China Social Enterprise and Social Investment Landscape Report 2019

Jointly Presented by

中国社会企业与影响力投资论坛
China Social Enterprise and Impact Investment Forum

Narada Foundation
南都公益基金会

Excerpt Translated by

avpn

The China social enterprise and social investment landscape survey was jointly launched by China Social Enterprise and Impact Investment Forum (CSEIF) and Narada Foundation, supported by Ford Foundation and Shunde Foundation for Innovation and Entrepreneurship. With 15-month joint efforts from nearly 30 experts and researchers, the survey collected and analyzed data of four key components of the ecosystem, namely social enterprises, social investors, supporting intermediaries, and enabling policies. The output of the survey is this report, the first of its kind in China, that comprehensively and accurately depicts the social investment landscape.

The methodology adopted included questionnaires, interviews, and desktop research. A total of **371** samples of social enterprises, **44** samples of social investors, and **21** samples of supporting intermediaries were collected. **130** national policies and **16** local policies were studied. **13** government leaders and sector experts were interviewed.

This landscape survey is jointly presented by:

中国社会企业与影响力投资论坛
China Social Enterprise and Impact Investment Forum

Founded in 2014 by 17 Chinese foundations and venture philanthropists and social enterprise research organizations, China Social Enterprise and Impact Investment Forum (CSEIF) is committed to advocate the building of a supportive ecosystem for the social enterprise and impact investment sector in China. We aim to **LINK** stakeholders including governments, academia, social entrepreneurs, impact investors, business and entrepreneurs, **EMPOWER** social entrepreneurs, **PROMOTE** the practices of impact investing and **AROUSE** the trend of business for good in China.

Narada Foundation
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The Narada Foundation, founded on 11 May 2007, is a private foundation approved and supervised by the Ministry of Civil Affairs of China, with a registered capital of RMB 100 million donated by the Shanghai Narada Group Co. Ltd. Narada Foundation aims to foster civil society and is committed to build up the philanthropic ecosystem and promote cross-sector collaboration and innovation.

Contents

I. Social Enterprise....4
- 1. Estimated Number of Social Enterprises....5
- 2. Profile of SEs....5
- 3. Needs of SEs....11

II. Social Investors....13
- 1. Types of Social Investors....13
- 2. Profile of Social Investors....14
- 3. Profile of foundations....17
- 4. Profile of government venture philanthropists....20
- 5. Profile of commercial investors....22

III. Supporting Intermediaries....24
- 1. Number of intermediaries....24
- 2. Profile of intermediaries....25
- 3. Challenges....25
- 4. Recommendations....26

IV. Enabling Policies....26
- 1. Industry policies....27
- 2. Local policies....27
- 3. Challenges and opportunities....28

V. Trends....28

VI. Challenges and Opportunities....29

List of Figures

Figure 1： Year of establishment........ 5
Figure 2: Mission of surveyed SEs........ 6
Figure 3: Rules on profit distribution........ 7
Figure 4: Main mechanism of profit distribution........ 7
Figure 5: Sales channels of SEs........ 8
Figure 6: Social performance improvement........ 8
Figure 7: Financial performance improvement........ 9
Figure 8: Financial position........ 9
Figure 9: Barriers for funding........ 10
Figure 10: Funding raised after SE's foundation........ 10
Figure 11: Main sources of funding after SE's foundation........ 11
Figure 12: Performance assessment........ 11
Figure 13: Measures the government could take in the future........ 12
Figure 14: Measures the social investors could take in the future........ 12
Figure 15: Measures the supporting intermediaries could take in the future........ 13
Figure 16: Types of social investment........ 13
Figure 17： Financial Target of Social Investment........ 14
Figure 18: Financial returns of social investment........ 16
Figure 19: Social impact of social investment........ 16
Figure 20: Areas of investment by foundations........ 17
Figure 21: Terms of investment by foundations (T=Year)........ 18
Figure 22: Requirement of financial returns by foundations........ 18
Figure 23: Total social investment of each foundation by the end of 2017........ 18
Figure 24: Score of the overall environment by foundations........ 19
Figure 25: Areas of investment by government venture philanthropists........ 20
Figure 26: Sources of government venture philanthropy........ 20
Figure 27: Largest scale of the investment ticket........ 21
Figure 28: Score of the overall environment by government venture philanthropists 22
Figure 29: Goals of commercial investors........ 22
Figure 30: Areas of investment by commercial investors........ 23
Figure 31: Total social investment of each commercial investor by the end of 2017 23
Figure 32: Score of the overall environment by commercial investors........ 24

List of Tables

Table 1: Size of social enterprise........ 6
Table 2: Dimension of services provided........ 25

I. Social Enterprise

1. Estimated Number of Social Enterprises

As there is not a single definition of social enterprise (SE) that is universally accepted in China, we adopted three approaches to estimate the number of SEs in China. First, we referred to the total number of SEs certified by the China Charity Fair in the past four years. As this certification has not been known or accepted across the country, we argue that the 234 certified SEs as of 2018 only represent a small fraction of the factual number of SEs in China.

Secondly, we compiled lists of organizations from various sources who identify themselves as social enterprises and are so recognized by their counterparts. We labeled this group "self-identified" SEs and this number mounts to 1,684. We believe that this is the lower range of the total number of SEs in China. All the 371 SEs surveyed for this report are "self-identified" SEs.

Lastly, we broadened the definition to include all Farmers' Co-operatives (农民合作社), Private Non-Enterprise Units (民办非企业单位), and Social Welfare Enterprises (社会福利企业) that are estimated to be in operation, which added up to 1.75 million. We treat this number as the higher range of the total number of SEs in China.

2. Profile of SEs

2.1 <u>Stage of Development</u>

The concept of SE was first introduced to China in 2006. Over 93% of the 371 SEs surveyed were established after 2006, out of which 44% were set up only after 2014. This leads us to conclude that the "self-identified" Chinese SEs are at an early stage in their life cycle.

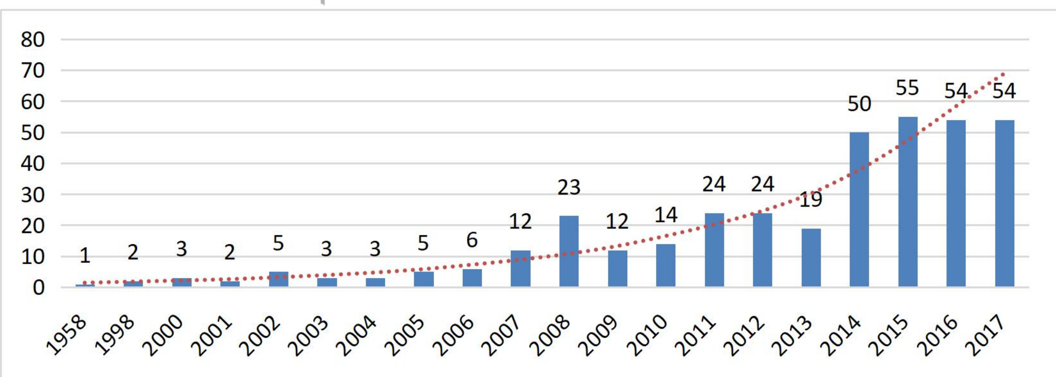

Figure 1： Year of establishment

N=371

About 60% of the SEs surveyed are registered as a business and 32.4% as a non-profit organization.

2.2 *Social mission*

Nearly half of the "self-identified" SEs state that their mission is to serve the interests of the public or community. The top eight social areas engaged by the surveyed SEs are Education (21%), Community development (13.4%), Employment and skills (12.3%), Environment and energy (9.8%), Professional services for social innovation and entrepreneurship (9.3%), Healthcare (7.4%), Elderly care (6.5%), and Poverty alleviation (5.7%). 72.2% of the SEs serve the disadvantaged groups, including people with disabilities, long-term illnesses or living in poverty. In particular, several Internet-based SEs provide information accessibility services that benefit a large percentage of the disadvantaged population.

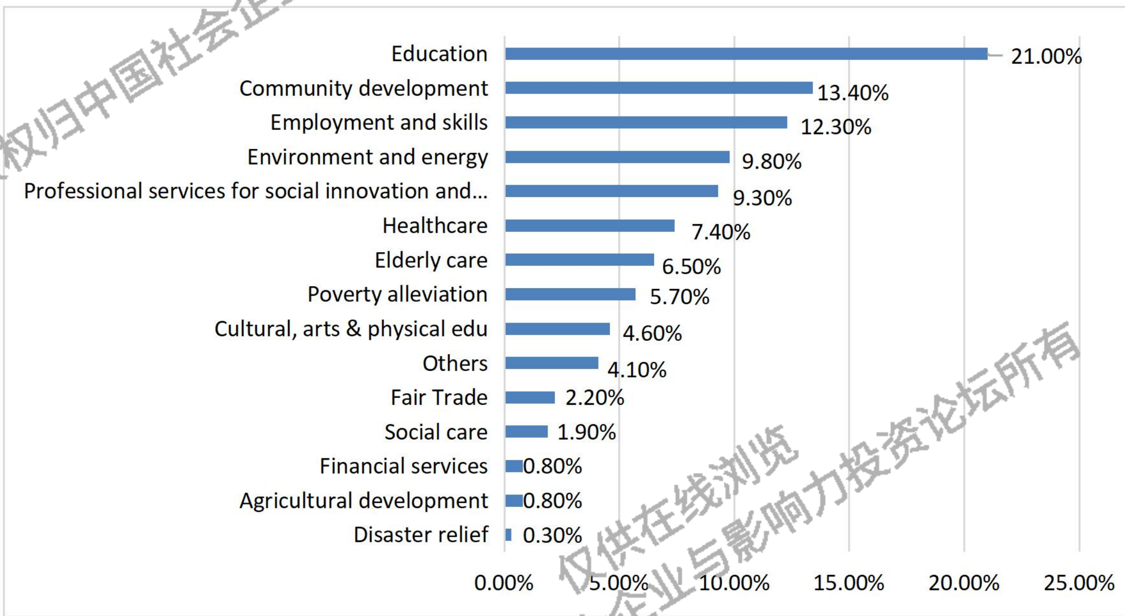

Figure 2: Mission of surveyed SEs

N=367

2.3 *Small to medium in size*

The majority of SEs surveyed are small to medium in size measured by their annual revenue, total assets, and total fund raised.

Table 1: Size of social enterprise

	Small	Medium
Annual revenue Total assets Total fund raised	RMB 110,000 – 1 million (USD 16,176 – 147,000)	RMB 1.01 – 10 million (USD 148,000 – 1.47 million)

According to the definition above, 37.5% of SEs surveyed are small and 41.6% are medium based on annual revenue; 36.5% are small and 31.1% are medium based on total assets; and 39.4% are small and 28.3% are medium based on total fund raised.

