Project”, igniting the social innovation dreams of Chinese youth. Documentary ambassador Kenny Choi travels the world, recording the social innovation stories of youths from every country. He will inspire more individuals to pick up their DV recorders and capture social innovation, bringing fresh passion to the cause of Chinese social innovation.

(6) In order to bring the latest developments to Chinese social innovation teams, 21st Century Social Innovation Research Center works hard to edit, translate, and publish various books and articles related to social innovation. In July 2012, the Research Center published the book Small Money, Big Difference: Microfinance Programs and Case Studies, setting off a microfinance storm in the financial sector.

Through the efforts of 21st Century Business Herald, business, politics, and academia are gradually forming a consensus view on “social innovation”, thus benefiting an increasing number of grassroots organizations. Since its inception, the Hainan Airline Group’s Social Innovation Venture Capital Competition has attracted the participation of more than one hundred teams, among whom a dozen outstanding social enterprises were selected (i.e. Caisangzi Cultural and Art Development Center, Boxue Ecological Village, etc.)

4. YouChange China Social Entrepreneur Foundation

YouChange China Social Entrepreneur Foundation (abbreviated “YouChange” or YouChange Foundation”below) is a state-approved, legally independent non-profit philanthropic organization, registered with the Ministry of Civil Affairs. It is the first domestic private foundation jointly founded by entrepreneurs from mainland China, Taiwan, and Hong Kong. YouChange’s goal is to promote just and harmonious social development through the two-pronged approach of supporting and developing social innovation support platforms, and discovering and cultivating talent and leaders in “new philanthropy”. Its mission is to establish a “new philanthropy” network that will facilitate cross-sector cooperation, and it mainly operates through direct participation and funding provision. The Foundation is overseen by the State Council Leading Group on Poverty Alleviation and Development.

YouChange positions itself as a foundation that serves as a support and advocacy platform for social innovation.
This differentiates it from grassroots service NGOs or public foundations focused on execution. By advocacy, YouChange means changing the attitudes of stakeholders and affect the structure of interests and resource allocation. YouChange Foundation has developed platform projects, such as “Volunteer Stations” and its “Social Resource Coordination Platform”. These platforms aim to provide a basic infrastructure for philanthropy. They can effectively connect supply with demand, improve the efficiency of resource use, address social issues, and help create social value. The platforms support cooperation and specialization within the philanthropic sector. The aim is to improve overall operational efficiency, and to create a “revolutionary division of labor within the philanthropy sector”.

Around this vision and mission, YouChange Foundation undertakes efforts in three main areas:

1. **Construction of a “new philanthropy” service network and platform that facilitates global cooperation.**
   
   (1) volunteer stations and network
   
   (2) social resource coordination platform
   
   (3) cultural community projects

2. **Discovery and support of “new philanthropy” leaders.**

   YouChange has initiated a series of projects aimed at discovering, nurturing, and supporting “new philanthropy” talent, including a for-credit course on social innovation at Peking University, social entrepreneurs skills training, a public service leadership development seminar, Evergreen Voluntary Teaching program, Little Eagle Plan, Start-up Café, Hong Kong Youths Rural Services Program, Research China, Hundred-Person Plan, and Harvard SEED camp.

3. **Provide Research and Advocacy for “New Philanthropy”.**

   YouChange undertook comparative research on social innovation in cooperation with the Central Compilation and Translation Bureau, jointly publishing Social Innovation Blue Book and Social Innovation and Social Enterprise Translations. In addition, YouChange sponsored the “Social Innovation Forum”, “New Philanthropy Society”, TEDx Beijing events, New Philanthropy Carnival, and other activities. It also established Tsinghua-YouChange Social Innovation Center.

As of July 2012, the Foundation had received donations of 281 million RMB, over 14 times its 2007 registration capital of 20 million RMB. Its five-year cumulative total public expenditure amounts to 110 million RMB, 35.28% of its five-year cumulative income. Its 2008-2011 public expenditure was 20.8% of the average net assets of the previous year, exceeding the 8% level mandated by state regulations. At the end of June 2012, the foundation has
net asset of 185.77 million RMB. Over five years, the foundation has supported 11 innovation projects and platforms, providing funding for 65 various social organizations and charity projects, benefiting individuals in 16 provinces.

5. ECSEL

ECSEL provides over 2 million RMB annually to support entrepreneurs using innovative, sustainable business models to solve social and environmental problems. It hopes to find promising social entrepreneurs in Greater China and to assist them in expanding and maximizing the impact of their social business, creating Greater China’s most influential international community of social entrepreneurs, and promote the development process of Chinese social enterprises. Each year, ECSEL chooses 30 China-based social entrepreneurs as key support targets from a highly competitive pool.
of over thousands of applications. These entrepreneurs are designated “ECSEL Fellows”.

