China Social Impact Investment
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China Development Research Foundation
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China Social Impact Investment Report

Preface  I

In recent years, the concepts of social enterprise and social impact investment (SII) that advocate “the use of commercial means to achieve social objectives” have become high-profile topics in both academic and business worlds. In fulfilling its mission (i.e., “Advance good governance and public policy to promote China’s economic development and social progress”), the China Development Research Foundation (CDRF) has paid close attention to and has actively participated in both the research and practice of SII. For this China Social Impact Investment Report (the “Report”), the CDRF and the China Social Entrepreneur Foundation (YouChange) aim to promote the concept of social impact and the practice of social entrepreneurship in China, to explore more possibilities for sustainable and efficient public welfare services, and to identify more paths toward sustainable economic and social development in China.

The Report is the first in China to offer a systematic description of the characteristics and conditions of SII in China. Drawing on a supply‒demand analytical framework, it summarizes the diversity of participants in and mechanisms of SII in China. It incorporates and also summarizes the latest theoretical developments and practical innovations in SII within the international community, reviews most of the existing SII models adopted in China, and analyzes China’s public policies affecting the development of social impact. Based on this analysis, the Report then addresses the status of SII and, from different perspectives, the opportunities and challenges facing SII in China. Drawing also from lessons learned internationally, the Report concludes with policy recommendations that are currently feasible and would foster future studies and policymaking in SII.

The term social impact investment is widely used in the international community; its Chinese translation is “社会价值投资” or “社会影响力投资”. We use “社会价值投资” in the Chinese version of this Report as it is easier for Chinese people to understand. Social impact investment was introduced as a new form of investment in
2007 and was defined as an emerging asset class in a report jointly released by JPMorgan, the Rockefeller Foundation, and the Global Impact Investment Network (GIIN) in 2010. Since then, SII has quickly attracted wide attention from both the investment community and the public sector. Many international organizations and governments of developed countries have been closely following and actively promoting the development of SII.

The concept of SII emphasizes the pursuit of social impact activities and the measurability and sustainability of social impact and social return. It combines economic incentives and social goals in efforts that encourage different actors, including companies, social organizations, the public, and government, to work together toward sustainable economic and social development. Right now, SII is exactly what China needs.

China has reached a pivotal moment in the transformation of its economy and society. Going forward, the whole society should grasp the opportunities presented, and all sectors should work together to address problems and challenges. Social impact investment presents China with both opportunities and challenges.

Importantly, SII can help resolve China’s money issue. China is sprinting toward being a comprehensively well-off society, but attaining this goal has proven to be very challenging. During the 13th Five-Year Plan period, China needs to lift more than 50 million rural residents out of poverty, help 100 million people achieve status as urban residents, provide decent housing for 100 million urban people who now live in shantytowns, and address challenges such as inequality in economic and social development, a rapidly aging population, environmental pollution, and ecological degradation. To solve these problems, the country requires massive investments of money and resources. In 2015, China's total investment in fixed assets stood at over RMB55 trillion, and the turnover in private-equity fund exceeded RMB1.2 trillion yuan. If 10 percent of this total investment were used for social impact activities, it would help reduce the financing pressure on China.

Social impact investment would also facilitate cost-effective investing. Both the government and the private sector have placed emphasis on the need for assessment
and cost-effectiveness. Third-party assessment has become an important tool for managing major government policies and initiatives and for measuring their impact. As performance-based budget management reform is propelled forward, the need for cost-effectiveness and accountability has become widely accepted. Evaluating and assessing outcomes of spending have become a common practice. As an asset class, SII must have measurable and assessable outcomes. These would be in line with current, outcome-oriented governance concepts that promote use of impartial assessment and public evaluation to ensure that resources are allocated rationally and effectively.

Social impact investment engenders cooperation and fosters participation and investment by governments, companies, individuals, and social organizations in efforts that address both the demand and supply sides of social challenges. It has significant implications for building a harmonious and caring society and for promoting economic and social development. Since the founding of the People's Republic of China, and especially after adoption of the reform and opening-up strategy, China has witnessed rapid economic and social development and a significant improvement in people's living standards. Moreover, China not only has the world's highest growth rate for GDP, but also holds the record for the highest growth rate of the Gini coefficient for a long period of time in the past few decades.

Deng Xiaoping emphasized that “socialism does not mean shared poverty and its essence is common prosperity.” To narrow the income gap and achieve common prosperity, we must enlist the whole society, and especially individuals and groups who have a high net worth. In recent years, many socially conscious entrepreneurs have made great efforts to give back to their communities by donating money and promoting environmental protection, poverty alleviation, and education, and their actions have made them positive role models. Social impact investment offers new opportunities for entrepreneurs, individuals of high net worth, investors, and environmental protection organizations. As an effective tool for bringing people together, producing measurable return, and promoting positive and sustainable social impact, SII will play an important role in China's journey toward becoming a comprehensively well-off society. The government should vigorously promote the development of SII.
Social impact investment is at an early stage of development in China. The country currently has a small SII market and a relatively small number of social enterprises. And, the impact orientation and operational methodology of SII are highly compatible with the five concepts promoted by the Chinese government—that is, innovation, coordination, green development, opening up, and sharing. Social impact investment has been widely practiced in China, and a solid groundwork is being laid for further development. For example, SII is being used in poverty alleviation, agricultural development, environmental protection, small and micro-finance economic initiatives, health promotion, and other fields. We are also witnessing an emergence of strong social enterprises. In addition, loans provided by the China Development Bank and other financial institutions for improvement projects in shanty towns and poor areas have SII features and have played an important role in delivering social impact investment.

Both international and domestic experience shows that governments play a crucial role in the development of SII. To promote and make full use of SII, the Chinese government must give special emphasis to and provide support for creating a favorable environment for its development, by improving the legal framework for SII, the purchase of services, and the regulation of activities. Just as the concept of public and private partnership has gained wide acceptance in China, we hope that SII will, similarly, be accepted and promoted by the government.

Looking ahead, and with the solid groundwork for SII that is already in place, China has a huge potential for further development of SII. As long as the Chinese government provides proper policy support and encourages companies, social organizations, and individuals to contribute actively, we believe that SII will thrive in China.

Lu Mai

Secretary-General, China Development Research Foundation
Preface II

About ten years ago, I read a book called *How to Change the World: The Power of Social Entrepreneurs and New Ideas*, with excitement. In the book, the author David Bernstein wrote, “Social entrepreneurs are a group of ideal-driven and creative people, who question the status quo, exploit new opportunities and refuse to give up, in order to rebuild a better world.” At that time, I summarized social entrepreneurship as 3A: Attitude, Approach and Action. A year later, on May 12, 2007, China Social Entrepreneur Foundation (YouChange), initiated by me and entrepreneurs from Mainland China, Taiwan, Hong Kong and Macao, was formally founded. Inspired by social entrepreneurship, we gave it this English name, and it’s called YouChange for short. From then on, YouChange started a journey of finding and supporting China Social entrepreneurs, and over the past nine years, it has had a public welfare expenditure of RMB250 million, independently developed 16 innovative platforms, and funded more than 160 social organizations and social enterprises; it was one of first initiators and practitioners of social impact investment. I am pleased to see that more and more people are actively promoting social impact investment; thanks to their efforts, today we can finally start recording the history created by Chinese social impact investors, who aims to build a better society.

As the saying goes, “When the great way prevails, the world is equally shared by all”. This has been common impact pursuit of human beings since they entered civilized society.

The development of science and technology, and industry and commerce, once provided opportunities for achieving this goal, but we are not very optimistic that, with the surge in material wealth, a lot of social problems have appeared. These problems include not only poverty, disease, social exclusion and other problems related to the basic living security and dignity of vulnerable groups, but also a series of problems seriously threatening human’s subsistence and development, such as polarization between the rich and the poor, environmental pollution, climate change, which are
closely related to almost all human beings. In the development of society, human beings have been alienated.

This is a century-old problem. When capital began to rage, many wise men looked for answers to this problem. The government, market and social organizations have also made efforts to solve it, but the effect is small, and the problem is getting worse.

Confined to the recognition of social problems, traditional public benefit activities cannot point to the core of the problems, and some of them have even become the game of the rich, causing new inequality. Corporate social responsibility cannot restrain the impulse of capital-follow-profitability; capital is still desperate to grab profits, from which a large number of social problems are derived. The government hasn’t come up with effective solutions to social problems, and the problems are piling up.

A grim reality lies ahead of us: what should we do?

We think that the only effective way to solve this century-old problem is the cross-border cooperation of the government, market and social organizations, in order to guide good capital to social impact investment and establish a bran-new social ecosystem. Its essence is people-oriented, and pursuing both benefit and righteousness. Only this way can promote social development, and it reflects the original intention of public benefit activities, which is doing things for public benefit.

Social impact is common interests brought by organizations and individuals for all members of society, through the creation of the material and spiritual achievements. Meanwhile, social impact is also an idea, which proposes that all members of society work for the goals of promoting social justice and effective use of resources, and achieving human’s physical and mental health and harmonious coexistence, and regards contribution to society as an ultimate indicator for measuring personal impacts. Social impact investment is to promote the development of social impact, and it’s international called “good capital” or “patient capital”.

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The fundamental goal of social impact investment is to promote social change and create social impact, so not all the enterprises claiming to solve social problems are targets of social impact investment.

The targets of social impact investment are enterprises good at finding the roots of social problems and providing some sustainable solutions. YouChange calls them “social innovation-oriented enterprises”.

Compared with “social enterprises”, social innovation-oriented enterprises are not only concerned about the welfare of vulnerable groups, but more concerned about major social issues with publicity (such as food safety, environmental pollution, educational equity and social aging). It also emphasizes building effective innovative mechanisms to systematically solve social problems and enhance human well-being.

It needs to be emphasized that in the past, the social enterprises that investors were concerned about were cross-border combination of social organizations and the market, but because they mainly originated in the social organizations, their scale was not large and their large-scale reproducible ability was weak; in addition, their focuses were limited to traditional charities, so they didn’t get the favor of capital. Social innovation-oriented enterprises are very different from them; because the social issues they are concerned about are significant, with strong publicity, and their commercial impact is also very impressive, it’s entirely possible to break the intuitive cognition on the binary opposition of being “social” and “commercial”.

Nevertheless, in our country, social impact investment has not yet entered the vision of mainstream investment organizations, and the reason is that social impact investment are not targeted at social innovation-oriented enterprises. Meanwhile, due to the lack of quantitative criteria for assessing social goals, social innovation capabilities and executive capabilities of the enterprises to be invested, a large number of investors shrink back. Without clear standards for social impact investment, a joint force to create social impact is hard to be formed.

The maximum incentive for good capital is to help it find social innovation
entrepreneurs with the most social impact and commercial return. So when YouChange put forward solutions to this century-old problem, it also developed a set of quantitative criteria for social impact investment, the 3A-Synergy Standards for Social Impact Investment. This set of standards is also a strategic management tool and an evaluation system.

This set of standards emphasizes Aim, Approach and Action, and their coherence, and enables overall investigation on investees, in order to identify social innovation-oriented organizations that can actually solve social problems with innovative solutions and sustainable business models, and provide a quantitative basis for the decision-making of the government, enterprises and investors.

Since YouChange initiated the establishment of Social Value Investment Alliance in 2014, many council members have invested in social innovation-oriented enterprises and projects based on this set of standards. The first spring thunder in the social impact investment market has sounded, and the government, market and social organizations have reached a certain degree of consensus in jointly solving social problems and creating social wealth.

