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DEVELOPMENT OF SOCIAL ENTERPRISES UNDER CHINA'S MARKET TRANSITION

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ABSTRACT

Social enterprise (SE) has become an important component of discussions on socio-economic development issues in China over the last several years. The purpose of this paper is to address China's emerging practice of social enterprise by identifying the driving forces which fuel the growth of SE; exploring the legislative framework and public policies that regulate the development of SE; examining the institutional context from which SE obtains financial, intellectual and human resources; and portraying key characteristics of SE with regard to organisational form, operational pattern and social mission. The paper also discusses the challenges confronting SE in China as it pursues further development. The analysis is based on data drawn from secondary sources (law and regulation, forum transcripts and news reports) and primary evidence (comparative study of 13 SE cases).

INTRODUCTION

Broadly defined as the use of nongovernmental, market-based approaches to address social issues and deliver social benefits innovatively, social enterprise (SE) has gained increasing momentum in many Western countries over the last two decades (Borzaga and Defourny, 2001; Kerlin, 2006; Lindsay and Hems, 2004; Mason, et al., 2007; Spear, 2006; Young, 2006). However, the development of social enterprise is quite a new phenomenon in China, where the past several years have seen a growth in discussions, agencies and practices dealing with social enterprise, social entrepreneurship and social innovation.

Social enterprises in China are sprouting in the soil of the country's escalating market transition whereby the role of the socialist state as social welfare provider has significantly shrunk, the market economy has grown dramatically and civil society organisations have achieved an expansive development.¹ SEs in contemporary China are fundamentally different from those in Western societies with regard to tax-exempt status, institutional context providing resources, organisational form, governance dynamic, and other key features. However, existing literature is still mute about the dynamics and characteristics of SEs as they are newly emerging in China. What kinds of organisations are defined as SEs in China, where many SEs still show similarities to traditional non-profit organisations in their approaches to fund-raising, human resource management, marketing and governance? What are the major social problems or needs to which SEs strive to provide solutions? To what extent can SEs achieve their declared social missions while pursuing financial self-sufficiency? What are the major challenges faced by SEs in pursuing further development?

All these questions are unexamined despite their practical and theoretical significance. This paper seeks to fill the research gap and contribute to conceptualisation of this new phenomenon by focusing on the specific legislative system and institutional context under China's market transition. The paper is a preliminary study based on empirical data collected through two research approaches. First, we conduct a comprehensive review of secondary resources, including SE-related legislation and policies, transcripts of SE forums, as well as media reports. Second, we select and analyze comparatively 13 cases of vigorous SEs which tackle a broad range of social issues and have a high level of diversity regarding organisational form, operational pattern and other key features.

1. DRIVING FORCES FUELING THE GROWTH OF SOCIAL ENTERPRISE

In Western Europe and the United States, the development of social enterprise over the past two decades stems from a series of socio-economic changes in both the public and the private sector. Economic downturn in many Western countries in the late 1970s resulted in welfare retrenchment and the creation of "welfare mix" (Bode, 2006), a social welfare-related governance regime highlighting the cooperation among the state, the market and civil society and especially the role of nonprofit organisations in welfare provision. Simultaneously, experiencing cutbacks of government funds, nonprofits were pressured to engage in commercial activities to generate revenue. Meanwhile, nonprofits were forced to adopt a more competitive posture in their operations when more private firms became new competitors in the emerging market of social services. Also, practices of social innovation were increasingly encouraged in the third sector to

¹ Howell, 2007; Ma, 2002.

create social value innovatively and provide sustainable solutions to development issues (Kerlin, 2006; Lasprogata and Cotton, 2003; Mason, et al., 2007; Mort, et al., 2002; Phillips, 2005). All these trends have contributed to the momentum for social enterprise.

China also has experienced dramatic socioeconomic transformation since the late 1970s as the market-socialist regime has been constructed gradually. However, unlike many Western countries, China did not experience a burgeoning of social enterprise until very recently, when several driving forces emerged. First, the current rise of social enterprise is a result of the Chinese government's effort to empower civil society as a vehicle to solve various social problems that have surged under the market-socialist regime, including urban unemployment resulting from large-scale lay-offs, a welfare gap created by the efficiency-centered reform of socialist enterprises, and multi-faceted polarisation and social exclusion. Similar to many Western countries, China has undergone a trend towards privatisation of public services when the government attached more importance to the public-private partnership in welfare regime. As a leading Chinese scholar of nonprofits management observes,

Many local governments have increasingly outsourced to civil society organisations social services previously operated by the state, purchasing services provided by nonprofits in the fields of community development and correction, old age care, poverty alleviation, assistance for HIV/AIDS patients, environmental protection, etc.²

Second, the development of the nonprofit sector in China has long been handicapped by a fiscal crisis. According to a national survey conducted by the NGO Research Center of Tsinghua University, 41.4 percent of nonprofits ranked the problem of revenue shortage as the most significant barrier confronting the development of the third sector in China.³ Responding to this challenge, like their counterparts in Western countries, nonprofits in China experienced the same trend towards marketisation and commercialisation, in their search to be financially self-sufficient.

Third, corporate social responsibility (CSR) has gathered increasing momentum in China during the past several years, generating new legislation, perspectives, institutions and practices. The rise of private foundations in China was one of the most significant scenarios contributing to the development of the third sector in general and social enterprises in particular. After the Regulation on Foundation Administration was enacted by the State Council in 2004, private firms were allowed to use assets donated by individuals or organisations to set up private foundations. Although their history is short, private foundations have grown rapidly in China, creating a new channel for corporations to participate in charitable activities. By the end of 2008, the number of private foundations registered in the Ministry of Civil Affairs and its local departments at various levels reached 643, comprising 40.2 percent of the total 1597 registered foundations in China.⁴ The emerging CSR movement is creating new possibilities for more dynamic corporate philanthropic practices and closer partnerships between companies and nonprofits to achieve a win-win situation serving both commercial imperatives and social needs. For companies pursuing

² Wang, Ming, Xuefei Liao and Xiaotao Ying (2008) "The Development of NPOs and Corporate Philanthropic Activities", *Economic Community*, Vol. 1.