**ECSEL’s organizational structure is outlined as follows:**

**ECSEL’s Projects Include:**

(1) **International Training**

ECSEL’s key value proposition lies in its high quality U.S.-China international social entrepreneur training trips. ECSEL provides a fully subsidized training trip to the United States, typically held in mid-April. The two-week long U.S. training trip provides a diverse range of courses and allows social entrepreneurs to dialogue with U.S. investors and successful social entrepreneurs as well as to visit world-renowned social enterprises. Previous training trips have included courses at Yale University, the Hauser Center at Harvard University, and the Design School at Stanford University. In Mid-September, ECSEL Fellows embark on a one-week social entrepreneurship training journey in China. The China training trip provides Fellows with intensive local courses, connects them with domestic investors and media resources, and brings them to visit domestic social innovation incubation parks and social enterprises.

(2) **Online Courses**

ECSEL also provides Fellows with access to exclusive online courses, industry news and reports, business tools, and other materials.

(3) **Mentor and Expert Matching**

ECSEL will match Fellows with an experienced business mentor suited to the Fellows’ needs. The mentor is a veteran with extensive human and resource networks. S/he will provide the Fellows with support and guidance as they develop and optimize business strategy and expand their

ECSEL’s operation model is shown in the figure below:

![ECSEL Operation Model Diagram](image-url)
6. FYSE

FYSE aims to enable social entrepreneurs to achieve their utmost impact in order to respond to growing social and environmental challenges. FYSE supports innovative individuals and organizations to tackle growing social and environmental challenges.

FYSE believes that, with the support of like-minded individuals and relevant programs, individuals can create solutions to the toughest social and environmental challenges. It believes that combined action - no matter large or small in impact - will create a better world.

FYSE is headed by an international Board of Directors and supported by a leading panel of domestic and international expert advisors. In 2008, Andrea Lane established FYSE and she remains the organization’s Executive Director.

FYSE achieves its mission through the following methods:

(1) Pilot and expand projects and services targeted at social entrepreneurs (especially female social entrepreneurs), enabling them to launch, provide, and scale solutions to social and environmental issues.

2. Foster an efficient ecosystem by partnering with corporations, experts, and NGOs to support the growth of social influence.

(4) Domain Gurus

ECSEL provide Fellows with a group of experts in specific areas such as marketing, legal, finance, and other fields.

(5) Investment Opportunities

ECSEL connects Fellows with domestic and international funding opportunities, including angel investors and venture funds, supporting the Fellows in continual innovation and experimentation on their road towards achieving scale.

(6) Alumni Network

After the conclusion of the ECSEL program, Fellows can enter into the alumni community and continue to receive investment and networking opportunities. The ECSEL alumni council will organize reunions and other alumni events, building a dynamic platform of mutual communication and assistance. Fellows can receive the latest ECSEL news via monthly newsletters.

After five years of development, the ECSEL community now has 135 Fellows and alumni and 90 social enterprises that have already achieved positive social impact.

Every year, ECSEL will regularly assess the development process of ECSEL alumni social enterprises using the following three metrics: annual increase in employees, annual income growth rate, and annual increase in social impact, using the total average of the indices as a proxy for the enterprise’s annual social benefit.
social entrepreneurs.

3. Connect leaders in entrepreneurship training with various social enterprises to provide more large-scale, meaningful services to social entrepreneurs via knowledge sharing, information transfer, and peer-learning.

Programs Include:

1. China Social Leadership Program - this is a new bespoke, modular program that recognizes talents and develops emerging leaders within social organization in China through reflection, coaching, and peer learning.

Social organizations in China are full of people with passion for the cause. Yet, they often lack the skills to implement their much-needed programs and to lead and inspire their staff. The program focuses on developing a talent pool of emerging social leaders who will soon take up or are new in leadership positions within their social enterprises or NGOs.

(2) “Spark:Her” Incubator - “Spark:Her” incubator inspires, incubates and accelerates high-potential female social entrepreneurs. As part of the program, Spark:Her incubates women at the early stages of starting a social enterprise through a one-year incubator. What differentiates this year-long incubation process is its focus on women, social enterprise, and its team approach, supplementing traditional incubator components of training and access to networks and information resources.

3. Social Innovation Institute - there is an urgent need for more innovative individuals and organizations to tackle growing social and environmental challenges. Through providing practical guidance and a three-months study opportunity, the Social Innovation Institute aims to inspire more individuals to explore measures to address social challenges and put their ideas into practice.

FYSE operates using the hybrid revenue model of donations and earned income. Through its Paragon Fellowship, FYSE supported 156 social enterprises; the enterprises in the Fellowship created 1,718 jobs, attracted more than 1,800 volunteers; among the selected Fellows, more than 94% continue to work at their enterprise after the Fellowship; 48 organizations jointly support young entrepreneurs in the Asia Pacific region; 102 business leaders and entrepreneurs participated in the project as mentors, trainers, and advisors to social entrepreneurs.