To this end, YouChange, along with the China Development Research Foundation and other organizations, have reviewed the status quo of Chinese social impact investment, looked into the future of Chinese social impact investment, and completed The Report on Chinese Social Impact Investment. Based on human nature and awareness of unexpected development for human’s future, we believe that social impact investment will surely become the mainstream investment orientation of capital.

Wang Ping

Founder of China Social Entrepreneur Foundation (YouChange)

Founding President of Social Value Investment Alliance
Acknowledgment

We would like to express thanks to our team member for their hard work and to the experts and practitioners who offered valuable support and inputs. The research team is led by Lu Wang, Secretary General, China Development Research Foundation (CDRF), and Wang Ping, Director General at China Social Entrepreneur Foundation (YouChange). Team members include Tang Min, Counselor of the State Council and Deputy Director General of the YouChange, Yu Jiantuo, Director at Research Department I of the CDRF, Liu Minquan, Director at the Center for Human and Economic Development Studies of Peking University, Jiao Ziwei, former Counsel and Deputy Director at the Literature and History Division of Counselors’ Office of the State Council, Yuan Ruijun, Associate Professor at the School of Government and Director at the Center for Civil Society Studies of Peking University, Ling Hui, Secretary-General at the YouChange, Gao Wenwen, Senior Project Officer at the YouChange, and Xia Tian, Project Director at the CDRF. With extensive knowledge about the latest theories and in-depth insight into domestic experience and practice in this field, the above team members made a positive contribution to the study and participated in framework design, discussion and report refinement. Yu Jiantuo contributed substantially to the writing or editing of the general report.

We would also express our gratitude to the CDRF for coordination of the project and its contribution to the editing of the report. Du Jing, Wang Xue, Wang Ye, Li Fan, Li Qiwen, Zhu Meili, Zhang Jin and other staff members from the CDRF participated in data collection, content modification, editing, translation and organization of the press conference and efficiently completed the tasks assigned to them. We also want to thank the Ford Foundation for their financial support.

Finally, we would like to, on behalf of the CDRF and the research team, thank once again all those who helped us complete the report.

— Research Team of the Social Impact Investment Report
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I. Introduction

In today’s world, all countries are faced with considerable social and environmental challenges. While the world economy has witnessed extremely impoverished population halved over the past 15 years, more than 10% of the world’s population still continue to live in extreme poverty. In 2015, 5.9 million children under five died, mostly from preventable diseases; 66.3 million people failed to gain access to improved drinking-water sources and 1.1 billion people had no access to essential social services. Challenges are also encountered in quite a few developed countries, such as the widening income gap, shrinking middle class, high youth unemployment rate, racial discrimination and immigration issues all of which have led to the spread of populism and the wide questioning of globalization. In the course of economic development, environmental pollution and ecological degradation have become increasingly urgent. Climate change has become a major threat to everyone on the planet, and poor vulnerable groups lacking resources suffer the most.

To meet those challenges requires a substantial input of funds. According to UN estimates, for developing countries around the world to reach the Sustainable Development Goals (SDGs) by 2030, an annual investment of USD 3.9 trillion will be needed. Currently the public and private sectors invest only USD 1.4 trillion leaving a gap of USD 2.5 trillion. After the financial crisis, the sluggish global economy has weakened the ability of governments, markets and social sectors to finance social impact investment. It is pressing to seek new investment models and to bring together governments, social and private sectors to address pressing challenges in an efficient, standardized and sustainable way.

Social impact investing, which refers to investments intended to generate measurable social and environmental impact alongside a financial return, offers a new option for financing the efforts to address social issues. It stands between philanthropy and business investments. This way of investing means a clear intention to address social issues. The investor aims for expected, measurable social impact as well as sustainability and a financial return which can be either below or above market rate.

Social impact investing combines market means with social objectives and has some

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1 Thirteen percent of the world’s people are still living in extreme poverty. http://paper.ce.cn/jjrb/html/2016-07/22/content_306859.htm
2 UNEP. Global Environmental Outlook (GEO-6): Regional Assessments.
3 UNCTAD. World Investment Report 2014
4 Impact investing differs from socially responsible investing. The latter focuses on minimizing the negative impact of investment while the former is about taking the initiative to address some social and environmental issues which are not limited to the negative impact brought by investment itself and to generate social and environmental impact. In this sense, the former is more proactive while the latter is more passive. In addition, impact investing is also different from social objective-based investing in general sense. Both require that the social objectives of investment are pre-established but the former stresses the measurability of social outcomes and impact.
distinctive features and merits. It helps the public sector, the market and the private sector participate to integrate their resources, expand the scope and basis for resource mobilization, improve the efficiency of resource allocation, make investment decisions in a more transparent and accountable way, and produce more cost-effective and sustainable social benefits. With its own applicable scope, social impact investing complements public investment, philanthropic donations and market investments.

The idea of social impact investing quickly generated the interest of various groups of investors and philanthropists across the globe when it was introduced. Moreover, it captured the attention of many governments, including G8 countries, as well as international organizations such as OECD, which have included it into their mainstream policy frameworks. The fields covered by social impact investors are not limited to poverty reduction, elderly care, health care, education, microfinance, environmental protection and clean energy; they also pay special attention to the basic needs of vulnerable groups living in poverty.

To promote the development of social impact investment in China, we need to consider the following three aspects. The first is funding. China is now moving full steam ahead to reach the goal of building a moderately prosperous society in all respects. This includes lifting out of poverty more than 50 million rural residents currently living below the poverty line, grant urban residency to 100 million people with rural household registration living in urban areas, and rebuild rundown urban areas to provide 100 million urban residents with decent housing. It also needs to meet such challenges as disparities in economic and social development, rapid population aging, environmental pollution and ecological degradation. We face severe funding shortage to address the above issues, which can be eased by social impact investment. The second is social governance. Social impact investment is by nature a kind of social governance mode. Third, social impact investment might offer reference and guidance for the ongoing reform of state-owned enterprises and public institutions in China. The fast-changing Chinese society, with diverse stakeholders and interest appeals, and complicated and challenging interest conflicts, needs a new mechanism to unite the society, build up collaboration and unity, and create a better future.

Social impact investing is likely to play a huge role in China. It echoes the ancient Chinese philosophy of considering both justice and benefit and putting justice first, the pursuit of "shared wealth" by the socialist market economy, as well as the vision of today’s China for innovation-driven, balanced, green, open, and shared development. Therefore, it is perfectly suitable for the Chinese society and China’s current policy framework. In practice, there are already many explorations of impact investing in China, with various types of participants, practices and mechanisms with Chinese characteristics as well as relevant laws and policy systems, laying the foundation for its development. However, these practices are not clearly understood which has prevented it from playing a bigger role in China.

Social impact investment is becoming a global movement in which China plays an indispensable role. On the one hand, the experiences of the international community is
worth drawing upon. On the other, as the biggest developing country, China can make her unique, important contribution to the development of global social impact investment by making explorations in light of her national conditions.

This report introduces and summarizes the suppliers, those with demand, methods, tools, and the institutional and policy environment of the social impact investment market/ecosystem in China based on international experience and paradigms drawn. We hope our efforts can help spread the idea and knowledge of social impact investment in China, draw from experience and lessons and make suggestions on improvement, in order to include social impact investment into China's mainstream policy framework. Meanwhile, this report records social impact investment in China at a given point, introduces China's work progress in this regard to international peers, and seeks mutual understanding and cooperation. Our aim is to help include social impact investment into a bigger policy framework for international development.
II. The Status Quo of Global Social Impact Investment

The concept of social impact investment was first put forward in 2007, but long before that there were similar practices\(^5\), and its ideological origin dates back to an even longer time ago. In 2010, J.P. Morgan, the Rockefeller Foundation and the Global Impact Investing Network (GIIN) jointly released a report, defining social impact investment as a newly emerging class of assets. This quickly aroused attention within the mainstream investment community. Shortly after, many governments of developed countries and international organizations actively followed up. During its presidency of the G8, the UK launched the Social Impact Investment Taskforce; member states of the G8 established a National Advisory Board and prepared country specific reports. In recent years, the Organization for Economic Cooperation Development (OECD)\(^6\) and World Economic Forum (WEF)\(^7\) have also released a few relevant thematic reports. These efforts have enabled social impact investment to take a solid step toward the mainstream investment.

1. The ecosystem of social impact investment

Social impact investment is designed to combine economic incentives and social goals so as to generate positive social and economic changes. In social impact investment, the measurement and assessment of social impact goes beyond the scope of traditional market impact. This is the meaning of “social impact”. The meaning of “investment”, which is relatively complex, can include formation of investment philosophy, sources of funding, financing, and implementation and management of investment, as well as providing follow-up or terminal products and services after the investment is completed. In a broad sense, any investment that is committed to improving the society can be called social impact investment; while in a narrow sense, social impact investment focuses on individuals or organizations’ investment on social impact producers, who provide products or services with social impact in market-oriented ways, and use the income earned to pay the agreed economic returns to investors. This report adopts its narrow definition.

Social impact investment involves investors and investees, but for investors, from funding to getting economic returns, there is an intermediate conversion process. Capital providers may not be able to find investees, and they may need the help of intermediaries (channels). Intermediaries need the help of certain financial instruments and investment ways to realize investment. Social impact producers who get the capital need to put the capital into the production process of products or services, sell products and services to get revenue, and then pay investment income to investors as agreed. Such a conversion process is realized in certain institutional and social environments, involving many participants and relying on certain tools and means. These participants,

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\(^5\) For example, the community development financial institutions in the US and cooperative in Europe.


\(^7\) World Economic Forum (2013): “From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors”. 

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tools and means, as well as the supportive environments, jointly constitute social impact investment.

During the long-term practices of social impact investment in countries around the world, many participants have appeared. According to their positions in the social impact chain, they can be roughly divided into four categories. The first one is at the source of social impact capital. It includes governments, investment wholesalers, charitable trusts and foundations, institutional investors and banks, companies and high net worth individuals. The second one is investment intermediaries; they include community banks, community development financial institutions, impact investment fund managers and crowdfunding platforms. The third category are the social impact producers that need capital (social impact-oriented organizations), such as charity organizations, social enterprises, enterprises for both profits and social purposes. The fourth are social impact purchasers; these include governments, foundations, socially responsible individual consumers and enterprises (Figure 1). However, this division is not always clear, because many participants appear in many links of the social impact investment chain at the same time, and assume different functions.