³ Li, Guangan (2008) "The Advantages and Pitfalls in the Trends to Commercialisation of Nonprofits Organizations", *Modern Business and Industry*, Vol. 2.

⁴ Department of Planning and Finance, Ministry of Civil Affairs (2009) "The Statistical Report of the Development of Public Affairs in 2008", available at <http://cws.mca.gov.cn/article/tjbg/200906/20090600031762.shtml>.

long-term commercial success with a CSR agenda, cooperation with nonprofits could improve their public image and reputation, and for nonprofits, partnering with companies could lead to more private contributions and alleviate fiscal difficulties.

Finally, when initiating its new experiment in social enterprises, China has inherited a unique historical legacy from the socialist regime. During the market transition, China still maintains many "Social Welfare Enterprises" (SWEs), tax-exempt firms providing employment opportunities to persons with disabilities and pursuing both economic and social objectives. However, encountering more pronounced pressure for efficiency-oriented economic reform in the 1990s, SWEs began to shrink dramatically, in terms of size and social impact, although, according to Chinese official statistics, there were still over 30,000 SWEs across the country at the end of 2006, employing nearly 620,000 disabled persons⁵.

2. LEGISLATIVE FRAMEWORK AND PUBLIC POLICY FOR SOCIAL ENTERPRISE

2.1. Legislative framework

China's legal system regulating social enterprises covers a wide range of socio-economical issues such as employment, disabled people's livelihood, rural development, non-state education, etc. The current legislative framework provides four legal forms for social enterprises, including Social Welfare Enterprises, Civilian-Run Non-Enterprise Units, Civilian-Run Educational Institutions and Cooperatives (see Table 1).

Registration criteria, tax-exempt status, profit-distribution and governance model of social enterprises are four key issues regulated by China's existing legal system. First, regarding the issue of registration criteria, there are detailed provisions on the nature, procedure, and administrative agencies in charge of registration for all four legal forms of social enterprise. Civilian-Run Non-Enterprise Units are required to be registered as nonprofit organisations, while Social Welfare Enterprises, Civilian-Run Educational Institutions and Cooperatives are allowed to be operated as for-profit organisations.

⁵ Ding, Kaijie (2007) "From the Third Sector to Social Enterprise: Practice in China", in *Social Enterprise Overview: A UK and China Perspective* edited by Comparative Economic and Social Systems and Cultural and Education Section of the British Embassy in Beijing, available at <http://dsi.britishcouncil.org.cn/images/si01.pdf>.

Table 1 - Legislation for Social Enterprises in China

Legal Form of Social Enterprises	Issuing Year	Promulgated by	Relevant Law/ Regulation
Social Welfare Enterprises	1990	Ministry of Civil Affairs, China Disabled Persons' Federation, and others	Interim Regulation on Administration of Social Welfare Enterprises
	1990	State Administration of Taxation	Circular on Tax-exemption of Social Welfare Production Unit Operated by Civil Affairs Departments
	1994	State Administration of Taxation	Notice on Levying Circulation Tax from Social Welfare Enterprises
Civilian-Run Non-Enterprise Units	1998	The State Council	Administrative Regulation of Civilian-Run Non-Enterprise Unit
	1999	State Administration of Taxation	Administrative Regulation on Collection of Enterprise Income Tax for Public Institutions, Social Organisations and Civilian-Run Non-Enterprise Unit
	1999	Ministry of Civil Affairs	Interim Regulation on the Registration of Civilian-Run Non-Enterprise Unit
	2005	Ministry of Civil Affairs	Measures for Annual Investigation of Civilian-Run Non-Enterprise Unit
Cooperatives	1992	The State Council, Ministry of Construction, and State Administration of Taxation	Interim Regulation on Administration of Residential Housing Cooperatives
	2006	The National People's Congress	Farmers' Professional Cooperatives Law
	2007	The State Council	The Administrative Regulation on the Registration of Farmers' Professional Cooperatives
	2007	Ministry of Agriculture	Model Statute for Farmers' Professional Cooperatives
Civilian-Run Educational Institutions	2002	The National People's Congress	Non-state Education Promotion Law
	2004	The State Council	Implementation Regulations of Non-state Education Promotion Law
	2004	Ministry of Finance, and State Administration of Taxation	Circular on Education-related Taxation Policies
	2005	National Development & Reform Commission, Ministry of Education, and others	Interim Measures for the Management of Collection of Non-state Education Fees

Second, definition of tax-exempt items and the degree of tax-exemption diverge significantly for different types of social enterprises. Oddly enough, it seems that for-profit social enterprises have been granted more favorable tax immunity status than nonprofit ones:

- Social Welfare Enterprises (for-profit) enjoy wide-ranging tax exemptions, depending on the percentage of disabled employees (the minimum rate is 10 percent): 1) income tax 50 to 100 percent exemption; 2) business tax 100 percent; 3) product tax (except for alcohol) 100 percent; 4) value-added tax 100 percent.⁶
- Farmers' Professional Cooperatives (for-profit) are granted tax-exempt status concerning: 1) value-added tax for agricultural products and materials of production; 2) enterprise income tax in agricultural, forestry and fishing industries; 3) decreased value-added tax rate on agricultural goods (from 17 to 13 percent); 4) individual income tax in some provinces, such as Zhejiang Province.⁷
- Civilian-Run Educational Institutions (for-profit) are exempt from paying: 1) business tax for revenue generated from educational labour, technological development, consultation and services, as well as kindergarten services; 2) enterprise income tax for technological development, consultation and services provided by higher educational institutions and occupational schools, and government funds or allowance. Notably, Civilian-Run Educational Institutions do not have tax-exempt status equivalent to that of state-owned schools, which are not subject to the enterprise income tax for revenue generated from providing training and operating school-based enterprises.⁸
- Civilian-Run Non-Enterprise Units (nonprofit) have a secondary tax immunity status, being exempted only from the enterprise income tax on revenue earned from government funds and social donations, but not for income generated from commercial activities.⁹

Third, regarding the issue of profit distribution, four kinds of social enterprises regulated by law either are prohibited from profit division or are allowed only restricted profit allocation.