The average revenue of all self-identified SEs surveyed is RMB 5.525 million (USD 812,500) in 2017, with the highest revenue from industrial and commercial type of SEs at RMB 8.09 million (USD 119,000), followed by cooperative type of SEs at RMB 6.831 million (USD 100,454), and the lowest from Private Non-Enterprise Unit type of SEs at RMB 1.749 million (USD 25,725). Assuming a total of 1,700 SEs in the country, the total revenue of Chinese SEs is approximately RMB 9.3 billion (USD 1.36 billion).

2.4 <u>Profit distribution</u>

91.6% of the SEs surveyed earn their revenues through market-based sale activities or government purchases. While 39% of the SEs do not have pre-determined rules on profit distribution, 84.5% of them re-invest their net profit back into the business and only 8.5% distribute their profit to shareholders.

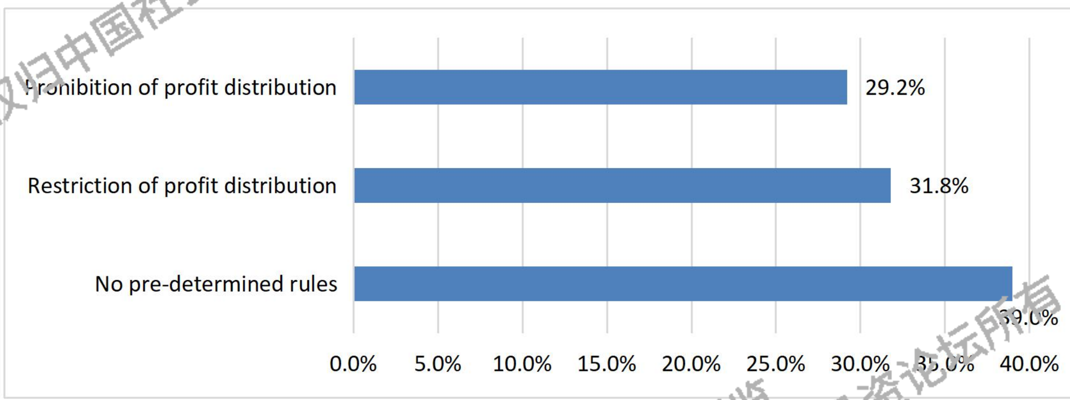

Figure 3: Rules on profit distribution

N=359

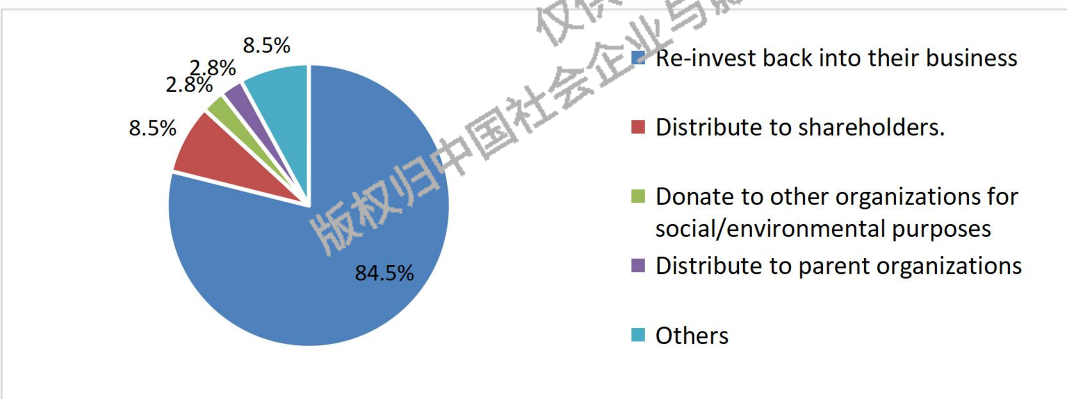

Figure 4: Main mechanism of profit distribution

N=71

The top five sales channels of SEs are word-of-mouth or social network (54.4%), online shops (44.7%), partner companies' sales channels (43.7%), charitable activities (39.2%), and government purchases (31.4%).

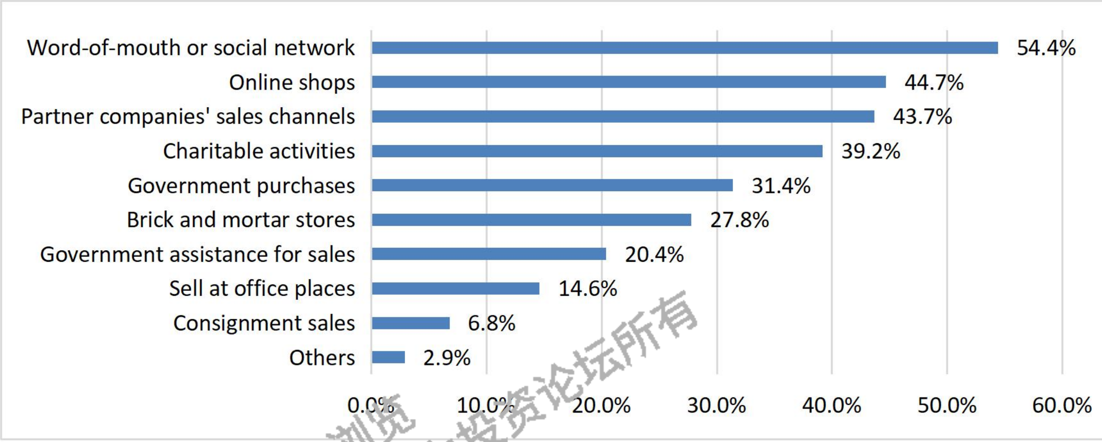

Figure 5: Sales channels of SEs

N=309

2.5 *Social and financial performance*

84% of SEs indicated that they saw an improvement in their social performance year on year, evidenced by growing customer base (79.9%), improved products/services quality (67.2%), increased products/services variety (67.2%), more clients (63.6%), and larger team (50.3%).

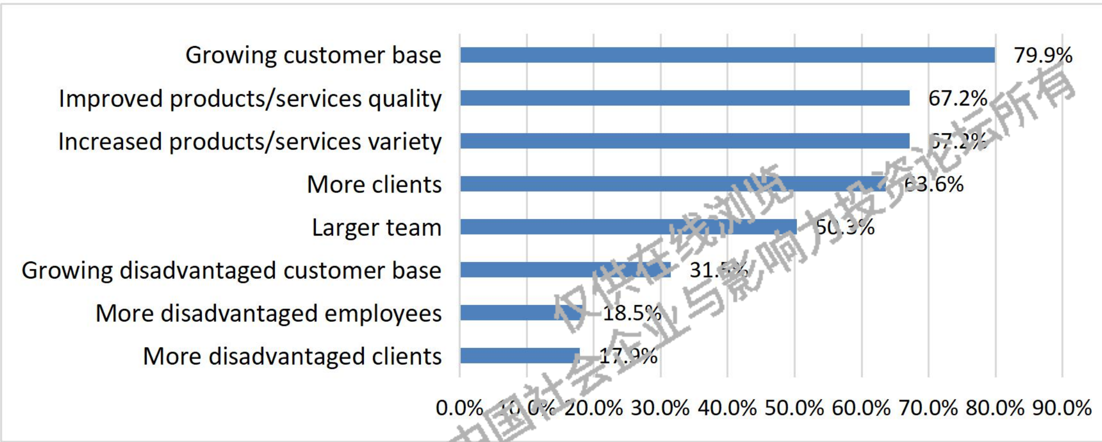

Figure 6: Social performance improvement

N=308

68.5% of SEs indicated that their financial performance also experienced an improvement, evidenced by increasing total revenue (66.3%), larger percentage of revenue earned from market-based activities (53.2%), increasing total assets (52%), and more diverse income sources (51.2%).

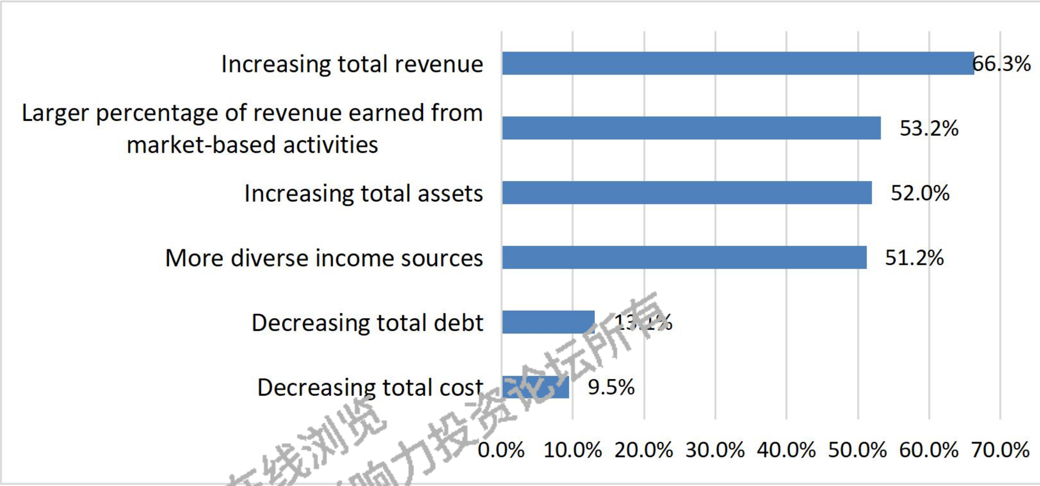

Figure 7: Financial performance improvement

N=252

Overall, 20.5% of the SEs surveyed closed the year 2017 with a net profit, 36.2% broke even, and 43.2% with a net loss.

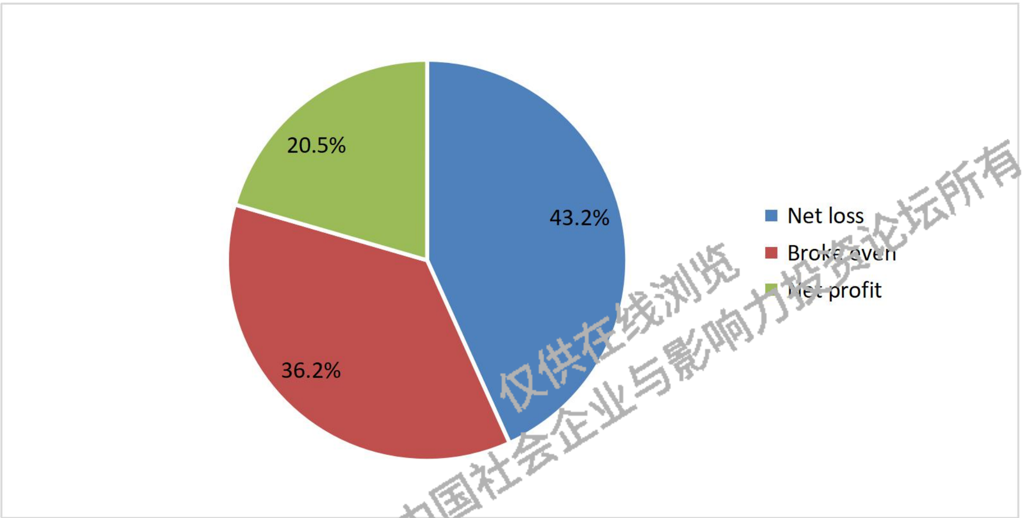

Figure 8: Financial position

N=370

2.6 Fundraising status

86.1% of the SEs surveyed received their seed capital from the entrepreneurs themselves. Only 34.8% of SEs succeeded in fundraising. Nearly 46% of the SEs have never applied for any outside funding. The top five barriers for funding application are lack of proper channels (53.1%), very few funding sources suitable for an SE (46.1%), lack of fundraising skills (36.7%), concerns of interfering the organization's operation and management (28.6%), and overly high time cost (18.4%).