Due to differences in the economic and social development in countries around the world, the structures of the ecosystems and the roles of participants are also somewhat different among the countries. For example, the role of the British government is very prominent; various foundations and mainstream investment organizations play a leading role in the United States; civil and social organizations in France and Italy play a major role in promoting investment; while major companies in Japan play an important role in driving investment.
Figure 1. The Ecosystem of Social Impact Investment

Source: Adapted from Impact Investment: The Invisible Heart of Markets (2014)

需求: Demand;
工具和手段: Tools and means;
供给: Supply;
社会价值购买者: Social impact purchasers;
社会价值生产者: Social impact producers;
融资形式: Financing modes;
社会价值资本渠道: Channels of social impact investment;
社会价值资本来源: Sources of social impact capital;
社会价值型组织: Social impact-oriented organizations;
政府机构: governmental agencies;
家庭和个人: Families and individuals;
企业: Enterprises;
社会组织: Social organizations;
非组织性的平台和网络: Non-organizational platforms and networks;
社会企业: Social enterprises;
社会价值取向的企业: Enterprises with social impact orientation;
慈善机构: Charity organizations;
个体服务者: Individual service providers;
公共服务机构: Public service agencies;
依赖补助金的组织（如慈善机构）: Organizations relying on subsidies (e.g., charities)
社会企业/利润锁定型组织: Social enterprises / profit-locked organizations;
兼顾利润与社会目的的企业: Enterprises for both profits and social purposes;
设定重点成果目标的企业: Enterprises setting the goals of making key achievements;
进行贸易活动，由补助金投资的组织: Organizations supported by subsidies and engaged in trade activities;
2. The overall scale and structure of international social impact investment

The social impact investment market, with great development potential, can play an important role in filling the gap in global development investment funds. Research shows that by 2020, there will be from 400 billion to 1 trillion investment opportunities in providing houses, rural water supply, maternal health, primary education and financial services for people whose annual income is less than USD3000 around the world\(^9\).

Due to the lack of international unified definitions, concepts and standards, it is hard to accurately estimate the overall structure and size of global social impact. According to statistics compiled by GIIN, the total amount of the social impact investments from 157 institutions reached USD15.2 billion in 2015. This survey focused on organizations with a total investment of more than USD10 million or more than five investment projects\(^10\). According to the investment plans of these organizations, it is expected that in 2016, the total amount of their investments will rise to USD17.723 billion (See figure 2)\(^11\). The GIIN’s network coverage is relatively limited, but its standard for selecting

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\(^11\) This survey, excluding individual investors, focused on institutions with a total investment of more than USD10 million or more than five investment projects.
investment organizations is relatively high, excluding small investors and individual investors, so the actual amount of social impact investment likely exceeds the amount stated in the survey report.

**Figure 2. The Growth Trend of Social Impact Investment Based on the Statistics of the GIIN**

预测: Forecast;  
投资额: Amount of investment;  
机构数量：Number of institutions;  


This survey’s standard for selecting investment institutions: based on its self-report, each selected institution should manage a total investment of more than USD10 million or have made more than five social impact investments.

According to the survey of the GIIN, as for capital sources, more than 75% of the investment capital comes from developed countries in European and North America. As for investment destinations, about 39% of the assets are in developed countries in European and North America, while Africa, Latin America, Asia, Central and Eastern Europe have absorbed about 61% of social impact investment (Column 1). The differences in capital sources and investment destinations also show that developed countries have played a leading and dominant role in global social impact investment.

<table>
<thead>
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<th>Column 1. D.light: An Indian case of social impact investment in clean energy</th>
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| In the poverty-stricken rural areas in India and Africa, due to the lack of electricity infrastructure, local farmers use diesel oil as fuel for lighting. Diesel oil has poor lighting effects; it’s not clean, and burning it is hazardous; for impoverished farmers, the cost of burning diesel oil is quite high.  

In 2007, Ned Tozun and Sam Goldman, two young entrepreneurs studying at Stanford Business School, founded D.light, aiming to utilize the innovative technology for solar energy and LED to bring clean, safe, bright and affordable |
lighting products to impoverished people in areas lacking electricity. In early 2008, the company launched a series of alternating current products and solar charging LED lighting products, which were designed for families living at the bottom of the society and everyday only relying on a few dollars to make a living. These products, with multiple brightness settings and a fast charging function, were able to adapt to various living environments, and they were mainly sold in India and Africa, and also promoted around the world.

The business model of D.light was favored by a number of US and Indian investment institutions. In 2008, D.light received a total of USD6 million as the first round of financing, which was mainly from six investment institutions such as United Indian Capital, Draper Fisher Jurvetson, Garage Technology Ventures and Acumen Fund. This investment team also provided seed funds for D.light when the company was founded. Later, USAID’s Development Innovation Ventures also provided USD1 million for the company.

After eight years of development, D.light has sold 10 million low-cost lights in South Asia and Africa, and the project has benefited 30 million people. In India and some poverty-stricken countries in Africa, the promotion of these products has brought significant changes to the lives of local rural residents. Thanks to use of solar energy-saving lamps, some local farmers can work at night, enabling their income to increase by 30%; thanks to the stable lighting, children from local villages can study at night, greatly improving their passing rates in exams.

In terms of industrial distribution, social impact investment is more concentrated in industries with large-scale potential. The GIIN’s survey shows that social impact investment is mainly distributed in housing, small and micro-finance business, energy, financial services outside small and micro-finance business, food and agriculture, water and sanitation, health and education. Among them, the first four sectors have absorbed 57% of the total investment (Figure 3).12

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The means and tools of social impact investment can be very diverse, including but not limited to mortgage loans or unsecured loans, charitable bonds, stock rights or quasi stock rights. The UK Peterborough Project has creatively used the social impact bond to “pay for success”, and has achieved success. Its experience has been learned by many other countries (See Column 2). In addition, the social impact investment relying on newly emerging channels, such as crowdfunding platforms and P2P, has also received more and more attention.

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<th>Column 2. Peterborough Project</th>
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To deal with the high recidivism rate of ex-prisoners, a prominent social problem, in 2010, the UK issued the world’s first social impact bonds, raising funds to invest in Peterborough Project, and conducted experimental intervention to reduce the recidivism rate of ex-prisoners in Peterborough.

According to the project design, the ex-prisoners were divided into three batches, and the project would continue into 2016. The expected goals of this project included: (1) to reduce the recidivism rate of each batch of ex-prisoners by more than 10%; (2) if any batch of ex-prisoners didn’t achieve the first goal, the overall recidivism rate of the three batches should reduce by more than 7.5%. Only by achieving at least either of the goals could the investors recover their investments and get return on investment; the rate of return would be between 2.5% and 13%, corresponding to the decline in the recidivism rate.

The project raised GBP5 million from 17 foundations as initial fund, and gave it to the project implementer. The project implementer was St Giles Trust, a non-profit social organization with professional experience in crime intervention; the services provided by it included providing housing, alcohol and drug addiction rehabilitation, employment, child rearing and psychological guidance; it provided stable social environments for them and helped them find jobs in order to prevent or reduce their recidivism, and reduce the future judicial costs and imprisonment costs as well. These
services were designed by local social organizations.

This project was independently assessed by the team formed by the University of Greenwich and the University of Leicester. The repayment fund was from the UK Ministry of Justice and the Big Lottery Fund. In August 2014, the results of the first phase were announced. The recidivism rate of the first batch of ex-prisoners reduced by 8.4%, while the British recidivism rate rose by 10% in the corresponding period. Although it didn’t achieve the expected goal of more than 10% decline, the project fully verified the possibility of cooperation among the government, investors and commonweal organizations, and produced significant results. Because in 2015 the British government widely implemented social services of ex-prisoners, the project was terminated ahead of schedule.

Source:

Assessment and certification is the cornerstone of the development of social impact investment. Exploration of opportunities in the social impact investment market, strategic planning and policy support from the government, and industry supervision all need quantitative assessment and scientific and reasonable certification. In terms of assessment and certification, some framework and practices that can be used for reference have initially formed, and they include three aspects: (1) Investment criteria and assessment of social impact. In 2009, the GIIN developed the Impact Reporting and Investment Standards (IRIS). The IRIS gathered the most representative of social impact evaluation indexes in the industries, and formed a standard catalogue, which is open to all stakeholders for free and makes evaluation of social impact of portfolios simple and easy to do. (2) Investment rating and certification. The Global Impact Investing Rating System (GIIRS), established by the non-profit organization B Lab, is used to measure and assess the social impact provided by enterprises through the platform of B Analytics established by this organization, and conduct B Corp certification based on the social and environmental performance of enterprises. In 2013, B Lab cooperated with GIIN, and brought GIIN’s IRIS into the platform of B Analytics. (3) The catalogue of basic costs. The British government announced the estimated basic costs caused by 640 social problems (e.g., juvenile delinquency, domestic violence, school dropout, unemployment, etc.). Although such an estimate may not be very precise and perfect, it provides a reference base for the decision-making of relevant participants of social impact investment (see Table 1), and is very critical to market development. If the costs of other solutions are lower than the basic costs, there are opportunities for social impact investment. The government can have win-win cooperation with social investors by ways like procurement of public services.

**Table 1. The Unit Costs Caused by Some Social Problems in the UK.**

<table>
<thead>
<tr>
<th>Social problems</th>
<th>Financial costs</th>
<th>Economic costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(GBP, per person per year)</td>
<td>(GBP, per person per year)</td>
</tr>
<tr>
<td>--------------------------</td>
<td>----------------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>Youth offending (first time offenders)</td>
<td>3,620</td>
<td>--</td>
</tr>
<tr>
<td>Domestic violence</td>
<td>2,836 (each case)</td>
<td>1,692 (each case)</td>
</tr>
<tr>
<td>Permanent exclusion from school</td>
<td>11,473</td>
<td>658</td>
</tr>
<tr>
<td>Unemployment</td>
<td>10,321</td>
<td>14,790</td>
</tr>
<tr>
<td>Youth NEET</td>
<td>4,637</td>
<td>9,801</td>
</tr>
<tr>
<td>Alcoholism</td>
<td>2,015</td>
<td>--</td>
</tr>
<tr>
<td>Homelessness</td>
<td>8,605</td>
<td></td>
</tr>
</tbody>
</table>

Source: the unit cost database prepared by the New Economy, in the Social Impact Bond Toolkit provided by the British cabinet.

Supportive government policies and systems can provide good conditions for the development of social impact investment. These policies include but are not limited to:

(1) Providing legal identities for the key participants of the social impact investment market through legislation, and regulating their operations. A typical example is the relevant legislation on social enterprises;

(2) Providing financial support. For example, the Japanese government put forward the policy of New Public Commons, and invested USD210 million to support social innovation. USD86 million of the investment was used to support 800 start-up social enterprises, which included supporting their ability building and providing seed funds for them. The French government issued the 2014 Social and Solidarity Act, to subsidize civil and social organizations, public investment banks (state-owned banks) and local government departments in building the Social Innovation Fund. The British government allocated the funds in the dormant bank accounts to establish the Big Society Capital (BSC), in order to provide wholesale investment for social impact investment.

(3) Increasing government procurement of social impact products and services. For example, the US government allocated USD300 million from its budget to pay for success for several successive years.

(4) Providing other market infrastructure. For example, the British Government announced the unit costs caused by various social problems, providing a reference for the decision-making of other market players.

(5) Financial, fiscal and taxation policies and other incentive policies as well as relevant supporting measures, such as the Policy of New Market Tax and Community
Reinvestment Act (CRA) issued by the US government. 13

3. Challenges facing the development of social impact investment

Social impact investment worldwide is still growing. As a newly emerging mode of investment, it is also facing some common problems and challenges. These include: insufficient popularization of the concept, and the lack of coherent definitions and related standards, causing difficulties in identification and statistical analysis; (2) investment opportunities and projects remain to be developed, and the potential within hasn’t been fully exploited; (3) supporting industrial chains are not perfect, and the participants of the ecosystem are not plentiful, which cannot enable an effective complementation functionally; (4) laggardness of laws and institutions causing relevant participants and their behaviors to lack the basis of legitimacy; (5) assessment tools and standards are still not perfect, and there is a lack of assessing resources; (6) lacking the support of professionals.