- Civilian-Run Educational Institutions are banned from profit sharing, rather, "the income earned from fee-charging shall be reinvested to carry out educational activities and improve the conditions for offering better

⁶ State Administration of Taxation (1990) "Circular on Tax-exemption of Social Welfare Production Unit Operated by Civil Affairs Departments", available at

http://www.btmz.gov.cn/Article_Show.asp?ArticleID=360&ArticlePage=2

⁷ "Favorable policies for Farmers' Professional Cooperatives", available at

<http://lqare.lugiao.gov.cn/InfoPub/InfoView.aspx?ID=5265&CurrentPageIndex=>

⁸ Ministry of Finance and State Administration of Taxation (2004) "Circular on Education-related Taxation Policies", available at <http://sjc.hnedu.cn/web/147/200407/28120953703.html>

⁹ State Administration of Taxation (1999) "Administrative Regulation on Collection of Enterprise Income Tax for Public Institutions, Social Organizations and Civilian-Run Non-Enterprise Unit".

education"¹⁰.

- Social Welfare Enterprises are allowed to have limited profit distribution, specifically, "the major part of profits shall be used to improve technological conditions, enlarge production scale, replenish circulating capital and increase employee welfare and awards".¹¹
- Farmers' Professional Cooperatives may allocate surplus profits to members of the cooperatives according to the methods and procedures agreed upon by the members¹².
- The existing law provides no direct definition of Civilian-Run Non-Enterprise Units' rights concerning profit distribution. The law stipulates that "legal income earned according to state regulation should be used only for activities specified by the charter [of the organisation]".¹³

Fourth, the governance model also varies among the four legal forms of social enterprise in China, depending on the level of autonomy in their relationship with the government. Civilian-Run Non-Enterprise Units and Social Welfare Enterprises are under closer supervision by governmental agencies (the registration administrative organ or the civil affairs department), which have authority granted by law to conduct annual investigations of registered Civilian-Run Non-Enterprise Units and Social Welfare Enterprises.

- For Civilian-Run Non-Enterprise Units, the annual investigation focuses on: compliance with law and policy; registration status; activities undertaken in relation to the unit's charter; fiscal conditions, revenue sources and income expenditure; changes in organisational and employment dispositions.¹⁴
- For Social Welfare Enterprises, local civil affair departments are the supervisory organs responsible for: providing macro managerial guidance to steer the development direction; conducting an annual investigation based on documents, financial records and other relevant materials submitted; facilitating the implementation of favorable policies; providing services related to production and operation. However, the general manager of social enterprise has the authority to conduct day-to-day management independently. Moreover, as an institutional legacy carried over from socialist enterprises, Social Welfare Enterprises are required to promote democratic management by setting up a Staff and Workers' Congress or disabled employees' association and are subject to monitoring by grassroots party organisations and

¹⁰ National Development and Reform Commission, et al. (2005) "Interim Measures for the Management of Collection of Non-state Education Fees", Article 12.

¹¹ Ministry of Civil Affairs, et al. (1990) "Interim Regulation on Administration of Social Welfare Enterprises", Article 38.

¹² The National People's Congress (2006) "Farmers' Professional Cooperatives Law", Article 37.

¹³ The State Council (1998) "Administrative Regulation of Civilian-Run Non-Enterprise Unit", Article 21.

¹⁴ Ministry of Civil Affairs (2005) "Measures for Annual Investigation of Civilian-Run Non-Enterprise Unit", Article 2.

employees.¹⁵

In comparison, the governance models of Civilian-Run Educational Institutions and Farmers' Professional Cooperatives reflect a greater degree of nongovernmentality, in that governmental agencies have no significant supervisory function.

- Civilian-Run Educational Institutions are required to set up a governance structure composed of a board of trustees/ directors (decision-making body), a school president (executive management), a Staff and Workers' Congress and trade union organisation (democratic management and monitoring).¹⁶
- The Farmers' Professional Cooperatives' governance structure is constituted by the members' congress (governing body), the board of trustees/ directors (legal representative), the supervisory committee, and managers.¹⁷

However, China's existing legislative system provides no concrete specifications on another key issue determining the development of social enterprise – revenue-generating commercial activities. Concerning all four kinds of social enterprises, the provisions on income-earning commercial activities are either too general or inconsistent. For example, Civilian-Run Non-Enterprise Units are banned from "undertaking profit-making commercial activities"¹⁸, but simultaneously are allowed to register as organisations operating a business of education, health care, employment, sports, science and technology research and consulting, social welfare (care for the elderly and children, community service, etc.), legal services or others.¹⁹

2.2. Supportive public policies

As the success of social enterprises in Western countries (for example, the UK) has shown, governmental support is a key factor in promoting social enterprise. In recent years, the Chinese government has also begun to acknowledge the importance of social enterprise /entrepreneurship as a vehicle of socio-economic development and to take more steps to cultivate momentum of social enterprise /entrepreneurship in China. For example, in 2005, the State Council's Leading Group for Poverty Alleviation and Development and the Ministry for Civil Affairs partnered with the World Bank to launch the first "China Development Marketplace" (CDM) program, awarding a total of USD 650,000 to 31 innovative development projects in China²⁰. The second CDM program was launched in 2007, providing grants of over RMB 8000, 000 (or USD 1100,000) in total to 50 creative projects submitted by nonprofit organisations working in the fields of poverty alleviation, environmental protection,

¹⁵ Ministry of Civil Affairs, et al. (1990) "Interim Regulation on Administration of Social Welfare Enterprises", Article 9, 14-15, 23-26.