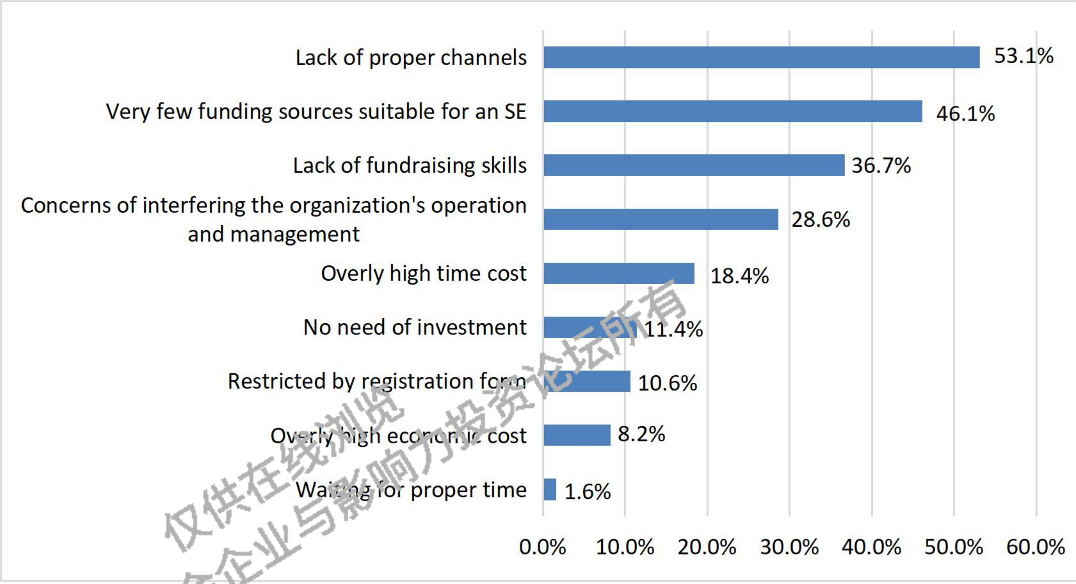

Figure 9: Barriers for funding

N=245

The sizes of the fund raised are relatively small. 41.9% of the SEs have raised funds in the range of RMB 110,000 – 1 million (USD 16,176 – 147,000), 34.2% of the SEs in the range of RMB 1.01 – 10 million (USD 148,000 – 1.47 million), and only 10.2% of the SEs raised funds larger than RMB 10 million (USD 1.47 million).

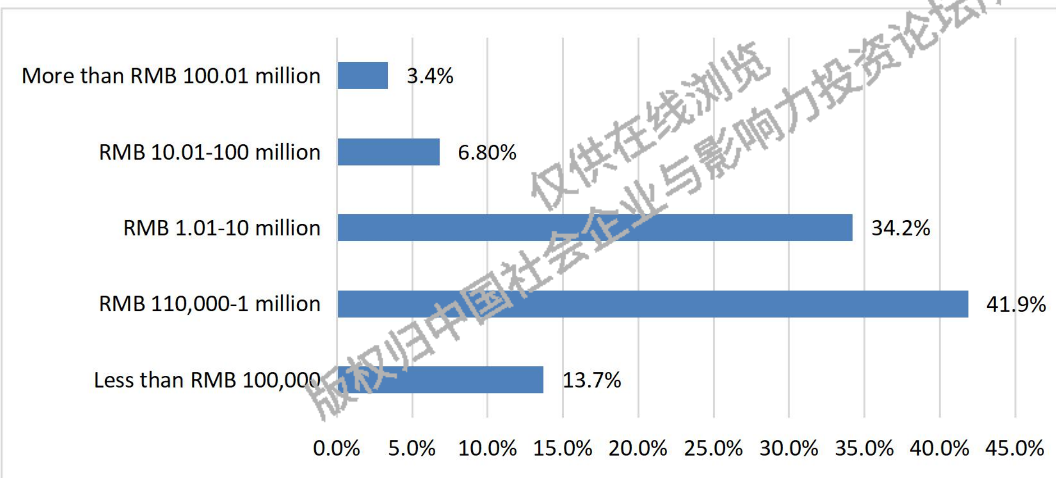

Figure 10: Funding raised after SE's foundation

N=117

After an SE is established, the major funding sources available include other social purpose organizations (SPOs) (44.4%), individual donors (34.6%), corporates (30.9%), governmental agencies (27.2%) domestic venture capitalists (16%), domestic and overseas social investing organizations (14.8%), crowdfunding platforms (12.3%), and domestic commercial banks (3.7%).

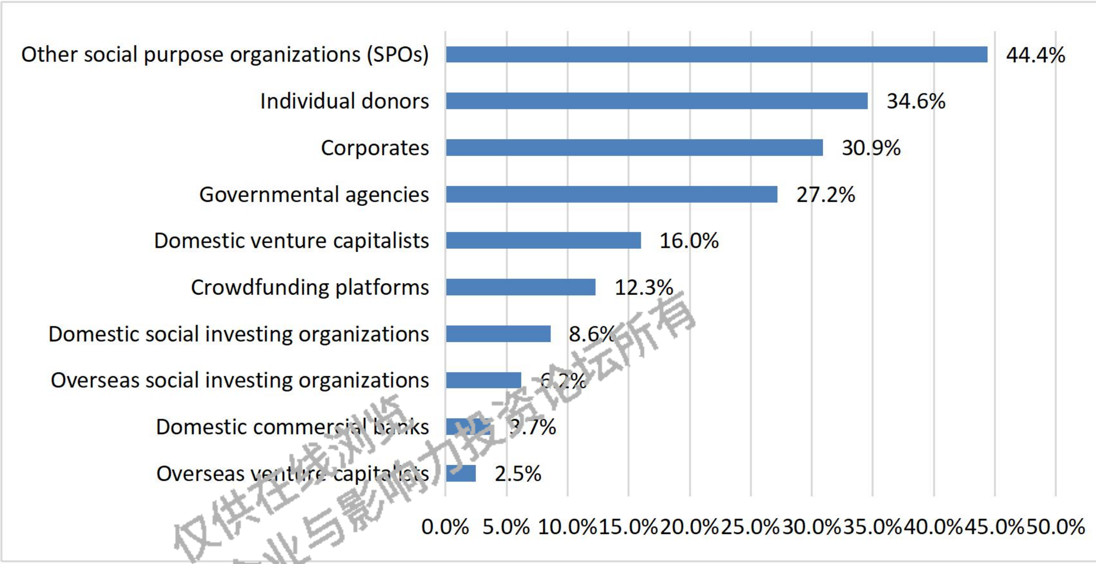

Figure 11: Main sources of funding after SE's foundation

N=81

2.7 *Performance assessment*

About three quarters of SEs surveyed conduct performance assessment regularly: 63.5% on financial performance, 61.6% on social performance, and 26.4% on environmental performance. However, 24% of SEs surveyed indicated that they had never done any forms of assessment.

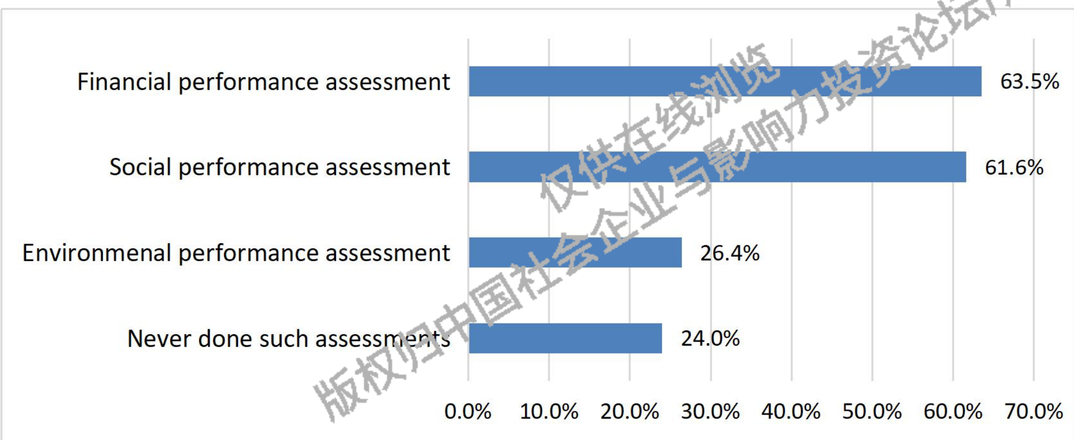

Figure 12: Performance assessment

N=367

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3. Needs of SEs

Over 95% of the SEs surveyed expressed the need for more support from governments, social investors, and supporting intermediaries to promote the further development of SEs.

The top six needs raised to governments are special funding support (83.5%), enabling policies (83%), tax benefits (78.6%), preferential treatment in government purchasing decisions (76.8%), awareness enhancement (74.1%) and SE service platforms (73.8%).

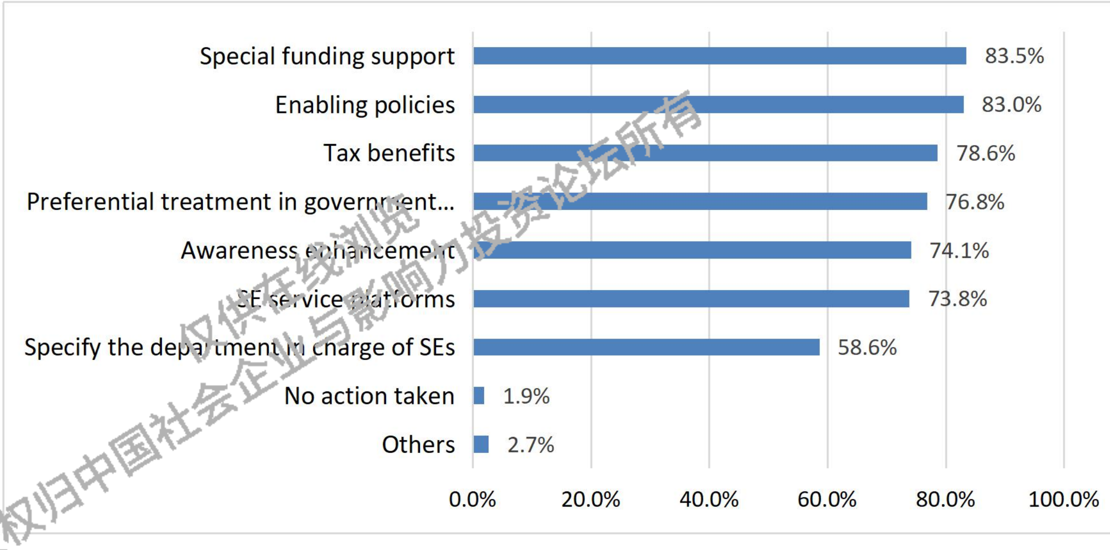


Figure 13: Measures the government could take in the future

N=370

The top four needs raised to social investors are provision of more investment vehicles tailored to SEs (89.5%), support for improving investees' operational capabilities (78.4%), enhanced transparency in deal evaluation (60%), and more visible publication of deal sourcing information (58.4%).