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III. Social Investment and China’s Reform and Development

Since the founding of the People’s Republic of China in 1949, especially since the reform and opening-up policies were introduced, China has achieved remarkable progress in economic and social development. With high growth over the past three decades, China has become the second largest economy, lifting hundreds of millions of people out of poverty. In addition, China holds a leading position in terms of the average life expectancy, the educational level of the people and infrastructure when compared with the other developing countries. The 13th Five-Year Plan period is a decisive phase for China to accomplish building a moderately prosperous society in all aspects. Comprehensively building a moderately prosperous society, the first Centenary Goal set by The Communist Party of China, will lay a solid foundation for the second Centenary Goal meaning that China will be built into a modern socialist country when China will celebrate its centennial anniversary in 2049. In order to realize the two great goals, China needs to invest heavily in social development and conduct in-depth reform in a comprehensive manner, in which social investment may play a vital role.

1. Features of social investment

By combing social objectives and marketing means, social investment has some outstanding features. Firstly, it allows investors to obtain a certain level of return on their investments and provides incentives for market players to get involved in social investment, lowering the threshold for participation and expanding the scope of resources mobilization. Secondly, investment can generate more sustainable social impact than donations. Thirdly, social resources can be allocated more efficiently through the market mechanism. Fourthly, it is easier to match the mainstream financial markets and develop standardized investment tools to enhance the liquidity of the assets and better mobilize the forces of government, enterprises, social organizations and individuals so as to develop large-scale solutions. Fifthly, by integrating the advantages of government, society and market, it promotes innovations in public products and services provision, which is conducive to further cost reduction and quality enhancement. Sixthly, the social investment requires that social output and impact can be quantified, which is more conducive to scientific decision-making, enhance investment transparency and accountability, and promote the formation of new social governance mechanisms.

In modern society, there is a phenomenon called "triple failures"14. Firstly, due to factors including externalities, asymmetric information and transaction cost, the market may fail. In the area of environment and public services, external problems are prevalent. Therefore, the market cannot ensure the effective provision of public services, and requires government intervention. Moreover, as governments consist of individuals with different interests, the maximization of the benefits of individual officials, insufficient capacity, information asymmetry and other issues will prevent the effective

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provision of public services and lead to government failure. Thirdly, the social sector will also experience failures, which is less mentioned. It mainly manifests in forms including lack of capacity in resource mobilization, resource allocation split and inefficiency, all of which can be called "social failures." In a society, the government, market and social sectors have their own efficiency boundaries as well as areas that they cannot reach in the provision of public (social) products and services, which may generate the “blank areas”. Because of the aforementioned characteristics, social investment combines the missions of both the government and social sector, while taking advantage of the market means, which enables itself to play a vital role in this blank area.

As described above, social investment has more functions than just in the financing sense. Since social investment is social-goal oriented, encourages the participation of various forces, requires transparency and accountability, and emphasizes equitability and sustainability, it has significant performance in social governance. In essence, the social investment is not only a form of economic investment, but also a kind of social governance mechanism.

2. Triple necessities: Why does China need social investment?

From the practical needs of China's reform and development, the social investment is included in the framework of mainstream investment policies, and it is necessary in three aspects at least.

(1) **Make up the gap of social investment**

During the Thirteenth Five-year Plan Period, China needs to invest significantly in the social sector to achieve the grand goal of building a moderately prosperous society in an all-round way. According to relevant economic and social development plans, building a moderately prosperous society in all respects means that 55.75 million rural poor shall be lifted out of poverty by existing standards by 2020, 100 million rural people shall be transferred to cities to become urban citizens, and decent houses shall be provided to 100 million people who live in shanty areas of towns and cities. Meanwhile, the ecological environment shall be improved substantially and social services in key areas including education, health and pension shall be provided. From Table 2, we can see that the investment demand will be very large in seven areas including poverty alleviation and development, and urbanization over the next five years. By deducting the overlapping parts, it is conservatively estimated that such investment will total about RMB55~70 trillion.

<table>
<thead>
<tr>
<th>Areas of social investment</th>
<th>Investment requirement</th>
</tr>
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</table>

Table 2: **Investment Demand of the Social Sector during the Thirteenth Five-year Period**

26
Poverty alleviation and development 5-7 trillion
Migration of agricultural population to cities 10-15 trillion
Affordable housing 6-8 trillion
Education 20-22 trillion
Health 6-10 trillion
Environmental protection 15-18 trillion
Total 55-70 trillion


Considering that overlapping parts are deducted from social investment in the above seven fields, total demands of social investment is expected to reach at least RMB 65,000 billion in the future five years, which is equivalent to the GDP in 2015. The way to fund-raising for these social investment is a problem urgently needed to be thought about and solved.

The government has played a decisive role in social investment, but it is faced with new challenges in fund-raising. As China's economy has entered a period of new normal, it has slowed down to 6.9% in 2015 from 10.4% in 2010. Meanwhile, public revenue growth has slipped to 8.4% from 21.3%\(^\text{15}\). Although the gross debt remains at a lower level when compared with other major economies, the debt of the Chinese government has climbed rapidly. The debt quickly narrows down the space for social investment and financing, which will limit the government’s abilities to make investment in social fields in the future.

China’s weak non-government entities exert little impact on social investment. In many developed countries, funds coming from non-government entities constitute important parts of social investment. For instance, the US’s public welfare donations from individuals and enterprises account for nearly 2% of GDP for a long term. By contrast, China receives less public donations in total number. In 2014, China received public donations from home and abroad equivalent to RMB 104.23 billion, a bigger figure in recent years accounting for only 0.16% of GDP\(^\text{16}\).


In recent years, as China's economic structure has undergone in-depth transition along with the new normal of both domestic and international economy, the investment in the market sector has been affected significantly, and the decline in private investment is particularly evident. Take the investment of fixed assets as an example, from 2012 to 2015, private investment growth fell from 24.6% to 10.1% and in the first half of 2016, fixed asset investment growth was even only 2.8%. This shows the market’s willingness and ability of making investment is significantly affected.

To ensure massive social investment financing, the three parties including the government, the market and the social sector shall cooperate and explore new areas of investment by taking advantage of the new investment methods. The introduction of the social investment will provide a new opportunity for promoting social investment.

(2) Promoting social development

At present, the main stakeholders of the Chinese society are highly diversified along with complex interests’ relations and multiple kinds of social contradictions. Therefore, the task of social construction is very arduous. In recent years, as the government has increased investment in the social sphere, actively promoted the equalization of basic public services, balanced the development of urban and rural areas, and established the "fallback" system, citizen’s income distribution of our country has been improved. Since 2009, the Gini coefficient of citizens’ income has been declining gradually, dropped to 0.462 by 2015. However, China's income distribution gap is still large compared to other major economies. Moreover, some studies have shown that the property gap of residents is far greater than their income gap. Such patterns of income and property distribution has also led to intensified tensions and confrontations between different sectors of the society to some extent. Therefore, China also needs new mechanisms and channels to promote the participation and cooperation of all sectors of the society, and to share the fruits of development together. Social investment is of great significance for social governance, in which it can play a significant role.

(2) Promote the reform of related fields

Since the Third Plenary Session of the 18th CPC Central Committee, China has been promoting reform in all areas in a comprehensive manner. Social investment seeks both social impact and economic returns, and also has implications for the reform of our state-owned enterprises and institutions. In fact, many state-owned enterprises and commercial institutions are guided by social impact, and conduct sustainable business activities in accordance with the market-oriented approach. They can become an important part of our eco-system of social impact. By introducing social impact evaluation and performance assessment to state-owned enterprises and institutions, it will help to enhance performance of such enterprises and institutions and rebuild their image in the eyes of the public. Moreover, as a growing number of state-owned Chinese

enterprises go abroad, they will encounter barriers in being recognized by the outside world. In this sense, the evaluation and assessment of social impact will help the outside world to change the awareness and recognition of such state-owned enterprises and help them to go abroad.

3. Social investment and its compatibility with the Chinese society

Although social impact investment is a new foreign concept, the impact orientation and principle behind it is not strange to the Chinese society. Therefore, social impact investment can be compatible with, and, under new historical conditions, resonate with the Chinese society. The concept of social investment is consistent with the impact propositions of “Righteousness and benefits should be made compatible with the priority given to righteousness.” Like Guan Zhong and Confucius of the Spring and Autumn and Warring States Period and Li Zhi and Yan Yuan of the Ming and Qing Dynasties, the Chinese thinkers of past dynasties has debated on the dominance relation between righteousness and benefits, forming the basic impact orientation and principle of putting righteousness first while giving consideration to righteousness and benefits. In terms of practice, central and local governments, communities and clans in ancient China supported social objectives through operational activities. For instance, Quanfu, a department in the Zhou Dynasty, was designed to stabilize prices of agricultural produce by buying slow-selling products at low prices and selling them at high market prices, and to provide loans for small farmers. Many dynasties in the Spring & Autumn and Warring States Period established ever-normal system by setting ever normal granary so as to stabilize prices and response to disasters and famines. Charity group, based on communities and clans, is a non-profit non-governmental organization (NGO). After rich country gentlemen of a family purchased land for lease, the income was used to provide relief for the sick, weak and poor clansmen and financial aid for the children from poor families to be educated. Some charity groups were operated for more than 800 years (see Column 3). Mutually financial aid based on blood relationship, neighborhood and counterparts was common in ancient China. So far, it has been found everywhere in China’s southeast coast. In addition, religious institutions have cooperated and operated with governmental departments to give social relief and aid. These practices are pre-modern social impact investment.

<table>
<thead>
<tr>
<th>Column 3: Fan’s charity group</th>
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<tbody>
<tr>
<td>In 1049, Fan’s charity group, established by Fan Zhongyan, a famous statesman and writer in Northern Song Dynasty, not only served as a means to consolidate his family, but also offered a solution to extensive social problems. Because it was designed to conform to Confucianism’s concept of “regulating one’s family, governing one’s country and creating peace and harmony for the world”, it was approved by the then government.</td>
</tr>
</tbody>
</table>
Fan’s charity group was founded on the basis of a large amount of land donated by Fan’s descendants who have adequate financial capacity. The land ownership was transferred to Fan’s charity group. Fan’s charity group was independently operated with regulations and specialized administrators, featuring an incorporated foundation. In line with the purpose of its establishment, beneficiaries of Fan's charity group would be Fan’s clansmen. In the following more than 800 years, all natives living in local areas could benefit from Fan's charity group. Fan's charity group provided clansmen with benefits including rations, medical care, marriage and funeral expenses, imperial examination expenditures, public housing, capital loan, etc. According to the above regulations, Fan's charity group could meet clansmen’s basic living demands. All Fan's clansmen, rich or poor, had the right to get the above materials from Fan's charity group if they were living in the native land. Differing from many other charity groups, Fan’s charity group served all clansmen, but did not focus on the poorest and most vulnerable group. However, all kinds of benefits provided by Fan’s charity group are particularly urgent and important demands of the poor and vulnerable group.

Source: Baidu Encyclopedia

The impacts and operation methods of social investment is highly consistent with the five development concepts including "innovation, coordination, environmental friendliness, opening and sharing" as advocated by China today. Social investment itself is a product of innovation, which depends on the effective cooperation of the government, society and market for effective operation, reflecting features including tolerance and openness. It aims to promote social harmony and share successes. Thus, social investment resonates with the current five development concepts at an in-depth level.
IV. Social Impact Investment in China: The Supply Side

Social impact investment in China is still in the infancy stage. As far as the amount is concerned, the market is still small. But take a look at the whole ecosystem, and we'll find diverse types of players participating in social impact investment and their numbers are growing. At both the supply side and the demand side, in addition to typical enterprises and organizations similar to their foreign counterparts, there are players and practices of Chinese characteristics which play a key role in this ecosystem. It's fair to say that China has laid a solid foundation for social impact investment whose huge potential is not yet fully tapped due to the inadequate awareness and the immature supporting environment.