¹⁶ The National People's Congress (2002) "Non-state Education Promotion Law", Article 19-26.

¹⁷ The National People's Congress (2006) "Farmers' Professional Cooperatives Law", Article 22-31.

¹⁸ State Council (1998) "Administrative Regulation of Civilian-Run Non-Enterprise Unit", Article 4.

¹⁹ Ministry of Civil Affairs (1999) "Interim Regulation on the Registration of Civilian-Run Non-Enterprise Unit", Article 4.

²⁰ <http://www.developmentmarketplace.org.cn/About/index.asp?expand=about>

services to migrant workers and their children, reconstruction after the Wenchuan earthquake, and others.²¹

The supportive stance of the Chinese government is clearly reflected in various public policies favoring the growth of three forms of social enterprises:

- The Farmers' Professional Cooperatives Law, enacted in 2006, has a chapter on supportive policies, including: 1) state-funded agricultural and rural development projects may be contracted to Farmers' Professional Cooperatives; 2) special funds from central and local government revenue should be granted to Farmers' Professional Cooperatives to be used to provide information and technical and marketing services, and for construction of an agricultural production base; 3) publically funded banks should provide financial support to Farmers' Professional Cooperatives through multi-channels, and commercial banks are also encouraged to do so.²²
- The Interim Regulation on the Administration of Social Welfare Enterprises issued in 1990 provides that Social Welfare Enterprises registered and audited by local government are entitled to a series of benefits: 1) tax-exemption; 2) loans for technological improvements; 3) industrial resources allocations; 4) upgrade of products and investment, and others.²³
- Policies in support of Civilian-Run Educational Institutions (CREIs) are comparatively weaker. As stipulated by the Non-state Education Promotion Law of 2002: 1) local governments may set up a specific fund to support the development of a CREI; 2) local governments may rent or transfer idle state-owned assets to CREIs; 3) financial institutions are urged to provide loans to CREIs.²⁴

3. INSTITUTIONAL ENVIRONMENT FOR SOCIAL ENTERPRISE

The institutional environment constructed by the cross-sector interaction among governmental, business and civilian actors is also crucial to the development of social enterprises. For example, social enterprise in many Western countries can obtain financial capital from various sources, including private foundations, venture philanthropy initiatives, specialised bank loans, social investment funds, governmental grants and others (Bartlett and Webb, 2007; Kerlin, 2006; Scaife, 2008).

However, the institutional context in support of social enterprise varies among countries. For instance, as Kerlin (2006) insightfully analyzes, the institutional configuration providing strategic support to social enterprise in the United States

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<http://www.developmentmarketplace.org.cn/News/newsdetail.asp?expand=news&id=51> ; <http://www.developmentmarketplace.org.cn/News/newsdetail.asp?expand=news&id=54>

²² The National People's Congress (2006) "Farmers' Professional Cooperatives Law", Article 49-52.

²³ Ministry of Civil Affairs, et al. (1990) "Interim Regulation on Administration of Social Welfare Enterprises", Article 4, 6 16-22.

²⁴ The National People's Congress (2002) "Non-state Education Promotion Law", Article 44, 45, 48.

tends to be centered around private/business actors, while in Western Europe government agencies play a leading role. In China, construction of an institutional context for social enterprise is still in the infant stage, providing very limited financial, intellectual and technical support to social enterprise. Even so, to foster the growth of social enterprise in China, several venture philanthropy initiatives have been launched, some private foundations and nonprofit incubator organisations have already set up specialised funds or have launched specific programs, and some foreign/international agencies have organised several large-scale forums/seminars to circulate the ideas and most effective practices of social enterprise/entrepreneurship.

3.1. Venture philanthropy

The past decade has seen a rapid development of venture philanthropy, which takes concepts and techniques from venture capital finance and high technology business management and applies them to achieving philanthropic goals.²⁵ Experimental instances of venture philanthropy have also emerged in China in recent years. In 2006, sponsored by several large companies, the China Youth Development Foundation and the China Foundation for Poverty Alleviation, Non-Profit Partners (NPP) was initiated, which is China's first nonprofit organisation to encourage venture philanthropy. NPP's mission is to help China's third sector overcome financial, technical, and human resource-related barriers through the model of venture philanthropy.²⁶ Specifically, besides donating financial, intellectual and human capital, NPP's sponsoring institutions and board members also engage with grantees, providing sustained strategic or technical assistance.²⁷ In December 2007, in cooperation with the China Red Cross Foundation, NPP set up the "Red Cross-NPP Venture Philanthropy Fund" as a specialised fund supporting venture philanthropy projects.²⁸ By May 2009, NNP had already worked with five nonprofits engaging in social venturing – Sherig Norbu Welfare School, Shanghai Miaoxin Household Service Company, NPO Information Consultant Center, New Citizen School Project launched by Narada Foundation, and Social Entrepreneur Ecology.²⁹

Lenovo is the other example of a pioneering organisation engaging in venture philanthropy activities in China. Lenovo Venture Philanthropy Project was launched and funded by Lenovo in December 2007 with the aim of nurturing entrepreneurship in China's third sector and raising the capability of nonprofits to achieve sustainable development through "innovative funding". The project targets small-and medium-sized nonprofits in the start-up phase, donating financial and human resources through Lenovo internal volunteers and external experts' team to comprehensively enhance the nonprofits' management capability. So far the project has allotted a total of RMB 3 million (or USD 441,000) in social venture funds to 16 nonprofits.³⁰

²⁵ <http://en.wikipedia.org/wiki/Philanthrocapitalism>.

²⁶ NPP website: <http://www.nppcn.com/aboutnpp/html/aboutus/yuanqi.html>

²⁷ NPP website: http://www.nppcn.com/aboutnpp/html/aboutus/QA_2.html

²⁸ NPP website: <http://www.nppcn.com/aboutnpp/html/aboutus/QA.html>

²⁹ NPP website: http://www.nppcn.com/aboutnpp/html/aboutus/QA_2.html

³⁰ Lenovo website: <http://csr.lenovo.com.cn/commonweal/index.html>.