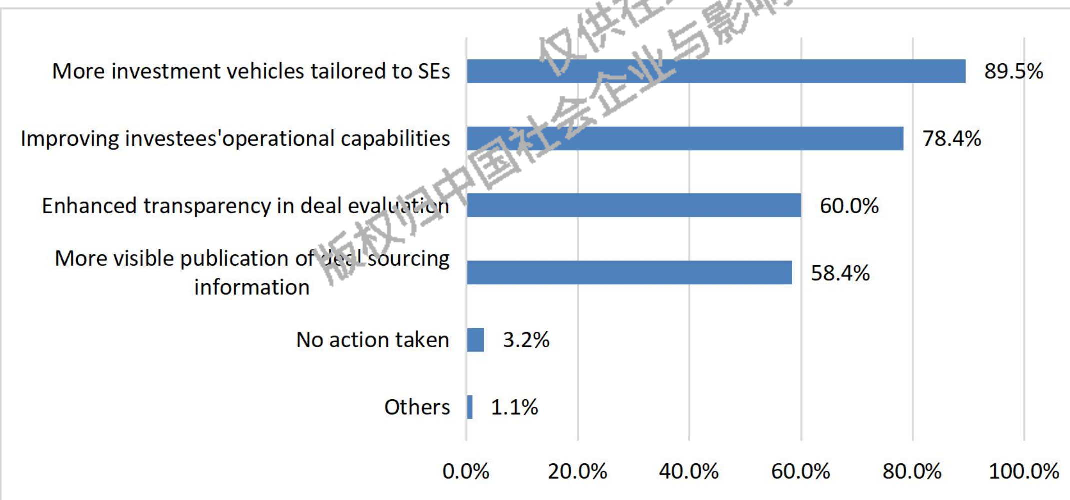


Figure 14: Measures the social investors could take in the future

N=370

The top four needs raised to supporting intermediaries are bridging between SEs and social investors (79.6%), providing professional services (77.7%), bridging between

SEs and governments (73.6%), and increasing public awareness (73.4%).

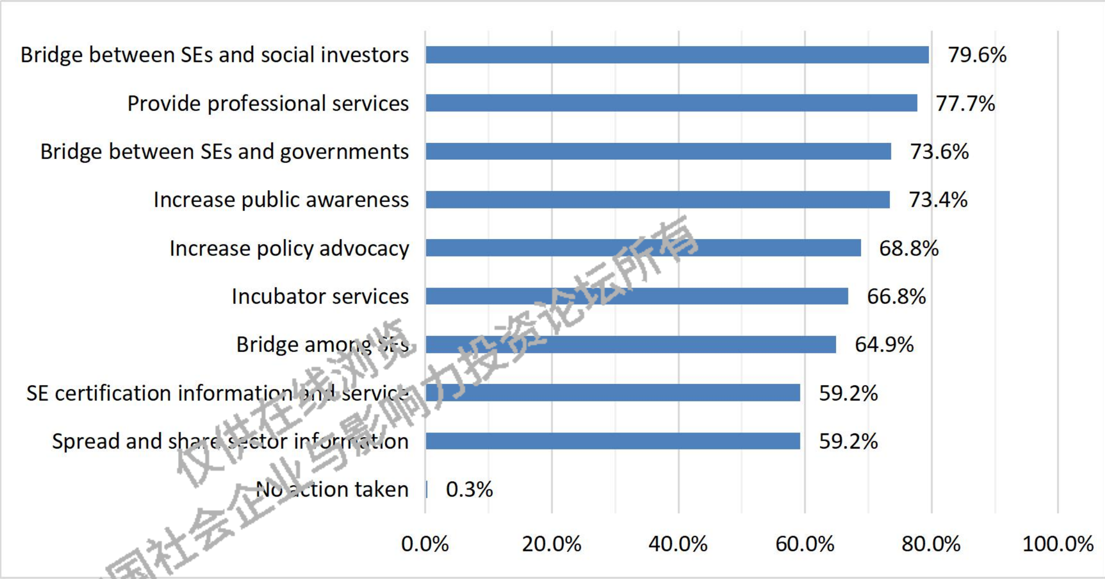


Figure 15: Measures the supporting intermediaries could take in the future

N=36

II. Social Investors

1. Types of Social Investors

Social investing refers to venture philanthropy and impact investing in this report. A total of 44 social investors were surveyed, including 19 foundations, 13 government agencies engaged in venture philanthropy, and 12 commercial investors. The 19 foundations include 6 public foundations and 13 non-public foundations. The 12 commercial investors include 7 investors dedicated to social investing and 5 investors engaged in both social and commercial investing.

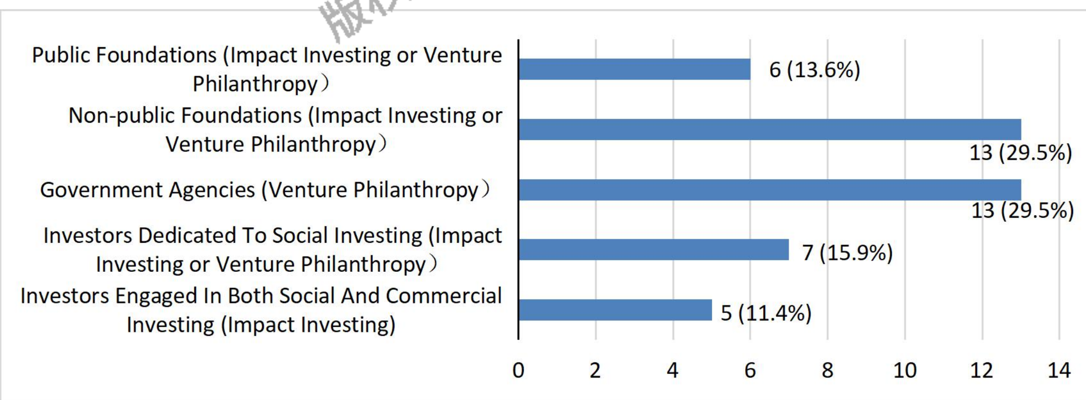


Figure 16: Types of social investment

N=44

Commercial investors are the first adopters of social investing starting around 2002, followed by foundations in 2008 and government agencies in 2009. Since 2013, there has been an average of 4-8 new social investors joining the landscape each year.

2. Profile of Social Investors

2.1 *Objectives of investment*

All three types of social investors aim to achieve social impact, environmental impact, and financial returns through their investing, though with varying degrees, especially on financial returns. Government agencies that are engaged in venture philanthropy do not have any financial return expectations, whereas 63.2% of foundations and 91.7% of commercial investors have set a financial target.

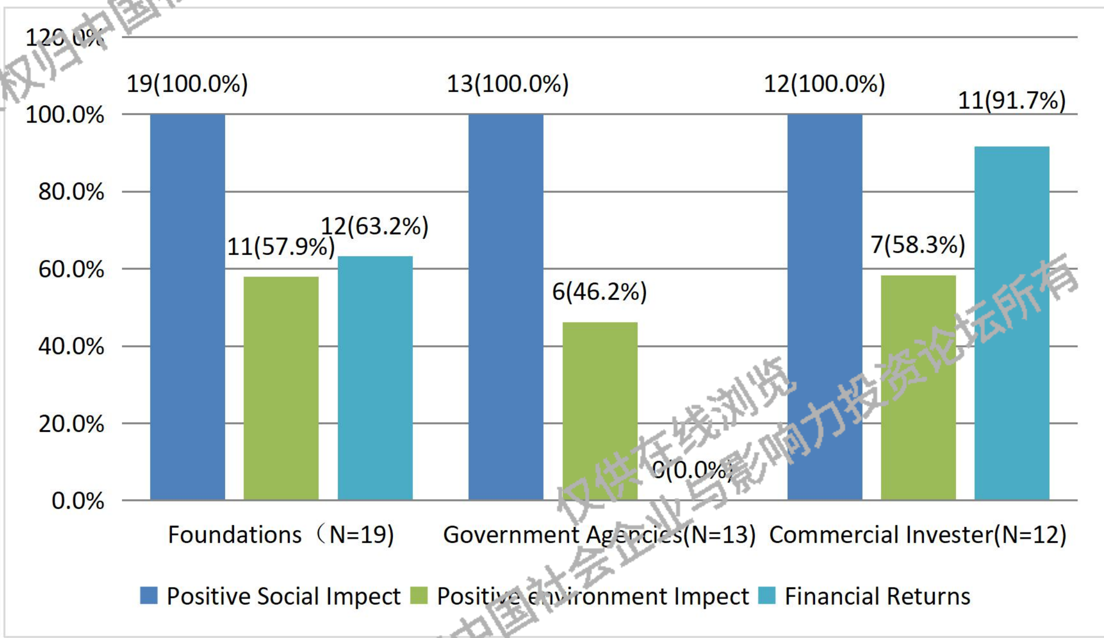


Figure 17. Financial Target of Social Investment

N=44

2.2 *Sources of capital*

Funding sources of the three major types of social investors vary. Foundations draw from their own capital (78.9%) and philanthropic grants (68.4%). Government agencies invest with their welfare lottery funds (53.8%) and allocated fiscal budget (53.8%). Commercial investors deploy their own (90%) and other commercial investors' capital (40%).

2.3 *Funding vehicles*

Of the 12 foundations surveyed who are engaged in impact investing, 10 of them invest via equity, three via interest-free debt, and one via fixed assets.

All the government agencies surveyed invest via grants.

The majority of the commercial investors surveyed carry out impact investing via equity and only a small number of them are engaged in venture philanthropy.
As of end 2017, each of the foundations and commercial investors surveyed has a social investment exceeding RMB 1 million (USD 147,000). The investment capital of six largest investors each exceeds RMB 50 million (USD 7.35 million).

2.4 Focused areas

For all three types of social investors, Education and training, and Health and Medical care are listed as two of the top three areas of focus. The remaining one on their top three lists varies among the social investors: foundations support sector supporting services, government venture philanthropists support community development, and commercial investors support food and agriculture.