This section and the next will offer a bird's view of the supply side and the demand side, respectively, of social impact in China, introduce the players engaged in social impact investment, investment tools and means, investment activities and the policy environment, and paint a basic picture of social impact investment in China for readers at home and abroad. But since social impact investment and related concepts are quite new in China and there's no definition or standard officially recognized by the government or the industry, not to mention regulated statistical data, it's difficult to cover all the players and investment activities. In China, the charity sector is more open to social impact investment, but without sufficient resources. In comparison, mainstream investors and government departments are richly endowed with resources and have done a great job in investment, but have little understanding and discussion about social impact investment. The deviation between resource endowment and conceptual understanding makes it even harder for us to grasp the comprehensive picture. Thus one of the goals of this report is to eliminate such deviation.

Our introduction to the supply side will focus on three major types of participants as well as their investment means and tools. First, capital providers, that is, organizations and individuals who invest their own assets and income into social impact production and obtain gains; second, investment intermediaries, that is, organizations and individuals which invest creditors' rights or equities raised from outside into social impact production; third, organizations and individuals which provide research, consultation, auditing and assessment services for social impact investment activities of capital providers and intermediaries. Such classification of participants on the supply side based on their role and functions is only theoretically feasible, but difficult in reality for participants of the same type (such as banks) play multiple roles in different scenarios and the nature of these participants is blurred by the development of modern financial instruments and asset portfolio. Thus our classification of players at the supply side (as well as the demand side) is a rough one, only for the convenience of understanding.

1. Capital providers

The government, social goal oriented enterprises, socially responsible enterprises, foundations and non-for-profit organizations and high-net-worth individuals can all
provide social impact capital. In China, foundations and social responsibility departments of companies that have long engaged in charity activities have earlier access to the concept of social impact investment, make such investments intentionally and are leaders in this area. Among the government, high-net-worth individuals and other players, some have launched social impact investment, without clearly classifying their investment assets. Considering their huge potential in social impact investment, we'll also introduce their development situation here.

Foundation. So far investors with clear orientation towards social impact investment in China are mainly foundations of all kinds. Since the promulgation of the Administrative Regulations on Foundations in 2004, China has seen the soaring of foundations of all kinds in number. According to the statistics of China Foundation Center, as of June 20, 2016, China had a total of 4,979 foundations, nearly seven times that of 2004, including 1,555 public foundations and 3,423 non-public ones, with the combined assets of over RMB 100 billion.

In recent years, some foundations such as the Narada Foundation and the YouChange China Social Entrepreneur Foundation have paid growing attention to social impact investment and sponsored and invested in outstanding social enterprises. For example, YouChange, founded in 2007, has invested RMB 249 million in 16 independent R&D and innovation platforms in the past nine years, and sponsored 161 social organizations and social enterprises. In addition, Leping Social Entrepreneur Foundation, an emerging non-public foundation, has declared itself to specialize in social enterprise investment, social entrepreneur cultivation and social investment advocacy since its establishment in 2010 and has successfully made several social impact investments (See Feature 4).

<table>
<thead>
<tr>
<th>Feature 4: Social Impact Investment of Leping Social Entrepreneur Foundation</th>
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<tbody>
<tr>
<td>Leping Social Entrepreneur Foundation is one of China’s first charity organizations to create, invest in and foster social enterprises. Over the past 13 years, it has funded and fostered five social enterprises and provided financial services (small-amount rural loans), education services (vocational education and preschool education) and career development services (including agricultural production and urban employment) for people lacking equal opportunities of development, with the total investment exceeding RMB 100 million, directly serving over 100,000 people and benefiting over 500,000 people. It provides services they otherwise have little access to and help them expand business, improve abilities, increase income and elevate their living standards. Beijing Fuping Domestic Service Center, funded and established by Leping, is rated as the most successful social enterprise in China by The Social Enterprise Observer.</td>
</tr>
<tr>
<td>By the end of 2015, Leping had funded two small-amount loan companies in Yongji, Shanxi province and Dayi, Sichuan province, granting small-amount loans to over 8,000 rural households, worth RMB 353 million. Beijing Fuping Domestic Service Center has provided domestic service training and employment services for over 34,000 rural women, 70% of whom were from impoverished areas, to help</td>
</tr>
</tbody>
</table>
them get rid of poverty. Qianqianshu Child Education Consultancy Company, also funded by Leping, provided courses suitable for rural education for 1,300 rural kindergartens, and training and long-term support for 6,000 rural teachers, benefiting 150,000 rural children. Fuping Chuangyuan, also funded by Leping, had supported over 100 rural households to cultivate and grow plants and provided organic vegetables for 3,500 households.

Social enterprises funded by Leping provide affordable premium services for the disadvantaged such as farmers and migrant workers, which they otherwise have little access to in the public service and business market. In this way, Leping gives them the opportunity of equal development and helps them improve the ability of self-development. Meanwhile, Leping also reforms the business mode, influences policy making in related fields, attracts peers into the market, expands the business scale, takes the lead in setting up industry standards and actively promotes the development in related fields.

Source: Adopted from Leping Social Entrepreneur Foundation website and annual reports.

Investment incubators and social investment platforms: In recent years, some social impact investment incubators and NGO-initiated social investment platforms have become emerging funding sources for social impact investment. Transist Impact Labs entered China in 2009 to build social innovation communities and in 2012 turned into an impact investment company dedicated to building and expanding social influence by driving scientific and technological innovation. It keeps each investment not more than USD 500,000 and besides financial support, it offers other helpful services. It has helped more than 100 entrepreneurs break bottlenecks to development and established itself in areas of environmental energy, education, medical services, public sanitation and inclusive finance. It has jointly funded China Energy Incubator with the Shell Foundation to create a cultivation platform for entrepreneurs and social entrepreneurs in areas of new energy, renewable energy, energy conservation & emission reduction, intelligent transport and green travel. In 2013, British Council partnered up with prestigious foundations, investment management companies and research institutes in China in launching the social investment platform for this project, and a contest open to all social enterprises in the country. The winners were entitled to free training and social investment worthy of RMB nine million. In 2015, the social investment platform received 1,171 valid applications from 364 social enterprises and after months of review, incubation and screening, 26 social enterprises finally won 29 social investment opportunities.¹⁹

Corporate social responsibility and socially responsible investment: As the awareness of corporate social responsibility (CSR) is widely raised in China, more

and more enterprises start to actively perform their social responsibilities. Some prestigious companies such as Lenovo and Hainan Airlines have included venture philanthropy into their CSR strategy\textsuperscript{20} and their CSR performance is no longer limited to donations. Lenovo’s venture philanthropy scheme provides start-ups and small- and medium-sized charity organizations with capacity building services as well as financial support. The first phase of the scheme has invested RMB three million in 16 non-governmental charity organizations. In 2009, Lenovo started the second phase with RMB three million. Hainan Airlines has launched a social innovation venture contest since 2012. The contest solicits cases by theme and the top five venture plans will receive the seed capital of RMB 400,000 from Hainan Airlines. The investment in such venture philanthropy projects often expects no economic returns, which is different from social impact investment. \textsuperscript{21}

Government departments: The Chinese government, though it hasn’t classified its assets by social impact investment, has in fact made a lot of social impact investment. Funding public-interest state-owned enterprises and policy financial institutions is an important way for the government to provide social impact capital. The loans granted by China Development Bank and the Agricultural Development Bank of China to poor and backward areas are clearly social impact investment and the government is the major or only stockholder of these financial institutions. For different financial institutions, the government may adopt different finding ways and channels. For instance, in 2015, the central bank poured money into China Development Bank and the Export-Import Bank of China with entrusted loans of foreign exchange reserve for debt-to-equity swap while the Agricultural Development Bank of China received more capital from the Ministry of Finance.

Some public-private partnership (PPP) projects are also clearly social impact investments. The Chinese government has been vigorously promoting the development of such projects since the 18\textsuperscript{th} CPC National Congress. According to the data provided by the PPP Center of the Ministry of Finance, as of the end of March 2016, the national PPP database had included 7,721 projects, with a total investment of RMB 8,780.247. Specifically, 646 projects are in the execution stage (procurement, execution and handover), accounting for 8.4% of the total. These projects are concentrated in areas of transport, communications, energy and water resources. In particular projects launched in poor areas and environmental protection projects should fall into the category of social impact investment by asset type and are expected to become the mainstream of such investment.

High-net-worth individuals: Thanks to the continuous, rapid economic growth in China, the wealth of Chinese residents is growing rapidly. Credit Suisse Research Institute (2015) estimates that China has the world's biggest middle class, a population of about 109 million. Since 2000, the wealth of the middle class in China

\textsuperscript{20} Venture philanthropy refers to venture capital in the philanthropy field to invest in start-up charity organizations, help them grow and indirectly solve social issues through investment. It’s similar to business investment in terms of operational mode. What separates it from business investment is that it’s not for profit: venture philanthropy demands no returns or spends the returns on charity.

\textsuperscript{21} Liang Yudong, Fang Tao and Zhu Xiaobin (2014) \textit{Social Impact Investment in China}. 34
has grown remarkably by 330% and reached USD 7.3 trillion by 2015, accounting for 32% of the national wealth. China also boasts one of the world’s biggest groups of superrich. According to the statistical data of Forbes in 2016, among 1,810 billionaires in the world, 540 are from the United States and 251 from Mainland China (with another 69 from Hong Kong). These high-net-worth individuals and their companies play a leading role in philanthropic donations. In 2005, Niu Gensheng, the founder of Mengniu, a dairy group in China, announced to donate all his shares of the company and most of the dividends to fund Lao Niu Foundation. In 2011, he resigned from the Board Chairmanship of the company and devoted himself to philanthropy. In the same year, Cao Dewang, Chairman of Fuyao Glass, the world’s biggest glass supplier for the auto industry, founded the Heren Philanthropic Foundation and donated 300 million shares of the company and his family held to the foundation. Wang Jianlin, Ma Yun (Jack Ma) and Ma Huateng (Pony Ma) who ranked among the top 10 on the Forbes Billionaires List of 2015 also ranked the 3rd, 13th and 4th respectively on the Forbes’ China Philanthropy List of the same year. As the concepts of philanthropy and social impact investment are gaining popularity, high-net-worth individuals are expected to become key sources of social impact investment capital.

**Ordinary individuals:** Ordinary individuals are not irrelevant to social impact investment. According to the Report on Philanthropic Donations in China in 2014, in 2014, individual donations made in China reached about RMB 11.56 billion. Compared with other countries, China's individual donation ratio is still low, which means there's much growth space for it in the future. Along with the popularization of charity donation concepts, the improvement of donation platforms and the development of new social impact investment tools, individual donations will be allowed to be used for social impact investment in the future.

2. **Capital intermediaries**

Typical capital intermediaries for social impact investment include social banks, financial institutions for community development and managers of social impact investment funds. But in China, there are only few banking institutions and investment fund managers dedicated to social impact investment, but we have some investment intermediaries oriented towards social impact. What’s more, commercial financial institutions and mainstream private fund managers have started to pay attention to investment projects with social impact.