3.2. Private foundations

In many Western countries, especially in the United States, private foundations are one of the key supporters of social enterprise. In China, the China Social Entrepreneur Foundation (Youcheng) has arisen as the first private foundation demonstrating a strong interest in supporting social enterprise. Youcheng is a Beijing-based private foundation registered at the Ministry of Civil Affairs, operating under the sponsorship and supervision of the State Council's Leading Group Office of Poverty Alleviation and Development, and raising funds from entrepreneurs from mainland China, Taiwan and Hong Kong. One of the major purposes of Youcheng is to seek a path for sustainable poverty alleviation that integrates the social, non-government sector with the government sector. One of Youcheng's missions is to spread the spirit of social entrepreneurship and volunteerism and increase civic awareness in China.³¹ Since 2008, Youcheng has undertaken various efforts to speed the growth of social enterprise/entrepreneurship in China:

- In October 2008, Youcheng, as one of the key sponsors of the 2nd "China Development Market" organised by the World Bank, launched the "Youcheng Award for Social Entrepreneur Potential" and awarded it to three nonprofits having potential to operate as social enterprise³².
- In March 2009, Youcheng sponsored a "Social Entrepreneur Skill Training", jointly with the Cultural and Education Section of the British Embassy in China. This one-week training involved 50 socially innovative trainees who prepared well-designed social enterprise business plans; it provided them with specialised knowledge and skills training by international and domestic experts and practitioners. The program also provided start-up funds of RMB 500,000 (or USD 73,000) and follow-up technical assistance to put into operation several winning business plans submitted by trainees.³³
- Very recently, Youcheng launched a "Social Innovation Initiative Program", which aims to motivate, discover, promote and assist social innovators and social entrepreneurship in China, especially among young change-makers (potential social entrepreneurs between the ages of 18 and 45). Through the program, Youcheng provides virtual (social network service, knowledge and case studies data base) and actual platforms (courses and workshops, internship opportunities, competition and grants, exposition and forums) for learning and practice, sharing and exchanges through cross sector collaboration to build entrepreneurial capabilities that will lead to large-scale and sustainable social value creation.³⁴

³¹ Youcheng website: <http://english.youcheng.org/a1>.

³² Youcheng website: <http://english.youcheng.org/html/n/200921717304871203.shtml>.

³³ Youcheng website: <http://www.youcheng.org/chuangxin/2009/3/16/2009316105123.html>.

³⁴ Youcheng website: <http://english.youcheng.org/P2>.

3.3. Social enterprise incubators

It is well recognised that organisations incubating social enterprise play a crucial role in accelerating the accretion of social enterprise. The first SE incubator emerging in China is the Non-Profit Incubator (NPI), a Civilian-Run Non-Enterprise Unit registered at the Shanghai Civil Affairs Department in 2006. NPI's mission is to advance social innovations and cultivate social entrepreneurs in China by providing critical support for newly established NGOs and social enterprises, including: free office space and facilities, counseling and capacity-building programs, registration consulting and micro-subsidies to support the development of NGOs and Social Enterprises. Furthermore, NPI provides assistance with fund-raising, policy influence and advocacy for the better development of NGOs and social enterprises³⁵. NPI started its incubation practice in Shanghai in April 2007. In May 2008 and early 2009, NPI launched its Chengdu and Beijing offices respectively, and plans to further promote the NPO incubator model in the whole country.³⁶ By May 2009, NPI had incubated 5 social enterprises and was incubating 10 more.³⁷

3.4. Foreign/international agencies

The rise of social enterprise in China is also a result of promotion by foreign or international agencies in governmental, business and civilian circles. As summarised in Table 2, these foreign or international agencies have organised numerous forums or seminars to raise awareness of social enterprise/entrepreneurship/innovation and to introduce relevant theories and effective practice.

³⁵ NPI website: http://english.npi.org.cn/hatch_01.html

³⁶ NPI website: http://english.npi.org.cn/aboutus_01.html.

³⁷ NPI website: http://english.npi.org.cn/hatch_01.html

Table 2 - Forum on Social Enterprise/Entrepreneurship/Innovation, 2004-2008

Title	Time & Venue	Foreign/International Organiser	Theme
<i>China-British Seminar on Social Entrepreneur/NPO</i>	2004; Beijing	The British Consulate-General Shanghai; Global Links Initiative	Several social entrepreneurs from UK introduce their experiences
<i>Skoll World Forum on Social Entrepreneurship</i>	2007; Hangzhou	Skoll Center for Social Entrepreneurship, Oxford University	Over 200 participants share research findings on social enterprises and social innovation
<i>Seminar on Developing Social Economy and Harmonious Society</i>	2007; Beijing	Cultural and Education Section of the British Embassy in China	Team members of a UK social enterprise learning tour report what they learn
<i>Seminar on the Situation & Future of Social Enterprise in China</i>	2008; Beijing	Peking University-Hong Kong Polytechnic University China Social Work Research Centre	Researchers and practitioners discuss current situation and future of China's Social enterprise
<i>Forum on Social Innovation and Social Organisation</i>	2008; Beijing	Cultural and Education Section of the British Embassy in China	Nearly 150 participants discuss the role of nonprofits and social enterprises in fostering social innovation and reform

4. CHARACTERISING SOCIAL ENTERPRISE IN CHINA

To shed light on the general characteristics of social enterprises in China, we collected and analyzed 13 representative social enterprises which are economically active and deliver wide-ranging social benefits. Table 3 summarises the features of these social enterprises with regard to organisational form, operational pattern and social mission.