Children and youth top the rank on the beneficiaries for all three types of social investors. Additionally, government venture philanthropists also serve SPOs, elderly, people with disabilities, and community residents. Foundations and commercial investors, however, do not have specifically targeted beneficiary groups as they vary by investee projects.

2.5 Deal screening and due diligence

When screening deals, foundations and commercial investors both emphasize on the business models/project execution and management and the risk factors that affect the desired social/environmental impact. Following those two major concerns, foundations also pay attention to financial risks while commercial investors are concerned about market demand and risks related to competitions.

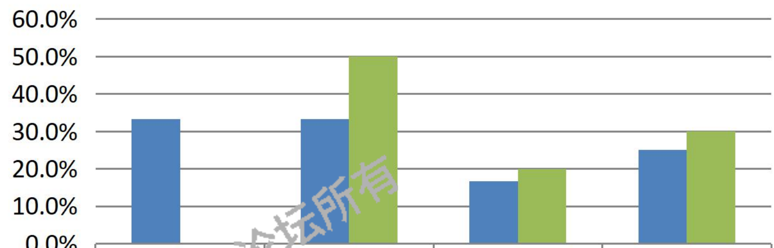
Government venture philanthropists are concerned with the failure of investees to delivery expected social/environmental impact, financial risks, and business model/ project execution and management.

Foundations engaged in impact investing and commercial investors prefer SEs at the prototype stage and post-revenue stage. Foundations and government who are engaged in venture philanthropy prefer SEs at the idea stage, followed by prototype stage and growth stage.

2.6 Social and financial returns on investment

Commercial investors surveyed indicated that their financial return on investment (ROI) is either “above expectation” (20%) or “consistent with expectation” (50%). No commercial investor’s financial ROI is “below expectation”.

However, one third of foundations engaged in impact investing have experienced "below expectation" financial ROI, indicating that foundations face challenges moving beyond traditional grant-making.



	Below Expectation	Consistent With Expectation	Above Expectation	Cannot Judge
Foundation(N=12)	33.3%	33.3%	16.7%	25.0%
Commercial Investors(N=10)	0.0%	50.0%	20.0%	30.0%

Figure 18: Financial returns of social investment

N=22 (Data of government are not provided)

About 77% of government venture philanthropist projects achieved social impact that was "consistent with expectation" and 70% commercial projects achieved "above expectation" social impact. No government venture philanthropists or commercial investors surveyed indicated "below expectation" for social impact achieved. However, foundations seemed more critical when assessing their investees with 15.8% indicated "below expectation" for social impact achievement.

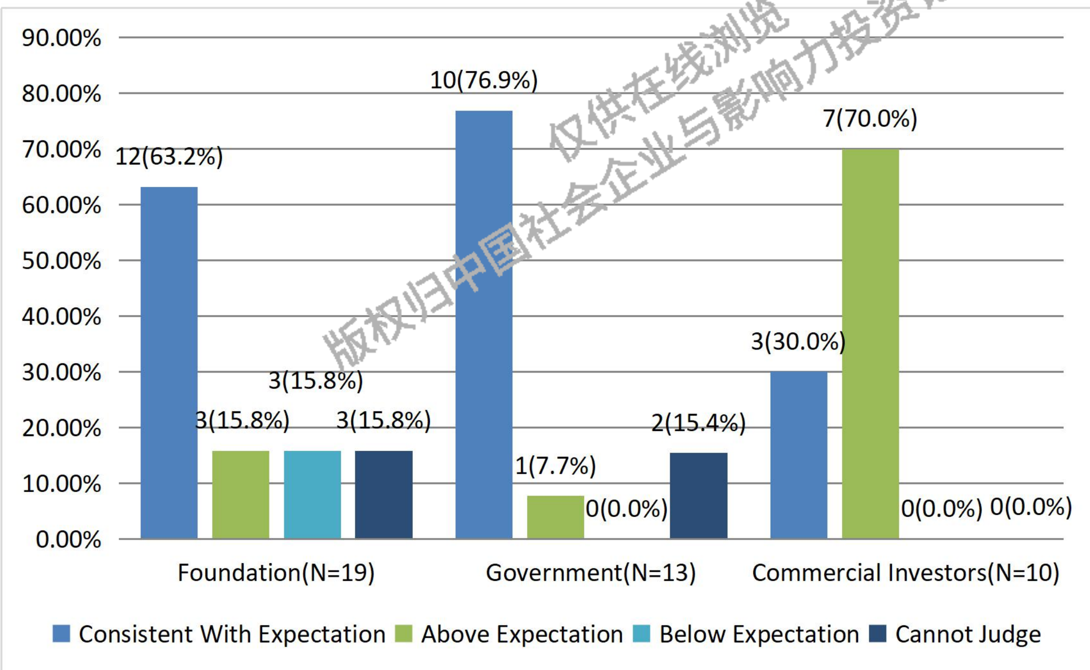


Figure 19: Social impact of social investment

N=42

3. Profile of foundations

Of the 19 foundations surveyed, the first case of social investing took place in 2008. All foundations have set creating positive social impact as their ultimate goal. Some have included environmental impact (57.9%) and financial returns (63.2%) in their objectives.

Funding sources of the foundations surveyed include self-owned capital (78.9%) and charitable donations (68.4%). Investments are made in Education and training (47.4%), Health and medical care (47.4%), and Sector supporting services (42.1%). Main beneficiaries are Children and youth (42.1%) and SPOs (36.8%).

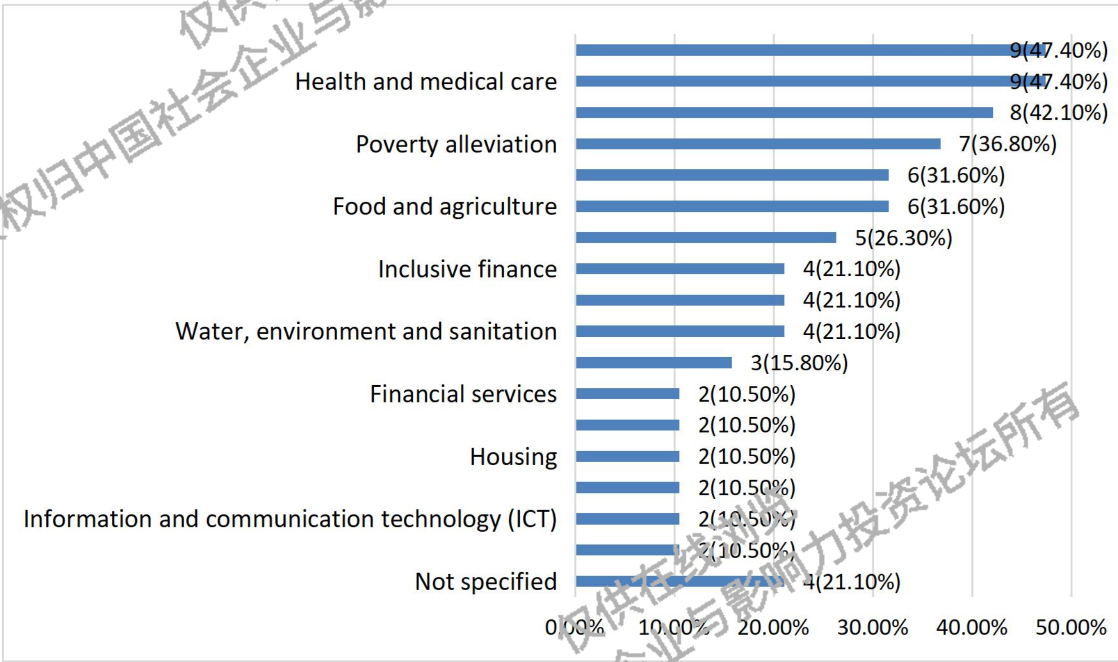


Figure 20: Areas of investment by foundations

N=19

The foundations surveyed are engaged in social investing via venture philanthropy (63.2%) and impact investing (63.2%). 52.6% of the foundations focus on idea-stage and prototype-stage investees. Term of investment for venture philanthropy is less than five years, dominated by 1-3 years (58.3%), without any required financial return. Term of investment for impact investing is dominated by 3-5 years (50%) and 1-3 years (41.7%), with the majority expecting a concessionary market rate (41.7%) or market rate (25%). In addition to financial support, all foundations surveyed provide various types of non-financial support to their investees, such as social resources docking, operational and management coaching, financing strategy and revenue management support, among others.

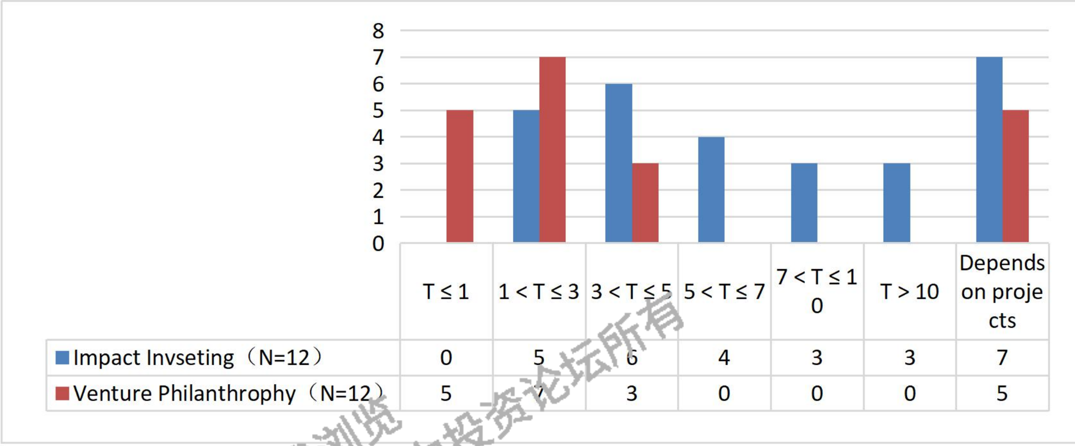


Figure 21: Terms of investment by foundations (T=Year)

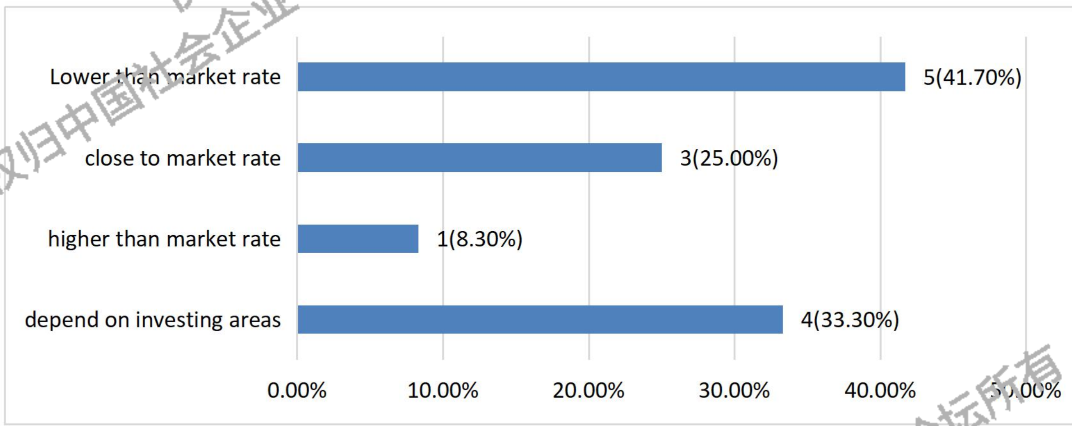


Figure 22: Requirement of financial returns by foundations

N=12 (Venture philanthropy is not included as it doesn't require any financial returns)

Each foundation's newly added capital for social investing in 2017 mainly sat in the range of RMB 1-5 million (USD 147,000 – 735,000) (44.4%). 52.6% of the foundations have less than 20 investees. Only 20% of the foundations surveyed have set up a dedicated fund for social investing while 50% indicated no plan to do so.