**Social impact oriented private funds:** Since the 21st century, venture business and private funds oriented towards social impact have risen rapidly, showing strong and straight orientation toward social impact investment. For example, Tsing Capital, founded in 2001, positions itself as a CSR investor, but in fact is very close to venture philanthropy. It runs four overseas environment funds worthy of USD 600 million and two clean technology funds worthy of RMB one billion, and is a pioneer...
in areas of energy conservation, environmental protection, new energy, ecological agriculture and clean energy. It has successfully invested in nearly 40 enterprises\(^\text{23}\). China Environment Fund, initiated by Tsing Capital in 2002, is China’s first overseas venture capital fund dedicated to clean technology investment. Its investors include international prestigious institutions such as the Asian Development Bank, the government fund of the Netherlands, Hong Kong-based LESS, British Petroleum, BASF, Robeco and Swiss Reinsurance. Its capital under operation is USD 300 million.

Lanshan Social Investment is China’s first native private equity fund for social investment, established in 2011 and with a fund of RMB 180 million. Its investment spans from RMB five million to RMB 20 million. It pays particular attention to fast-growing social enterprises and seizes merger & acquisition opportunities in sectors concerning people’s livelihood via financial leverage and has completed two phases of investment. It embraces a broad definition of social enterprise and serves most enterprises with direct social or environmental benefits. The projects it invests in are concentrated in areas of sustainable development, rural education and waste treatment and recycling\(^\text{24}\).

**Equity funds/companies:** Private equity funds didn’t appear until the mid-1980s in China. Before 2004, things didn't go well for them due to the lack of supporting institutions even though they experienced two rounds of development climax. In 2004, Shenzhen Small & Medium Enterprise Board was established, providing the exit of IPO for private equity funds in the Chinese capital market. It launched the third wave of investment craze during which successful cases of private equity investment started to emerge. By the end of January 2016, China had 25,841 registered private equity funds, 25,461 of which were put on record, with subscribed contribution of RMB 5.34 trillion and paid-in contribution of RMB 4.29 trillion and hiring 389,900 employees. Driven by innovations and entrepreneurship, in 2015, Chinese private equity funds saw remarkable growth of turnover which reached USD 192.1 billion, up by 169% from the previous year, and accounted for 48% of the global turnover, compared with the 18% global turnover growth in the same period.

In recent years, many equity investment institutions have started to invest in projects with prominent social impact. Cybernaut manages over RMB 100 billion funds and employs S&T, capital and international means to serve emerging industries in the region and boots the Internet + upgrade of traditional industries. It has invested in and incubated Weiyi Group (guahao.com), a national pilot platform for Internet-based hospitals aimed to provide easy access to medical services and healthcare. Committed to employing information technology to drive the reform of China’s medical and health care industry, the platform connects hospitals, doctors and patients through the Internet, and promotes efficient information sharing among them. It has gathered 1,900 key hospitals from across the country, 6,700 discipline


leaders, and 200,000 physicians above the deputy-director level. It offers all-round services including registration, online diagnosis, electronic prescription and online pharmacy. By 2015, it had attracted more than 110 million users who registered with their real name and 200,000 experts from key hospitals, serving over 500 million patients and saving 40 million working days for them. It has grown into a professional medical service platform and a portal into mobile Internet-based medical services. In 2015, Weiyi Group announced to raise USD 394 million from investors such as Hillhouse Capital, Goldman Sachs, Fosun, Tencent and China Development Bank Capital.

PICC Capital Investment Management Co., Ltd. and CFPA Microfinance signed a RMB 500 million Debt Investment Scheme for Agriculture and Micro and Small Enterprises in April 2016. The Investment Scheme will allocate money to rural households in need via the branches of CFPA Microfinance in over 170 project counties in 18 provinces across the country and is expected to lift 70,000 rural households out of poverty. Before that, Sequoia Capital and other mainstream equity funds had invested in CFPA Microfinance too.

The Zhen Fund, jointly established by Xu Xiaoping and Wang Qiang, two co-founders of New Oriental, and Sequoia Capital in 2011, is intended to encourage young people to make innovations and start their own business and dedicated to seed funding in areas of the Internet of Things, mobile Internet, gaming, corporate software, O2O, e-commerce and education & training. In recent years, it has been investing in medical services for treating serious diseases.

Crowdfunding, crowdsourcing and crowd-assistance platforms: A lot of innovative business modes have appeared in China thanks to the Internet, leading to numerous crowdfunding, crowdsourcing, crowd support and mutual assistance platforms, which are new capital channels for social impact investment. The robust growth of mutual assistance platforms is particularly noteworthy.

Water Drop Mutual Assistance (Shui Di Hu Zhu) is a mutual assistance platform targeted at serious diseases. Its first product is the anti-cancer mutual assistance scheme. Paying RMB nine for the membership, the user will be entitled to corresponding compensation rights after an observational period of 180 days. In case the user is diagnosed with one of the 50 designated cancers, he can receive RMB 300,000 at most from the platform. The compensation shall be amortized among all the other users of the platform, who in principle need only to pay not more than RMB one per person in each case. In this way, the platform tries to address realistic issues such as the rising incidence of serious diseases represented by cancers, the financial burden on patients and their family and the insufficient coverage of medical insurance. In May 2016, it announced to receive RMB 50 million in the angel round from Tencent, Meituan-Dianping, IDG, Banyan Capital, Dianliang Fund, Zhen Fund and over 30 prestigious founders of Internet companies.
four products, namely ZhongTopia No.1 Anti-Cancer Mutual Assistance, ZhongTopia No.2 Mutual Assistance against Accidents, Chuangbao No.1 Mutual Assistance against Unemployment, and Xuechuang No.1 Students’ General Mutual Assistance. It plans to increase its capital to RMB one billion by the spring of 2017.

**P2P platforms:** As an important form of Internet finance, P2P has grown wildly in China in recent years, with the rapid expansion in quantity and size. By 2015, personal and corporate loans on P2P platforms had approached USD 100 billion. But in the past couple of years, a lot of P2P companies had collapsed due to poor business regulation and the P2P market is undergoing in-depth adjustment. As a new financial solution, P2P can serve as a channel for social impact investment. Yinongdai.com is a creative wealth management platform launched by Credit Ease, a P2P company, dedicated to matching the surplus fund of urban residents with the lending demand of impoverished rural residents to solve problems such as the funding shortage and the limited access to loans in rural areas. Users may choose borrowers, mainly rural women, verified by the partner agency on their own on the website, lend them a certain amount of money, and recover the principal upon maturity and with interests at the annualized rate of 2%. From 2009 when the website was launched to August 2016, it lent over RMB 199.52 million, helping over 19,600 poor households in 23 impoverished areas improve productivity and livelihood; meanwhile, it had attracted over 160,000 lenders and kept the record of zero bad loans.

**Policy banks:** China Development Bank has long been supporting poverty reduction and development in rural areas. By the end of April 2015, it had granted RMB 1.27 trillion for poverty reduction, with the loan balance of RMB 751.2 billion. The Agricultural Development Bank of China offers credit support for 537 state-level impoverished counties. At the end of 2014, its loan balance stood at RMB 220.398 billion and it plans to increase the number to over RMB two trillion and grant loans worthy of RMB three trillion within five years. In addition, the Agricultural Development Bank of China also funds the renovation of agricultural infrastructure and has granted infrastructure loans worthy of RMB 456.8 billion; funds the renovation of shanty towns and depilated houses in rural areas and the settlement of nomadic herdsmen, with RMB 274.2 billion housing loans issued to farmers, and helping 1.06 million rural households renovate their depilated houses. The Export-Import Bank of China is responsible for boosting China’s imports and exports. By July 2016, it has launched over 200 financial services for poverty reduction projects in 14 contiguous impoverished areas in 28 provinces in China, granted RMB 15 billion loans and helped hundreds of thousands of rural households get rid of poverty.

**Commercial banks:** Industry-based poverty reduction and targeted poverty reduction are two big features of poverty alleviation efforts in China. Major state-owned commercial banks and local banks often assume certain responsibilities for poverty reduction by lending for industrial development and to small- and medium-

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25 [http://www.yinongdai.com](http://www.yinongdai.com)
sized enterprises and rural households in impoverished areas. In particular, the Agricultural Bank of China, the Postal Savings Bank of China, and local rural credit cooperatives play a crucial role in granting loans for poverty reduction thanks to the business they are in and their geographical location.

In 2014, the Agricultural Bank of China granted RMB 636.1 billion loans to impoverished areas, with the loan balance standing at RMB 872.6 billion; in particular, RMB 252.6 billion loans went to 14 contiguous impoverished areas, with the yearend loan balance at RMB 440.2 billion. In the same year, subsidized loans of RMB 35.73 billion for poverty reduction were granted, supporting 433 enterprises and projects for this purpose and increasing the income of 950,000 rural households, with an increase of RMB 4,573 per household. Among the 40,000-plus outlets of the Postal Savings Bank of China, over 70% of them are located in counties and rural areas. The bank provides small-amount loans, such as reemployment loans, “Young Entrepreneur” loans, and “Woman Entrepreneur” loans to the poor and disadvantaged, and has granted loans worthy of RMB 97.4 billion. By the end of 2020, its loans granted to impoverished areas won’t be less than RMB 500 billion. In addition, local rural credit cooperatives also provide financial services for agriculture, farmers and rural economic growth, and organize and adjust rural funds by law to support agricultural production, comprehensive rural development and all forms of cooperative economy and household economy.

3. Platforms and intermediary service agencies

Promotion networks and platforms: There have emerged some organizations and platforms committed to promoting social impact investment in China. For example, Shenzhen Innovation Corporate Social Responsibility Development Center (CSRDC), founded in 2012, launches in-depth, purpose-specific cooperation with government departments, enterprises, public-interest organizations, foundations and prestigious universities at home and abroad and conducts performance assessment of social impact investment.

In November 2012, YouChange and NPI (Non-Profit Incubator) jointly launched the annual "Social Entrepreneur Star" evaluation campaign. Each year, experts with excellent influence and public credibility in the field of social innovation and entrepreneurship will recommend social entrepreneurs with active presence and potentials nationwide, and Social Entrepreneur Stars of the year will be selected after the review of the jury panel and online voting. So far, it has selected over 150 Social Entrepreneur Stars who are engaged in the aid to the disabled, medical service, education, environmental protection, senior care and poverty reduction.

In 2014, 17 organizations including the Narada Foundation, Dunhe Foundation, Jack Ma Foundation, Social Enterprise Research Center, China Foundation for Poverty Alleviation and China Social Assistance Foundation co-initiated the China Social Enterprise and Investment Forum (CSEIF) to integrate resources for the development of social enterprises and social investment. The Forum meets once every year, organizes surveys and research on social enterprises and social
investment in China, disseminates and advocates concepts related to social enterprises and social investment, provides all sorts of services for its members and helps social enterprises match their resources with projects.

In 2014, over 40 commercial and public-interest organizations including YouChange co-initiated the China Association of Social Impact Investment. It brings together individual/corporate investors, projects, consulting agencies and cross-disciplinary experts related to social innovation via "investment" to create an ecology of innovation that helps solve social issues and promotes social equity, and more efficient and sustainable development. Its think tank platform Sinovator is a multinational community of social, commercial and S&T innovation and entrepreneurship. Its bimonthly magazine Social Innovation Review, co-published with China Social Organization under the Ministry of Civil Affairs, reaches 70,000 policy makers, social enterprises, social organizations and corporate investors in China, and is the only Chinese copyright partner of the Stanford Center on Philanthropy and Civil Society (Stanford PACS) and its Stanford Social Innovation Review (SSIR).