4.1. Organisational form

As we discussed previously, Chinese legislation recognises four organisational forms of social enterprise: Civilian-Run Non-Enterprise Units, Civilian-Run Educational Institutions, Cooperatives, and Social Welfare Enterprises. As shown by a comparative study of the selected cases (see Figure 1), five out of 12 social enterprises examined are *nonprofits* having the legal status of either Civilian-Run Non-Enterprise Unit or Civilian-Run Educational Institution. The organisational form of other three social enterprises share the feature of *for-profit and nonprofit hybridization*, where a for-profit company coexists with a Civilian-Run Non-Enterprise Unit, private foundation or Civilian-Run Educational Institution.

Oddly enough, there is also a problem of *status dislocation* between the legal form and virtual one; namely, four out of 12 investigated cases are "nonprofits" having no

nonprofit legal status but rather being registered as for-profit companies. This phenomenon is prevalent in China's third sector, largely because the Chinese central government still imposes very tight controls on the third sector; thus many nonprofits having no governmental connection or encountering formidable difficulties in finding a governmental supervisory agency have to register as a for-profit company or operate as a grassroots NGO without legal status. It was reported in 2004 that roughly 2 million nonprofits were registered as a for-profit company in China's third sector.³⁸ One of the major disadvantages faced by nonprofits registered as a for-profit firm is that they do not have the tax-exempt status enjoyed by government-sanctioned nonprofits, no matter how impressive their contributions to delivering social benefits. Occasionally, nonprofits registered as for-profit encounter a legitimacy crisis when the faith of key stakeholders in their credibility as nonprofits is undermined by discovery of their registration status as a for-profit firm.

4.2. Operational pattern

Basing on empirical data collected from the comparative study of 13 cases, we find that the operational pattern through which social enterprises generate revenue falls into four categories. As illustrated by Figure 2, of 13 social enterprises examined, six are heavily reliant on "fee-for-service" programs in earning income; five operate business in "goods production and trade" to be financially self-sufficient; three rely on public funding through engaging in "state's purchase of service contracting"; two with a for-profit and nonprofit hybridization organisational structure have revenue generated from a mechanism of "internal profit allocation".

4.3. Social mission

The range and category of social benefits delivered by social enterprises often vary from country to country. As Kerlin (2006) summarises correctly, the kinds of social services supported by social enterprise in Europe are fewer than in the United States; they focus on particular social needs not met by the welfare state, for example employment programs for the long-termed unemployed. In China, as empirical data collected for this study shows, the social objectives pursued by social enterprise can be sorted into four types. As illustrated by Figure 3, of 13 social enterprises examined, five focus on providing "specialised social services" to people in need (i.e., community service, psychological counseling, care of the elderly, care of children of prisoners or children with cerebral palsy,); three engage in "poverty alleviation and rural development" activities; three endeavor to promote education (for children of migrant peasant workers or poor Tibetan families or more specifically, public education on entrepreneurship); two attempt to enhance employment of marginalised or impoverished people.

³⁸ Xu, Hui and Zonghe Song (2004) "Why Grassroots NGOs can hardly grow in size?" *Philanthropy News*, 15 September.

Table 3 - Summary of Investigated Social Enterprise Cases

	Name	Registration/Legal Status	Organisation form	Operational Model	Social Mission
1	Ventures in Development	Nonprofits registered in Hong Kong	Nonprofits	Goods producing and trading	Rural development
2	Hetong Aged People Welfare Association	Civilian-Run Non-Enterprise Unit	Nonprofits	Fee-for-service; State's purchase of service contracting	Care of the elderly
3	Angel House Rehabilitation and Education Activity Center	Civilian-Run Non-Enterprise Unit	Nonprofits	Fee-for-service	The rehabilitation of children with cerebral palsy
4	New Citizen School Project of Narada Foundation	Civilian-Run Educational Institution	Nonprofits	Fee-for-service	Education of children of migrant peasant workers
5	Shanghai Pudong Luoshan Civil Community	Civilian-Run Non-Enterprise Unit	Nonprofits	State's purchase of service contracting	Community service
6	Sichuan Xuping Rabbits Limited Company; Rabbit King Research Center of Poverty Alleviation	For-profit company; Civilian-Run Non-Enterprise Unit	For-profit/nonprofit hybridization	State's purchase of service contracting; Internal profit allocation	Poverty reduction and rural development
7	Bright China Group	For-profit company; Private foundation	For-profit/nonprofit hybridization	Internal profit allocation	Education on entrepreneurship
8	Sherig Norbu Welfare School; Livestock Products Company and Cheese-making Factory	Civilian-Run Educational Institutions; For-profit company	For-profit/nonprofit hybridization	Goods producing and trading	Education of impoverished Tibetan children
9	Beijing Sun Village Children Education and Consultation Centre	For-profit company	Nonprofits	Fee-for-service; Goods producing and trading	Education and care of prisoners' children
10	Shanghai Miaoxin Household Service Company	For-profit company	Nonprofits	Fee-for-service	Employment of marginalised people
11	Beijing Fair Field Economy and Trade Development Company	For-profit company	Nonprofits	Goods production and trading	Poverty alleviation in a rural region
12	Beijing Maple Women's Psychological Counseling Center	For-profit company	Nonprofits	Fee-for-service	Psychological counseling and social services
13	XinGeng Workshop	NA	NA	Goods production and trading	Employment and education in impoverished regions