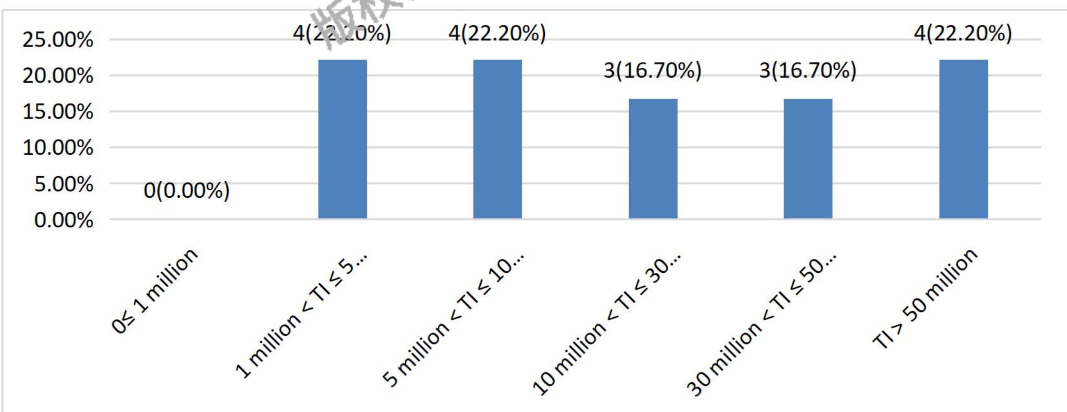


Figure 23: Total social investment of each foundation by the end of 2017

N=18

To mitigate the burden and risks on capital, the foundations have taken varied approaches including jointly launching a fund (52.6%), joint investment (57.9%) and investment in phases (89.5%). When making the decision to exit, 50% of the foundations will have taken into consideration the actual social return or financial return achieved. 60% of them choose share transfer to other strategic investors when exiting.

Nearly 70% of the foundations surveyed conduct impact assessment or project assessment either by themselves (70.6%) or contracting a third party (64.7%). 94.1% of the foundations adopt a self-designed assessment framework and very few adopts an independent assessment framework.

All foundations surveyed have a unanimous view towards the sector, agreeing that the sector is still at its early stage, the competition level is low and both challenges and opportunities exist.

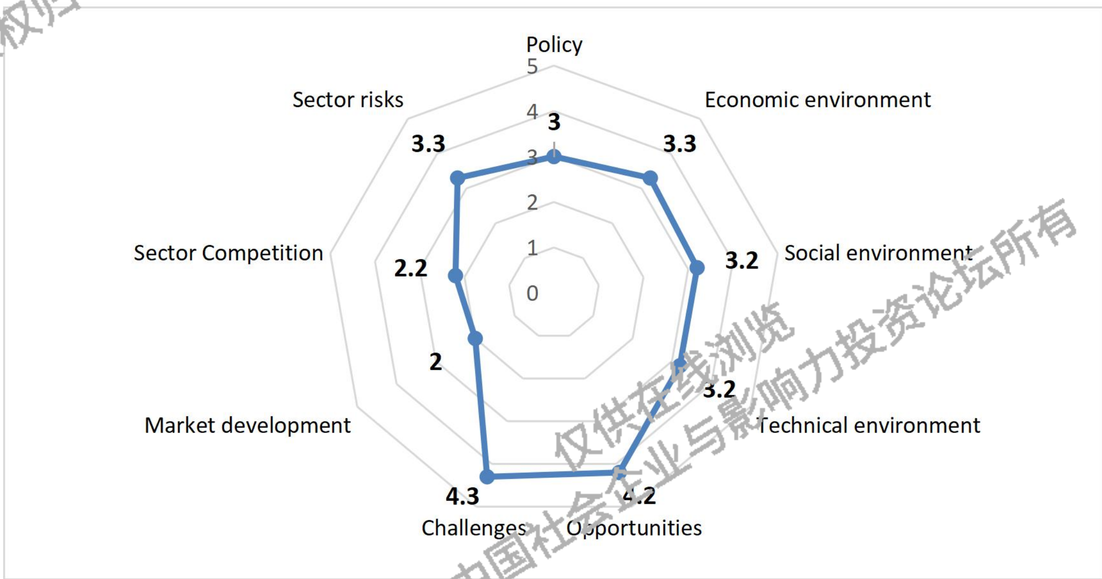


Figure 24: Score of the overall environment by foundations

N=19

Note: Respondents scored 1-5 on four macro-environments and five sector environments, and the above data were the average of each score. For the macro-environment, the scores of 1 to 5 correspond to very unfavorable, unfavorable, neutral, favorable and very favorable; for the sector environment, the scores of 1 to 5 correspond to the sector's development opportunities and challenges from small to large, and represent the market development degree, competition degree and risk degree from low to high.

4. Profile of government venture philanthropists

Government venture philanthropists provide grants and have no expectation on financial returns. They strive to maximize social impact (100%) and achieve positive environmental impact (46.2%). They have a special preference for Community development (92.3%), followed by Education and training (53.8%), Health and medical care (46.2%), Poverty reduction (38.5%), and Sector supporting services (38.5%).

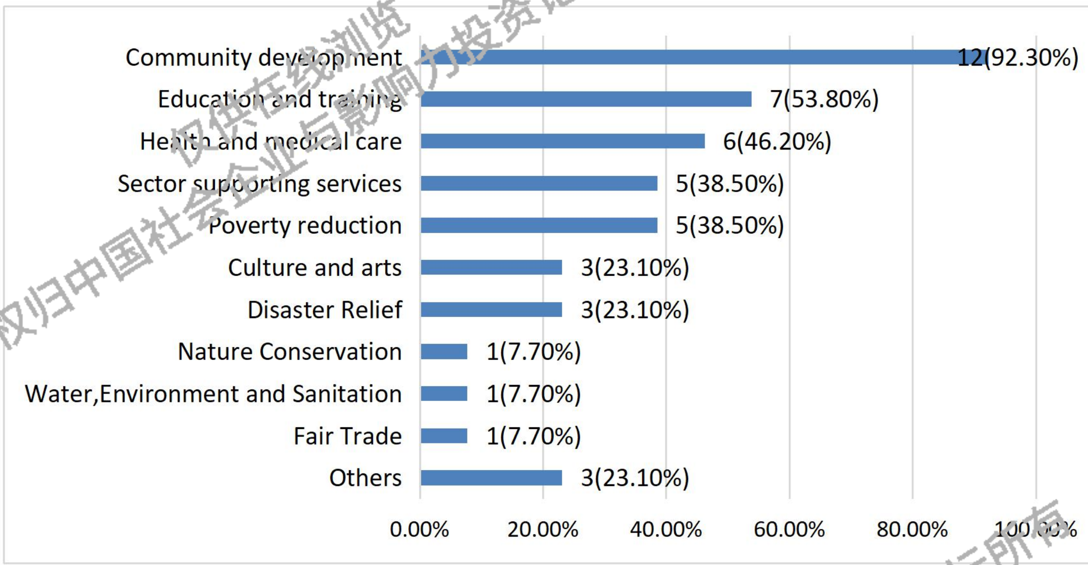


Figure 25: Areas of investment by government venture philanthropists

N=13

Government venture philanthropists focus on idea-stage (69.2%) and prototype-stage (53.8%) SPOs, as they need more support on capacity building.

Funding sources of government venture philanthropists include lottery sales (53.8%) and fiscal budget allocation (53.8%). Terms of grants focus on less than one year (46.2%) and 1-3 years (30.8%). The majority of the investment ticket is RMB 50,000 -200,000 (USD 7,350 – 29,400) (66.7%).

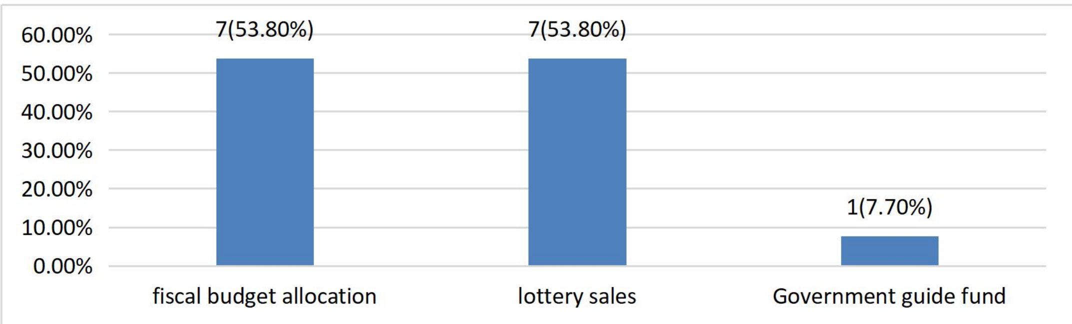


Figure 26: Sources of government venture philanthropy

N=13

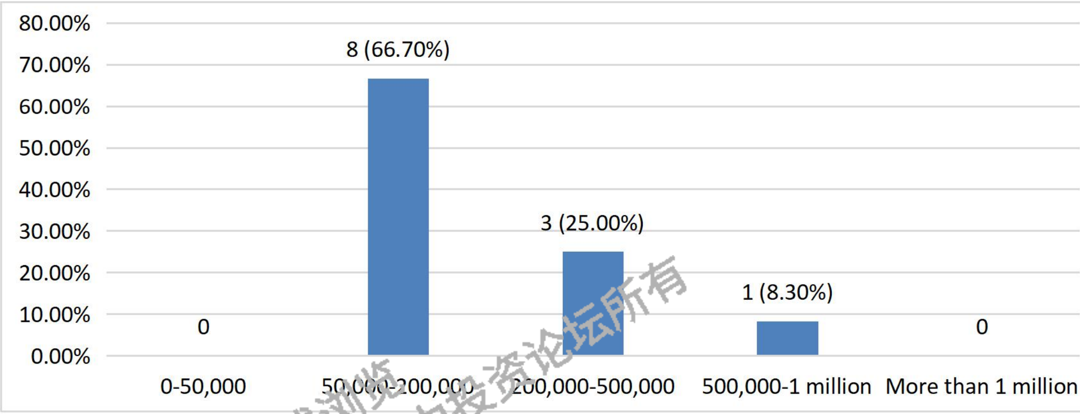


Figure 27: Largest scale of the investment ticket

N=12

Government venture philanthropists are more prudent, being either risk averse (38.5%) or risk neutral (30.8%). Investment size in the next three years was said to maintain its current level.