Besides forums hosted by related domestic networks and platforms, international forums such as the Global Social Business Summit are also building up their presence in China. International exchange and cooperation has become common for Chinese social enterprises and social impact investors.

**Consulting agencies:** In recent years, there have emerged some agencies specialized in consulting and assessment for social investment and corporate social responsibility. For example, Venture Avenue, founded in Shanghai in 2009, serves social enterprise, NGOs and social investors with assessment, consultation, screening and investment, and provides consulting services for social enterprises and their projects as well as NGOs at home and abroad such as the embroidery of Qiang ethnicity, One Foundation, and Lao Niu Foundation, co-initiates social investment platforms, and co-builds social innovation incubators with prestigious Chinese universities. SynTao, Recende, and Corporate Citizenship in Action which have been long engaged in CSR consulting extend their consulting services to social impact investment this year. As far as the recent development trend is concerned, many promotion organizations and consulting agencies have started to assume the role of social impact investor.

**Teaching, training and research:** The idea about social enterprises and social impact investment in the strict sense in China is imported from overseas and thus related concepts and theories are ahead of practices to certain extent and also learn from the latter. In 2007, the School of Economics of Peking University became the first in China to open courses on social enterprises. The Social Enterprise Research Center, founded in 2008, is China's first research institute dedicated to social enterprises and social impact investment and has been active in community construction and agricultural development. In partnership with the Hong Kong-based Sow Asia, it has successfully completed China's first social impact investment case. In 2012, Shanghai University of Finance and Economics launched
its first MBA course on social entrepreneurship.

In recent years, the Center for Civil Society Studies of Peking University, Social Innovation Research Institute of Beijing Normal University, China Development Research Foundation, and China Philanthropy Research Center of Hunan University have been active in research and practices concerning social enterprises and social impact investment. In 2015, the Center for Civil Society Studies of Peking University worked with China Development Research Foundation and YouChange to translate the G8 social impact investment report into Chinese and introduce it into China for the first time. YouChange and the School of Economics of Peking University also co-launch online credit courses on social entrepreneurship to broaden students' vision about the society and entrepreneurship, with a small-amount seed fund to support them in chasing the dream of social entrepreneurship.

4. Investment tools and means

So far we've seen social impact investment in the forms of equity investment, debt investment and trust investment in China. As we've mentioned before, the investment made by public-interest trusts and venture philanthropy is still of a small size compared with the loans for poverty reduction, development and infrastructure construction and improvement granted by policy and commercial financial institutions, even though they are not considered social impact investment.

As to bond financing, a noteworthy phenomenon in recent years is the rapid development of green bonds. The People's Bank of China announced on December 22, 2015 to issue green bonds in the inter-bank bond market, marking the official launch of the green bond market in China, a key step towards the regulated, standardized and mainstream usage of social impact investment tools in China. In February 2016, National Development and Reform Commission released the Guide to Green Bond Issuance. Later Shanghai Stock Exchange released rules to create an "express channel" for green bonds. On April 15, China's first green bond, issued by BAIC Motor, was approved. In June, China, as the host country for the G20 Summit, advocated to establish a green finance research group within the G20 framework to study the best practices of and main barriers to green financial development in countries around the world and policy measures to green the global economy.
V. China’s Social Impact Investment: the Demand Side

The main demand side of social impact investment can be divided into two categories: the social impact producers, including all kinds of social organizations, social enterprises, social goal-oriented enterprises as well as enterprises commissioned by the government or social organizations to provide products and services, and the purchasers of social impact, including direct beneficiaries and third party buyers.

1. Social Impact Producers

All Kinds of Social Organizations that Rely on External Funding: Social organizations that rely on external funding create social impact through providing various products and services. They are important recipients of social impact investment. By the end of 2015, there were 662,000 social organizations in China, an increase of 9.2% over the previous year. These organizations provided 7.348 million jobs, an increase of 7.7% over the previous year. Their total annual revenue reached 292.9 billion yuan, their expenditure 238.38 billion yuan, their fixed assets 231.11 billion yuan and the social donations they received 61.03 billion yuan. Among these organizations, there are 329,000 civil society groups, up by 6.1% over the previous year and 4784 foundations of various kinds, increased by 667 over last year—the donations received by these foundations from every stratum of society totaled 43.93 billion yuan—and 329,000 private non-enterprise entities, up by 12.7% over the previous year. Although only a small number of these organizations provide services through commercial operations, it is possible for them to achieve both social impact and economic returns where there is policy support (such as government procurement of services) and thus become the recipient of social impact investments (see column 5). Moreover, even if social organizations do not commercialize their provision of social services, they can work with social enterprises to launch projects or support them with technology, information and channels so as to spur social impact investment. Therefore, they are an important player in the ecosystem of social impact investment.

<table>
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<tr>
<th>Column 5: the Village Early Education Center Project of China Development Research Foundation</th>
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<td>Given the characteristics of the poor western regions of China, namely, scattered population, inaccessibility, low incomes and the high costs of running regular kindergartens, the China Development Research Foundation has since 2009 been launching pilot projects providing preschool education in poor and remote rural areas through the approach of “teachers-on-the-move”.</td>
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This approach means the volunteer teachers shuttle among the preschool education stations in villages to provide low cost, quality-guaranteed and replicable education to 3 to 5 years old children who do not have access to regular kindergarten education. When the project commenced, a team of experts from Peking University were invited to conduct a baseline test. Two years later, an expert team from East China Normal University carried out a mid-term assessment, where children in the project were
compared with control groups in terms of language, action, cognition, memory and social norms. Test results showed that, compared to the control groups, there was a noticeable improvement in the children’s capacity in the five aspects after they received pre-school education. The score of the comprehensive capabilities of the 3-6 years old children participated in preschool education in Ledu County was 17% less than the same age children attending urban kindergartens in Qinghai. The score of the former was 69% and the latter 81%. And the scores for the same age control groups from Jianzha Village and Ping’an Village were 50% and 49% respectively. Through horizontal comparison, we found that the children in the preschool education experiment performed significantly better than the control groups in terms of comprehensive development. Compared with the results of the baseline test, they also made great progress in language, cognition, fine motor skills and social interaction. To provide preschool education for scattered village children through the approach of teachers-on-the-move can deliver education to poor residents and significantly reduce the burden brought by education cost to rural households.

Currently, pilot projects have been carried out in ten provinces to test out the village kindergarten model. These projects involved a total of 800 kindergartens and more than 32,000 students. At the same time, local governments in Xinjiang, Guizhou and other western provinces also began to adopt this model. In Tongren City, Guizhou Province, after promoting village kindergartens, the gross enrollment rates of three-year pre-school education in remote rural areas jumped from 45% in 2011 to 84.3% in the end of 2015.

Village Early Education Center projects are non-profit and non-operational. They are funded by public donations from enterprises and every stratum of the society. They do not charge the students. However, it is easy for them to change into social enterprises. By collecting intuition from parents, accepting funding from government or the society or being bought off by a third party, they can gain economic benefits, achieve sustainability, and pay investors a certain amount of returns on their investment.

Source: China Development Research Foundation (2012)

**Social Enterprises:** Social enterprises are businesses that achieve social objectives through commercial means. Social enterprises create social impact by providing products and services and get enough out of this process to pay for the returns on investment. They are an important part of the social impact chain. In China, there is no official or legal definition of social enterprises, and there are different interpretations of this concept in the industry and academia. According to the experience of China and

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26 Different countries have different definition of social enterprises. But in general, they share the following features: having specific social goals, continuously providing products or services, participating in market transactions, bearing economic risks and distributing of limited profits.
other countries, the following several categories of organizations can be counted as social enterprises: 1) private non-enterprise entities (PNE); 2) social welfare enterprises approved by civil affairs department; 3) specialized farmers’ cooperatives that provide services for poor and disadvantaged farmers; 4) other social enterprises, including for-profit and non-profit social goal-oriented enterprises that are registered with authorities for industry and commerce.

Operational private non-enterprise entities: According to the statistics of civil affairs departments, in 2015 there were 329,000 private non-enterprise entities (PNE) in China, up by 12.7 percent over the previous year. 16,000 of them belong to the category of technology services, 433 to ecological environment, 183,000 to education, 24,000 to health, 49,000 to social services, 17,000 to culture, 14,000 to sports and 3,355 to business services. Among these private non-enterprise entities, some have been providing operational services and products through operations, demonstrating features typical of social enterprises. At present, there have emerged several representative and influential entities, such as Tianjin Hetong, Beijing Fuping Development Institute and Beijing Bangwei Helpage Community Service Center.

Column 6: Private Non-Enterprise Entities: Tianjin Hetong and Beijing Fuping Development Institute

Since its inception in 1995, Tianjin Hetong has developed in accordance with the principle of staying true to its civil, autonomous, voluntary, public and non-profit nature and gradually grown into a brand name of social services for the elderly, which includes Hetong Senior Welfare Association, Hetong private non-enterprise entities and Hetong Charitable Foundation for the Elderly. Hetong private non-enterprise entities refer to seven long-term care (LTC) homes for the elderly (among which one is commissioned by the government and one is a project of Chinese Red Cross Foundation), one geriatric hospital, seven geriatrics nursing vocational school (among which five constitute a national franchise) and one national accreditation institute of professional skills. In addition, they also include entities that are run on a trial and have not been registered, such as an escort-free dispatch center, a food distribution center and a research institute of geriatric supplies. They also have a public property maintenance company that is registered as an enterprise. After 20 years of efforts, Hetong has grown into a conglomerate of old age social services with an annual revenue of over 50 million yuan.

Beijing Fuping Domestic School, established in 2002, is a non-profit organization that focuses on low-income groups (poor population) and is dedicated to improving the welfare of poor people, increase their opportunities to equal development and advance equitable social development. The school has been helping women from

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27 In October, 1998, the State Council stipulated Provisional Regulations for the Registration of Private Non-enterprise Entities, and defined private non-enterprise entities as social organizations founded by enterprises, institutions, social groups and other social forces and individual citizens with non-state-owned assets and dedicated to non-profit social service activities.
poor families in central and western areas find decent employment and achieve personal development in cities. Students of this school usually come from Gansu, Hebei and Henan provinces. They are recruited according to Fuping Admission Regulations by the division in charge of importing labor from other provinces. Before enrollment, they will have to go through physical examinations and identity verification in their own provinces. Before the students start to work, they have to receive two-week close-door pre-employment training at the training base in Tongzhou District, Beijing. During the training, they will take cooking, cleaning, child-care and old-age care courses, and will have to pass the examinations at the end of the training. In addition, Fuping has also set up support groups to give students computer and English lessons and organize outings to local parks. In this way, the students can continue to enrich themselves and improve the quality of their service while achieving their own development and better integrating into urban life. As of December 2014, the school has produced more than 30,000 domestic workers, 90% of whom came from remote areas. The school has provided quality-guaranteed professional domestic services to more than 14,000 residents in Beijing. As a result, its vocational training of domestic services has gradually won the recognition of the society.


- **Welfare Enterprises**: Social welfare enterprises are social enterprises with Chinese characteristics and they have played a significant role in providing opportunities of employment and economic participation for people with disabilities (see column 7). By the end of 2014, there were 16,389 social welfare enterprises in China providing services for people with disabilities and offering 479,000 jobs to this group. In 2014, welfare enterprises registered 9.52 billion yuan in profits and by the end of the year, the impact of their fixed assets reached 178.93 billion yuan.  