Figure 1 - Registration status of the investigated cases

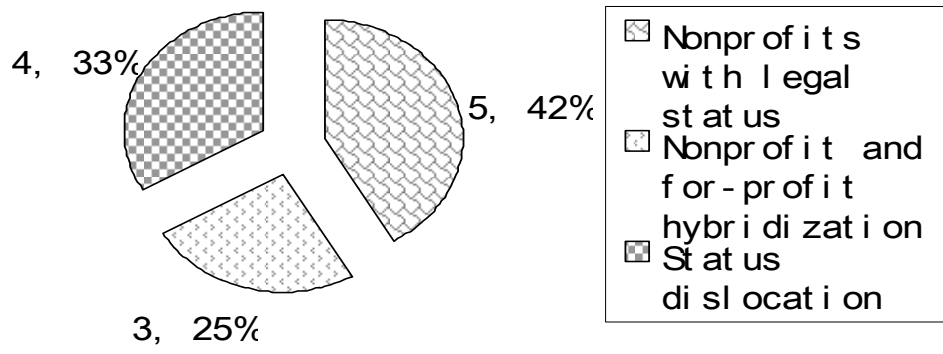
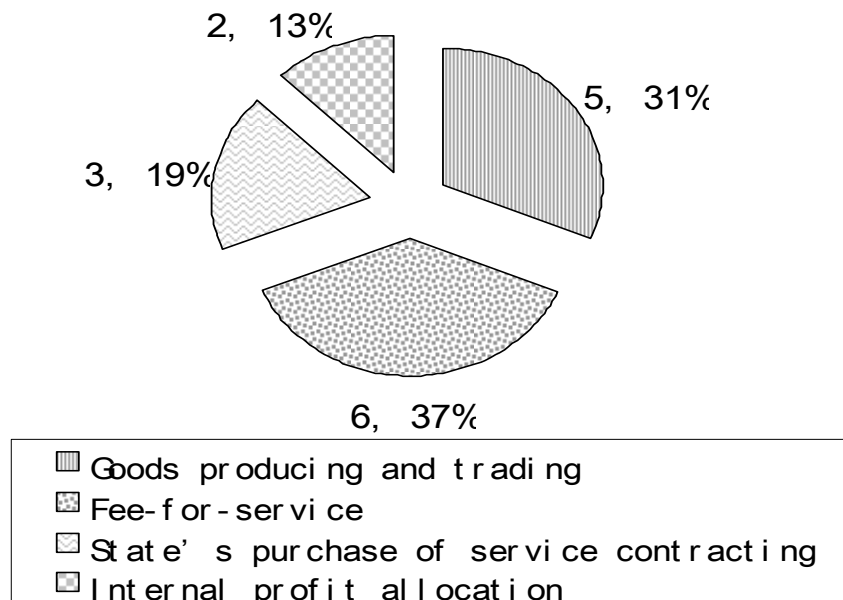
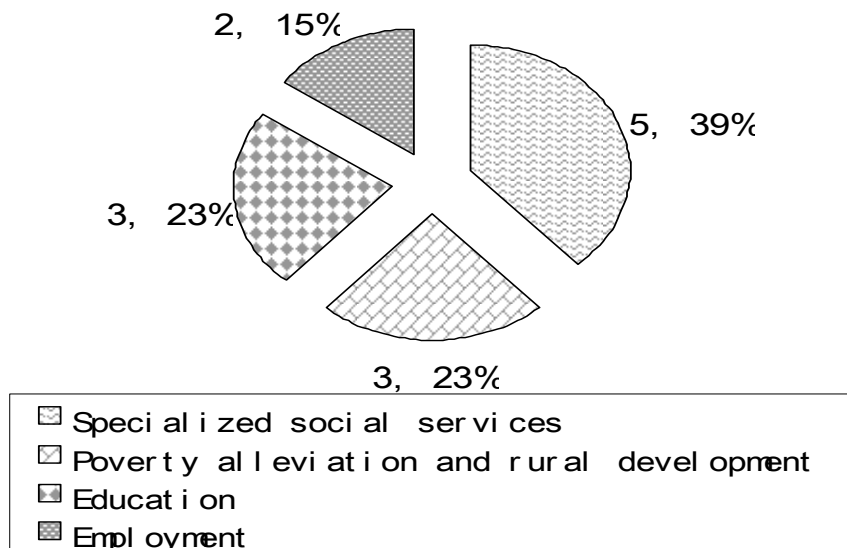


Figure 2 - Operational pattern of the investigated cases



Note: There is a difference between the total number of unit of analysis (16) and that of investigated cases (13), because several cases have 2 operational pattern choices.

Figure 3 - Social mission of the investigated cases



5. CHALLENGES CONFRONTING SOCIAL ENTERPRISE IN CHINA

Social enterprise in China faces a series of challenges in its process of pursuing further development, which are closely related to China's legislative framework and the institutional environment shaping social enterprise.

First, entrance barriers to qualifying as a governmental-approved nonprofit and thus acquiring tax-exempt status are still too high for numerous social enterprises because of the strict controls imposed by government in the registration process. As a result, many social enterprises experience a problem of *status dislocation*, working as nonprofits with a for-profit status, and encounter unreasonable competitive pressure because they are subject to the same taxes as for-profit firms.

Second, it is true China's third sector is witnessing a trend towards marketisation and commercialisation, with nonprofits increasingly seeking to be financially self-sufficient. However, the current legislative framework has not fully recognised this reality and provides no specific regulations on how and to what extent nonprofits may engage in commercial activities. Such a legislative gap can neither prevent the nonprofits from becoming more commercialised nor alleviate the credibility crisis faced by many Chinese nonprofits; by leaving the social enterprises' efforts unregulated it makes more difficult their attempts to balance social and economic objectives.

Third, although the Chinese central government has shown a supportive stance of the development of social enterprises, as reflected by various public policies, it is a commonplace problem that these policies often consist of a one-sentence principle which is not specifically configured as concrete and feasible policies to be implemented sufficiently at the local level. For example, as Gong (2009) writes critically on the problem disturbing many Civilian-Run Educational Institutions (CREIs),

The law provides that the financial institutions are encouraged by states to offer loan services to CREIs; however, in reality, few banks are willing to do so because the CREIs' property is not accepted as a guarantee...Also, it is stipulated by law that when CREIs rebuild or expand a school, the state should provide favorable treatment concerning land-use and construction. However, numerous CREIs are not granted equal treatment with public schools regarding these benefits³⁹.