Government venture philanthropists provide both financial and non-financial support to SPOs. The non-financial support provided includes connecting to resources (92.3%), daily management coaching (76.9%), financial or accounting services (61.5%), and operational management (53.8%).

Government venture philanthropists either launch an investment independently (61.5%) or join force with other departments or organizations (30.8%). The investment process is either self-operated (61.5%) or via a third party (38.5%).

Government venture philanthropists conduct impact assessment on all their investees, either by a contracted third party (76.9%) , by themselves (15.4%), or by both (7.7%). Assessment is done by 92.3% of the venture philanthropists based on their self-designed framework. As there are no systematic assessment frameworks or key indicators on venture philanthropy projects, current assessment can hardly effectively reflect the social impact created.

Government venture philanthropists exit when the grant period is up. Without a flexible exiting mechanism, the continuation of SPOs' capacity building and their funding sustainability can be harmed.

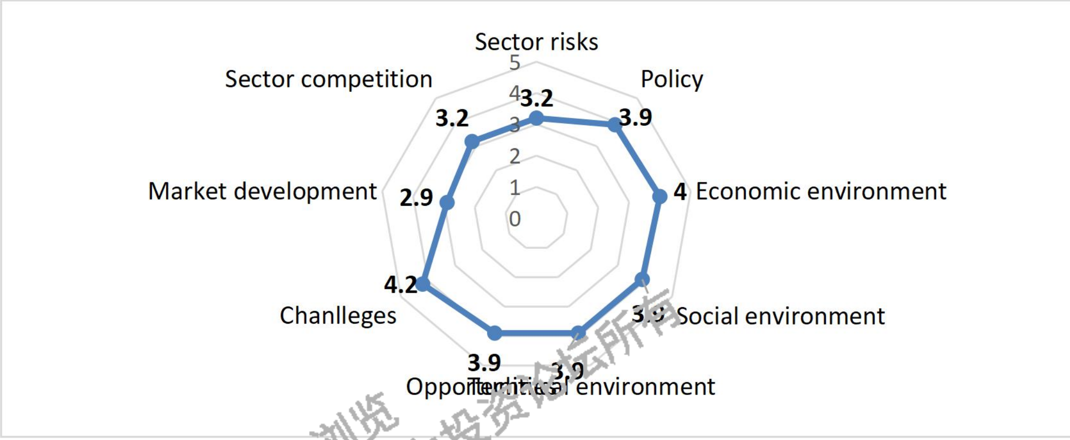


Figure 28: Score of the overall environment by government venture philanthropists

N=13

5. Profile of commercial investors

Commercial investors who are engaged in social investing aim at achieving positive social impact (100%) and financial returns (91.7%). Their investment is focused on Education and training (54.5%), Health and medical care (54.5%), and Food and agriculture (45.5%).

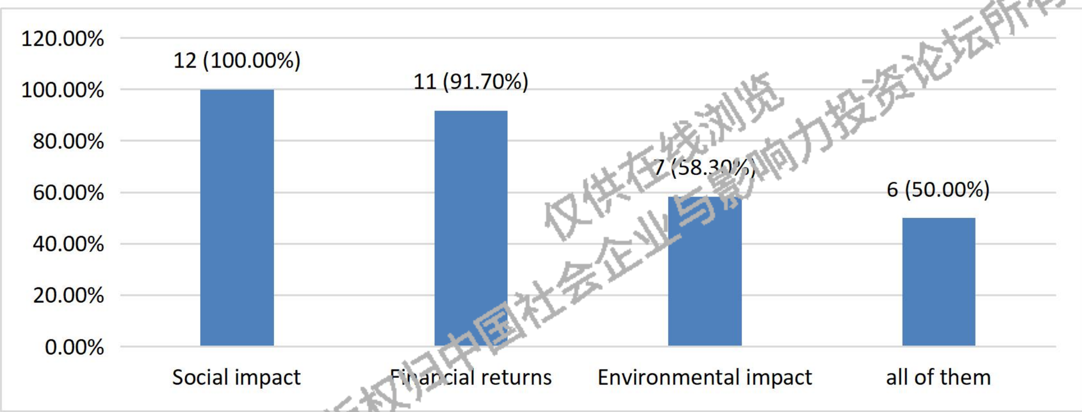


Figure 29: Goals of commercial investors

N=12

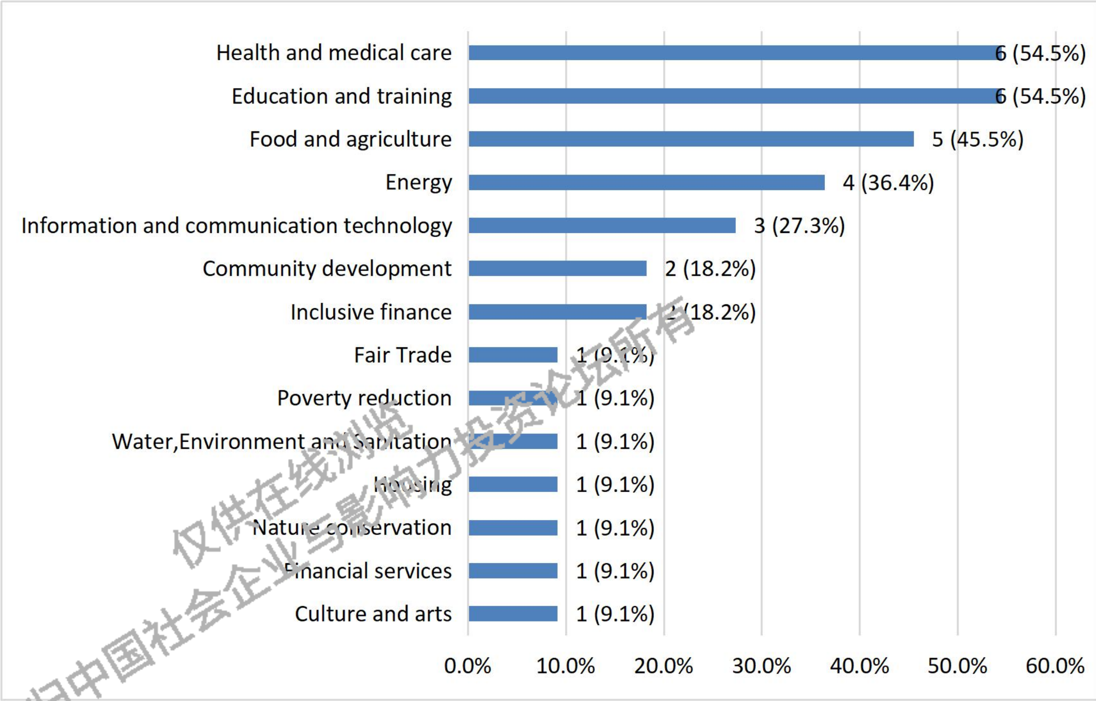


Figure 30: Areas of investment by commercial investors

N=11

Financial tools deployed are mainly equity-based impact investing. Investment is even distributed between independent funding and joint funding. Commercial investors favor prototype-stage (66.7%) and post-revenue-stage (58.3%) investees, most often with a term of 5-7 years (66.7%).

The ticket size of investment covers a wide range. 70% of commercial investors plan to increase their investment in the next three years. They have a stronger focus on investees' business models and project implementation and management (75%).

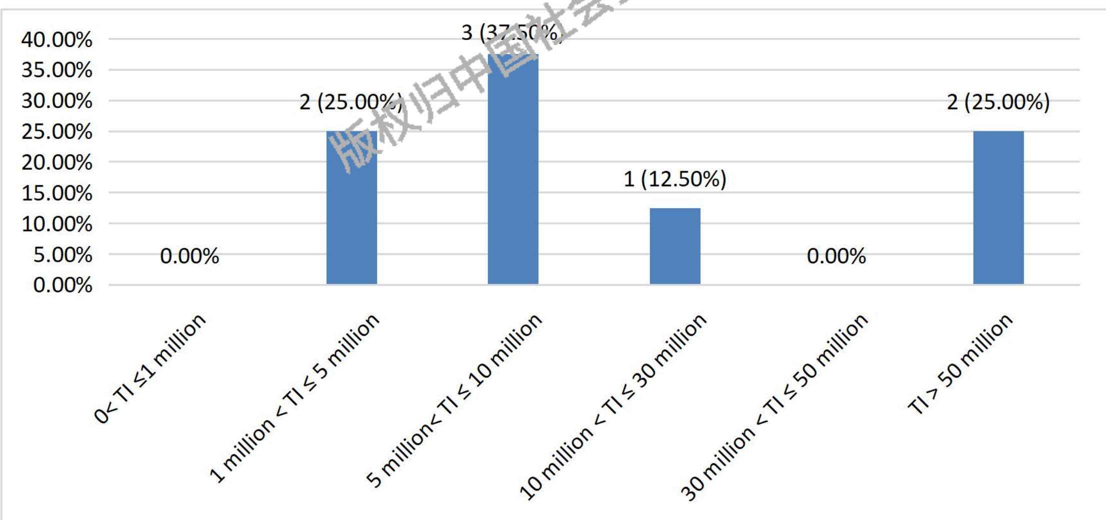


Figure 31: Total social investment of each commercial investor by the end of 2017

N=8

40% of the commercial investors surveyed choose to exit when the expectant financial return target is met. When exiting, 66.7% of the commercial investors choose to transfer their shares to other financial investors or strategic investors, respectively. Though 10 commercial investors were conducting or planned to conduct impact assessment, only 3 had set aside specific budget for impact assessment. 85.7% of the commercial investors self-designed their assessment framework.

Most of commercial investors surveyed believed that the relevant policies and the economic, social, and technological environment were not favorable for social investing. They agreed that social investing has great opportunities but daunting challenges. The market is not yet mature and the competition level is low.

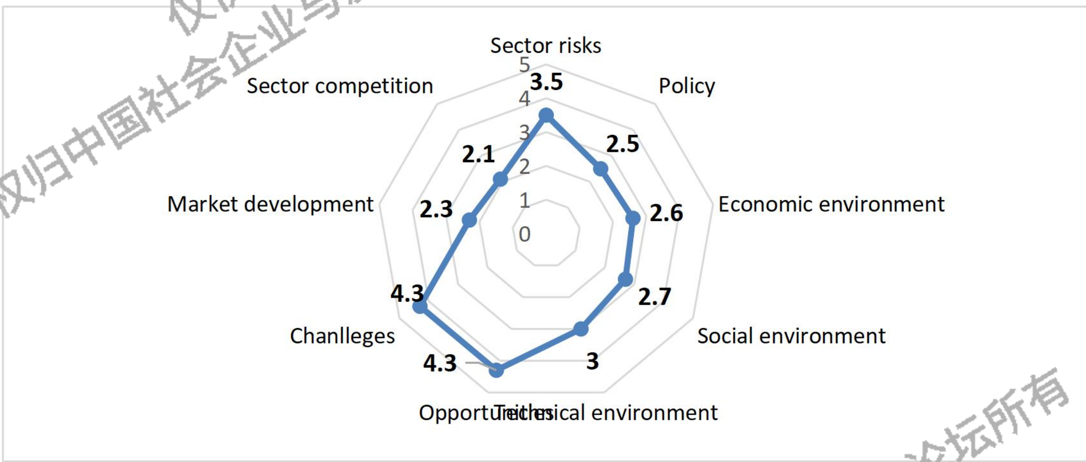


Figure 32: Score of the overall environment by commercial investors

N=10

III. Supporting Intermediaries

Intermediaries supporting the growth of SEs did not exist in China until a decade ago. Services provided by an intermediary include incubation, space sharing, fundraising, capacity building, communication, and/or certification.

1. Number of intermediaries

We estimate that approximately 30-40 intermediaries exist, the majority of which are registered in Guangdong Province, Beijing, or Shanghai. The first intermediary was set up in 2006 and the peak time of registration occurred between 2016 and 2018. About two thirds of the intermediaries are registered as a non-profit organization and 24% as a business entity.

2. Profile of intermediaries

2.1 Service provided

Services currently provided by intermediaries include communication (85.7%), capacity building (85.7%), incubation (71.4%), space sharing (52.4%), fundraising (52.4%), and certification (14.3%). Other types of services provided may also include making connections, operating a community, and organizing a forum.

Table 2: Dimension of services provided

Service Provided	Intermediary Number	Intermediary Ratio
Communication	18	85.7%
Capacity Building	18	85.7%
Incubation	15	71.4%
Space Sharing	11	52.4%
Fundraising	11	52.4%
Certification	3	14.3%

N=21

2.2 Funding sources

The funding sources for intermediaries are relatively narrow with a preference for low-risk and low-return channels. Major funding sources include grant, venture philanthropy, and government/corporate purchased service, dominated by grants (69% of intermediaries). Currently, no intermediaries have received funding from impact investors or venture capitalists. However, 71.4% of the intermediaries would like to receive funding from impact investors and 21.4% from venture capitalists.

2.3 Customer base

Intermediaries mainly serve corporates (85% of intermediaries) and Private Non-Enterprise Units (80% of intermediaries). 52.4% of intermediaries serve businesses while 47.6% serve both businesses and consumers.

3. Challenges

Internal challenges faced by intermediaries include talent shortage, lack of capability, fundraising challenge, barriers in product / service development, and limitations in marketing communication / promotion.

Externally, governments' overall awareness level of SEs remains low and supportive policies are lacking, which limit the development of intermediaries who serve SEs. To some extent, intermediaries are seen as competitors against trade associations or consulting business firms.

4. Recommendations

4.1 Talent development

Capacity building is in great demand in the social sector. SEs need multi-dimensional training, coaching, and incubation. Social investors need services on social impact assessment. To further develop the sector, more mainstream investors need to be engaged. All these call for professionalism and high-caliber human resources.

4.2 Peer learning and collaboration

Demand for support from SEs, depending on their growth stage, can be diverse and sometimes need tailored solutions. Each supporting intermediary has its own strategies, strengths, and resources. A peer learning and collaboration mechanism can integrate various resources of intermediaries thus better meeting the varied needs of the sector.

4.3 Joint-force communication

To make the mainstream commercial market accept SE as an effective solution to social issues, it requires strenuous efforts of more than one or a few intermediaries. Intermediaries should join forces with multiple stakeholders to better communicate the concept and cases of SEs, guide businesses and entrepreneurs to look at solving social issues with a business model, and attract more resource providers to enter the sector.

4.4 Policy advocacy

In order to help more cities put in place enabling policies, intermediaries should conduct a comprehensive study of the industry and local policies and introduce proper SE deals to the local government so that government officials can develop a well-rounded understanding of SE and its innovativeness.

IV. Enabling Policies

As of April 2019, China has no nation-wide law or regulation on SEs. However, some industry policies and city-level policies have been issued to provide a conducive environment for SEs to develop.

1. Industry policies

1.1 Education

Educational organizations, for the first time in history, are allowed to register as a for-profit entity, paving the way for SEs to grow and flourish in the education sector.

1.2 Elderly care

With an accelerating growth in aging population and multiple supportive policies released in recent years, we expect to see more SEs to operate in this space providing care for elderly.

1.3 Healthcare

Healthcare organizations funded by private capital are now eligible for preferential taxation treatment, which will attract more SEs to join the sector.

1.4 Poverty alleviation and "Three rurals" (Villages, Agriculture, and Farmers)

As targeted poverty alleviation and rural revitalization has become a national strategy, SEs engaged in these areas have unprecedented opportunities to grow.

1.5 Environment

Services purchased by governments on tackling environmental pollution have been on the rise. Meanwhile, green investment is vigorously promoted that utilizes various financial instruments including green credit, green bond, green development funds, green stock shares, green insurance, and carbon financing. All the above contribute to a favorable context for environmental SEs to develop.

1.6 People with disabilities

On the one hand, governments have increasingly purchased services on rehabilitation, nursing, special education, and day care targeted at people with disabilities. On the other hand, including people with disabilities into the workforce is encouraged. Thus, we see potentials for more SEs providing training and employment services in this sector.

2. Local policies

While the above industry-specific policies can incentivize more SEs join the sectors and scale up, they are not specifically targeted at SEs. Some city or district-level policies, however, are taking more focused and innovative approaches to actively promote the development of SEs.

2.1 Beijing

As early as in 2011, Beijing municipal government stated its determination to develop SEs, making it the pioneer of the country. Under the leadership of Beijing Social Work Committee, Beijing Social Enterprise Development Council was established in March 2018 and five months later in August 2018, released its trial methods of SE certification.

2.2 <u>Chengdu</u>

In September 2017 Chengdu municipal government stated to "encourage community-based SEs serving the residents", making it the first Chinese city to have issued policies fostering SEs. In June 2018, Chengdu Industrial and Commercial Bureau approved those certified SEs to use the wording "social enterprise" in their registered names.

2.3 <u>Futian District, Shenzhen</u>

At year-end 2017 Futian District of Shenzhen stated its aspiration of building a "highland of social impact investing". Implementation details then followed, outlining funding supports/reimbursements to various types of players in the impact investing ecosystem, SEs, social investors, and intermediaries all covered.

2.4 <u>Shunde District, Foshan</u>

Shunde District government is the first local government that started to certify SEs in 2014. By the end of 2018, 20 SEs have been certified. Promoting the development of SEs is now included in the District's 13th Five-Year Plan.

3. Challenges and opportunities

China is not yet ready for a nation-wide law or regulation on SE. The industry policies, though supporting innovative practices in the social sector, take time to implement. The local policies, endorsed by local government officials, are more likely to yield, though it is still too early to see the outcomes. Factors that may affect policy implementation outcomes include relationship among government, market, and the social sector, administrative system of the leading agency, and capabilities of front-line public servants, among others.

V. Trends

We have identified the following key trends in China's SE and social investment landscape.

1. The policy environment for the development of SE is improving with the release of the landmark policies in Beijing, Chengdu, and Futian District of Shenzhen in

2018 supporting the further development of SE or social investment.

2. SEs have shown promising potentials to grow. We believe that Beijing, Shenzhen, and Chengdu will serve as role models for other cities to develop an enabling environment for SEs and social investment. We expect to see the sector development with an accelerating pace in the next few years.

3. SEs will scale up to play a more remarkable role in the social economy, which will be increasingly recognized by the government and the society. The majority of the SEs surveyed has shown improving social performance, evidenced by a growing customer base and improved quality of products or services. Financial performance of most SEs surveyed has also improved, including a growth in revenues, total assets, and sales.

4. Enterprises registered as a business will perform better than those registered as a Private Non-Enterprise Unit, thus becoming the leading type of SEs in the future.

5. Social investment has immense potential to grow, particularly driven by an increasing demand for livelihood services, growth in green finance, and development in public-private partnerships. Most social investors surveyed, be it a foundation, government venture philanthropist, or commercial investor, have plans to either increase or maintain their current investment size in the next three years.

VI. Challenges and Opportunities

We believe that China's SE and social investment landscape are facing the following challenges.

1. The overall awareness of governments at different levels and the society towards social enterprise and social investment remains rather low. A large number of people are even critical of this innovative type of organization. Seeing merely 1,700 enterprises who self-identified themselves as social enterprise, we think a majority of enterprises are not yet aware of their social identity, therefore excluded from the social sector.

2. Between 2014 and 2017, the growth in number of "self-identified" SEs remains stagnant at approximately 245 per year, indicating that "self-identified" SEs are experiencing a bottleneck in development. Meanwhile, after reaching the peak in quantity in 2014, newly established social investors are decreasing year after year.

We believe that to further development SEs, new propellants and incentives are needed to further promote the growth of the SE sector.

3. Fundraising of SEs and supporting intermediaries, and the investment ticket size of social investors are both at a low level. We believe that this is mainly due to the fact that China's social investment ecosystem is still at a nascent stage. Highly effective platforms are needed to connect SEs, intermediaries, and social investors.

4. Human capital and capacity building are in great demand across the social sector.

5. Policy support is still sporadic and needs to be rolled out in a much broader and deeper scale.

While facing the above key challenges, China's social investment sector has tremendous opportunities to grow.

1. Starting late and still lagging behind, Chinese SEs and social investors are quickly catching up with their international counterparts, and the gap is not as profound as in the non-profit sector. Great potentials lie ahead for the Chinese SEs and social investors.

2. Immense social needs motivate Chinese SEs to grow further. Innovative solutions, SE being one of them, are in urgent need to tackle various social issues including education, healthcare, elderly care, left-behind children, people with disabilities, poverty alleviation, "three rurals" (meaning villages, agriculture, and farmers), environment, and energy, among others.

3. The social investment ecosystem is improving, evidence by the stronger attention paid on SEs by local governments, the media, and academic research institutions., and quickly maturing intermediaries and social investors, all providing a fertile soil for SEs to flourish.

4. The policy environment is improving. Not only more policies have been released to engage the private sector in education, healthcare, elderly care, poverty alleviation, "three rurals"(a Chinese saying describing agriculture, rural village and farmer), people with disabilities, environment, energy, culture and sports, technology, and Internet+, but some local governments have increased their purchase of services from SEs and offered more tax benefits.

5. The rapid development in artificial intelligence (AI) and Internet-related technology also provides great opportunities for SEs to grow.