Fourth, unlike social enterprises in many Western countries which can access funding from various sources, Chinese social enterprises have received meager financial support from the institutional environment. Rather, they must often rely heavily on funds from individual investors for start-up and administrative costs. The unavailability of grants and the fear of not getting funding is the biggest single barrier to the rise of social enterprise. As Yin (2009) astutely analyzes the situation of Farmers' Professional Cooperatives (FPCs)⁴⁰,

In current years, FPCs encountered more difficulties in borrowing from financial institutions, because the number of commercial banks serving rural regions has decreased and the properties of farmers and FPCs (e.g. rural residential or production buildings) are not mortgageable assets accepted by banks for loans. According to survey data, numerous FPCs have problems with a shortage of funds: 49.4% of FPCs have no funds to cover administrative expenses, 34% have no funds to purchase productive facilities, 25.3% have total property valued at less than RMB 50,000 (or USD 7,300).

Fifth, social enterprises in China face a serious challenge in becoming financially self-sustaining. By definition, financial self-sufficiency is achieved by increasing a nonprofits' ability to generate sufficient income to cover all or a substantial portion of costs or fund social programs without continued reliance on donor funding.⁴¹ However, in China, many social enterprises still strive to survive, being incapable of making profits to fund projects serving social needs. Taking the general financial situation of Civilian-Run Non-Enterprise Units (CRNEUs) as an example, according to official statistics, the average added value created by all registered CRNEUs in 2006 was a mere RMB 45,000 (or USD 6,600), and profits were even more meager. And in Shanghai city, only 7.6% of all registered CRNEUs earn profits.⁴²

Finally, unlike the governance structure of social enterprise in Western European countries which is usually based on the participation of multi-stakeholders (Borzaga and Solari, 2001; Kerlin, 2006; Mason, et al., 2007), the governance dynamic in social enterprises in China is largely determined by social enterprise's unidimensional relation with government, with other stakeholders absent or marginalised. The

³⁹ Gong, Lixia (2009) "The flaws in the laws on non-state education", *Modern Education Management*, Vol. 2.

⁴⁰ Yin, Haohao (2009) "Suggestions on the regulation of Farmers' Professional Cooperatives", *Cooperative Economy and Technology*, Vol. 9.

⁴¹ Virtue Ventures' website:

http://www.virtueventures.com/setypology/index.php?id=FINANCIAL_STRATEGY_OBJECTIVES&lm=0

⁴² Zhao, Libo and Zhiqin Zhang (2009) "Thoughts on promoting the development of Civilian-Run Non-Enterprise Unit", *Journal of Fujian Provincial Committee Party School of CPC*, Vol. 3.

nonexistence of a democratic governance structure and ineffective governance have become one key obstacle limiting the future development of social enterprise. Yuan (2009) documents the governance drawback in Farmers' Professional Cooperatives (FPCs) using empirical data,⁴³

In Boai county, Henan province, 125 FPCs have been registered since 2005, with a membership of 9200 rural households in total. However, it is a commonplace problem that these newly emerging FPCs lack an effective governance structure, and decision-making is centered in monopoly companies or competent people, while ordinary members have insufficient awareness and capability to participate in the management of FPCs.

CONCLUDING REMARKS

China has witnessed a burgeoning development of social enterprises during the past several years since nonprofits began to play a vanguard role in serving social needs unmet by governmental and market agencies. This article seeks to provide insight into the dynamics, context and features of this new phenomenon. As a result of the socio-economic and legislative context configured during China's market transition it appears that social enterprise in China is pursuing a development route different from its counterpart in Western countries.

First, as has happened in many Western countries since the 1980s, the recent rise of SEs in China was driven by multiple forces surging during the market transition – the state's effort to privatise and marketise public services, the third sector's endeavors to overcome the fiscal crisis, and the private sector's growing interest in corporate social responsibility. However, SE in China also inherited a unique legacy from the country's socialist tradition in which efficiency-centered market competition is expected to align with justice-oriented social redistribution and reproduction. The persistent existence of Social Welfare Enterprises provides a living fossil for the analysis of this Chinese-specific driving force for social enterprise.

Second, compared with many Western countries, the legislative system regulating SEs in China covers more wide-ranging social issues but is relatively less concrete and consistent. Under China's current legislative framework, four kinds of SEs have legal status, namely Social Welfare Enterprises, Civilian-Run Non-Enterprise Units, Civilian-Run Educational Institutions and Cooperatives, which differ from each other regarding registration criteria, tax-exempt status, profit-distribution and governance model. China's SE-related legislative system has an obvious flaw in that it does not specify how and to what extent nonprofits may participate in revenue-generating commercial activities. Moreover, following the example of states in many Western countries, the Chinese central government has begun to take a supportive stance on SE development by announcing a series of public policies, although many of them are found to be neither incorporated into the local governance regime nor implemented effectively.

Third, the construction of the institutional context for social enterprise is much less developed than in many Western countries. Although China's SE can obtain very limited financial, intellectual, technical, and human resources from the fledgling institutional environment, increasing efforts in promoting the ideas and practices of

⁴³ Yuan, Shouyao (2009) "Situation and puzzle in the development of Farmers' Professional Cooperatives in Boai county", *Henan Agriculture*, Vol. 5.

venture philanthropy, SE incubation and SE awareness raising have been made by pioneering actors.

Fourth, as reflected by empirical evidence drawn from the comparative analysis of 13 SE cases, the features of China's SE can be portrayed in three dimensions: 1) the organisational form is composed of three typologies – nonprofits with legal status, for-profit and nonprofit hybridization, and status dislocation; 2) the operational pattern falls into four categories – fee-for-service, goods producing and trading, state purchase of service contracting, and internal profits allocation; 3) the social mission is wide-ranging, and includes provision of specialised social services, poverty alleviation and rural development, education and employment promotion.

Finally, social enterprise in China is confronting several challenges to its further development, including government-imposed barriers to nonprofits registration and tax-exempt status, a regulation gap concerning nonprofits' commercialisation, weak implementation of supportive policies, unavailability of funding, incapability to become self-sustaining, and lack of democratic governance structure.

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