Figure 4: Number of Disabled Employees in Welfare Enterprises (2005-2014)

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Shenzhen Canyou Group is a social welfare enterprise certified by civil affairs department and was recognized as a social enterprise in the 2015 China Charity Fair. As of February 2014, it has set up 36 branch offices in Shenzhen, Beijing, Shanghai, Guangzhou, Zhuhai, Hainan, Hong Kong SAR, Macao SAR and Taiwan, and found jobs for more than 3,700 people with disabilities. It owns as many as 11 subsidiaries in Shenzhen. Shenzhen Canyou Group provides public services for the society through commercial operations, such as www.2000888.com, a website providing services for the disabled, Shenzhen Information Accessibility Research, Shenzhen Canyou Social Work Service and volunteer teams of www.2000888.com. Shenzhen Canyou Barrier Free Travel Service Center has launched a campaign called “Caring Caravans” since 2011, providing travel services for more than 12,000 people with disabilities and enabling them to make doctors’ appointments and visit friends through a series of professional and standardized services. Canyou also launched a campaign called “Charity Bookshelf” in 2010. Since then, the activity has helped a large number of people with disabilities to find employment and sources of income. As a result, more bookshelves were set up and some were built into public platforms for other well-known NGOs. Since its establishment in 2011, Weining Dyslexia Centre has provided support services for children aging 7 to 12 and served more than 10,500 people.

Hainan Canfu positions itself as a garment company dedicated to addressing the employment of persons with disabilities. Its employees are mainly disabled people from rural areas and their families. They are hired to process all types of apparel, accessories and textile products. The company has installed processing equipment fully accessible to people with disabilities and improved the working environment to
enhance production efficiency. The company has also signed a cooperation agreement with Hainan Disabled Persons’ Foundation. According to the agreement, the company will donate a certain percentage of its annual profits to the Foundation, which will be used to carry out related training for people with disabilities and improve the accessibility of factory equipment. In return, the Foundation and Hainan Disabled Persons’ Federation will find the sources for part of the company’s orders to make its operation more sustainable. In less than a month since April, 2016 when the company was put into operation, it has received more than 200,000 orders. It is estimated that the 20-plus rural disabled employees in this company can earn as much as 5,000 yuan and the minimum wage is 1,500 yuan. The company enables people with disabilities to make a living and realize their dreams.

Specialized Farmers Cooperative: In Europe, cooperatives are an important part of social enterprises. China’s farmer specialized cooperatives are a kind of economic mutual helping organization that provides the means of production to small farmers who are in a disadvantageous position in the market, or provide them with services related to agricultural produce ranging from marketing, processing, transportation, storage to relevant technology and information. In poverty-stricken areas, such farmer cooperatives play an important role in the production and life of poor rural families (see Column 8). Since the Law of the People's Republic of China on Specialized Farmers Cooperatives was enacted in 2006, specialized farmers cooperatives have developed in leaps and bounds. As of the end of March 2015, there were 1.348 million specialized farmers cooperatives across the country that have been registered according to the law, 95.59 million rural households joined these cooperatives and the capital contributions to the cooperatives amounted to around 3 trillion yuan. Statistics show that in 2014 the total impact of agricultural produce sold through China’s cooperatives reached 752.9 billion yuan and these cooperatives’ total purchase of production inputs amounted to 258.2 billion yuan. There was 90.7 billion yuan surplus available for distribution, 21.37 billion yuan of which were distributed as shares and 51.57 billion yuan were distributed in proportion on the volume (amount) of the transactions effected between the cooperatives and the members (Gao Qiang, Kong Xiangzhi, 2015)". Not all cooperatives are social enterprises, but as long as they continue to create social impact, they can become a potential recipient of social impact investments.

Column 8: Shanxi Comprehensive Farmers’ Association and Planting Specialized Farmers Cooperative

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The birth of Shanxi Yongji Puhan community can be traced back to 1998 when the Science and Technology Service Center was established in Zhaizi Village, Puzhou Township. In 2000, Women's Cultural Activity Center was set up. With the great support of the local Party and government, Puzhou Yongji Farmers’ Association was founded after being registered with local civil affairs department as a social organization in 2004. In 2007, the association was renamed Fruit Association. Since its scope of business covers both Puzhou and Hanyang, the name was later changed to Puhan (Puzhou and Hanyang) Rural Community. In 2005, Farmers’ Association began to plan economic enterprises. After drawing lessons from the collective economic development model of Nanjie Village and Chengdu’s experience of developing ecological agriculture, it launched a project to build an ecological park that covers thousands of mu(one mu equals to 0.164 acre) in Zhaizi Village, which is under the jurisdiction of Farmers’ Association. The project was to integrate the land resources of the whole village, create a rational layout of the ecological park and develop ecological tourism in the village. At present, Puhan Rural Community has become a comprehensive association that engages in various areas, including the marketing and distribution of agricultural commodity, organic farming and technology promotion, the purchase of means of agricultural production, the purchase and sale of consumer goods, the production and sale of handicrafts, credit cooperatives, services for the elderly, health services, waste disposal, community education as well as farming culture, providing a solution to problems related to agriculture, farmers and rural areas.

Sanli Bay Planting Specialized Cooperative in Wuxiang County, Shanxi Province, was established in 2006. Through unremitting efforts, it has increased the number of its members from 50 to 168 and the number of participated households from 260 to 2830, and expanded its coverage to nearly 30 surrounding villages. As of now, this cooperative owns 11 million yuan worth of assets, 6.5 million yuan of which is fixed assets and the rest 4.5 million yuan is current assets. Its planting base covers an area of about 6000 mu (one mu equals to 0.164 acre) and its thirty standardized granaries occupy an area of nearly 3000 square meters. The cooperative owns 62 (sets of) equipment and 6 production lines of processing equipment. The main products of the cooperative include organic black peanuts, millstone-grounded flour, organic millet and other cereal grains produced in a green way. Currently, by extending the industrial chain, the cooperative has developed a green recycling economy development model which integrated planting, breeding, processing and marketing into one. In 2008, it was listed among the Top Ten Specialized Farmers' Cooperatives by Shanxi provincial government and Provincial Committee of the CPC, and in the same year its products made into the list of Top Ten Characteristic Agricultural Products of Shanxi Province. The cooperative has adopted a centralized management method in eight areas, namely, technology, management, recycling, processing, packaging, trademark, sales, and distribution (the returning of
surplus). 64% of the cooperative’s members, who have bought its shares with cash, are shareholders and planting farmers at the same time. 30% of the members have also bought the cooperative’s shares with cash and are paid with year-end dividends as shareholders. 6% of the members have bought its shares with their land contractual rights. Their land contractual rights were converted into equity according to market prices and these members are entitled to year-end dividends.


Other social enterprises: In addition to the aforementioned types of organizations, there have been a number of social enterprises that are registered as companies in China in recent years. They specialize in a wide range of areas, including microfinance, culture, education, health, employment and vulnerable groups. Many companies clearly position themselves as social enterprises, and operate in accordance with certain industrial standards. Among them are the CFPA Microfinance (see Column 9), First Respond, Xiezhi Hostel, Daddy Lab, tianyiqincha.com and Shengshijinxiu. In addition, the charity community has also launched its own certification of social enterprises. Seven social enterprises including Shenzhen Canyou were certified at the 2015 China Charity Fair. But in general, the number of enterprises that position themselves as social enterprises and that of certified social enterprises are very small.

Column 9: CFPA Microfinance: China’s Largest Microcredit Social Enterprise

CFPA Finance is a social enterprise specializing in rural microfinance. Its predecessor was the Microfinance Division of China Foundation for Poverty Alleviation, which was set up in 1996. In 2008, the division started to operate as a company responsible for the implementation and management of microfinance pilot projects. It provides micro credit loans without collateral to the poor who are unable to take out loans from legal financial services or commercial financial institutions, and is committed to helping the poor enhance their self-reliance, realize stability and eventually get rid of poverty. As of May 31, 2015, CFPA Microfinance has carried out microfinance poverty alleviation projects in 147 counties and regions of 17 provinces in China. It has issued 1 million loans, the total amount of which exceeded 10 billion yuan. In September 12, 2015, xiangxin.org.cn, CFPA’s internet financial platform, went alive. It was designed to provide micro entrepreneurs and investors in rural areas with credit intermediary services by using internet technology.

Source: Adopted from CFPA Finance’s website: http://www.cfpamf.org.cn/
Social Enterprises with social objectives and social responsibility: With the enhancement of corporate social responsibility awareness, a growing number of Chinese enterprises has offered to take on social responsibilities, strengthen the protection of employees' rights and interests, promote energy conservation, participate in public donations and targeted poverty alleviation activities, release corporate social responsibility reports and carry out production and business activities in accordance with international social responsibility norms. Companies have been the dominant donator to public welfare, accounting for 70% of the total donations. In recent years, more and more enterprises have started to fulfill their social responsibility in a more proactive and innovative way and have made active efforts to create social impact, becoming a force to be reckoned with in the ecosystem of social impact (see Column 10).

<table>
<thead>
<tr>
<th>Column 10: the Inclusive Finance of Ant Financial Services Group</th>
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<tbody>
<tr>
<td>Ant Financial Services Group started out as a provider of third-party online payment solution and extended its services to credit, finance management, banking, insurance and credit services by constantly introducing new financial services. Relying on the Internet, cloud computing and big data technology, it has provided comprehensive inclusive financial services to millions of small and micro enterprises, tens of millions of individual entrepreneurs and hundreds of millions of individuals. Through years of exploration, it has developed a new model of digital inclusive finance. Since it started to offer small sum loans in 2010, Ant Financial has used big data technology to control risks, reduce the cost of every loan to less than 3 yuan and realized the automatization of on-demand borrowing and lending process. It has loaned more than 700 billion yuan to more than 4 million small and micro enterprises, four times more than that issued by Grameen Bank in 39 years. And these loans are small and micro in every sense with the average amount standing around 38,000 yuan. By keeping the non-performing rate between 2% -4%, it does not only reduce the cost of lending but also effectively put risks under control. In 2016, Ant Financial Services Group started to work with CFPA Microfinance, a social enterprise engaged in microfinance. These two organizations will join hands to extend inclusive financial services to rural China, especially the poor areas, and spread the Internet + Targeted Poverty Alleviation model to more than 300 counties that are prioritized in national and provincial poverty alleviation efforts within three years.</td>
</tr>
</tbody>
</table>

Source: Adopted from Ant Financial Research Institute’s website: https://research.antgroup.com/research/index.htm

Community Service Organizations: Community service organizations and community public service institutions focus on communities, families and residents, and prioritize poor residents, the elderly, the disabled, the unemployed and the surplus rural labor force. They provide services in the areas of employment, social security, social assistance, family planning, housing security and security. By the end of 2015, China has 361,000 community services institutions and facilities of various kinds, the coverage of which reached 52.9%. Among these institutions and facilities are 863
community service guidance centers, 24000 community service centers (up by 4.3% compared with last year), 128,000 community service stations (increased by 6.7% over the previous year), 26,000 community old age services institutions and facilities (up by 36.8% over the previous year), 62,000 mutual elderly care facilities (an increase of 55% over the previous year) and 120,000 other community service facilities (up by 12.1% over the previous year). There are also 249,000 urban outlets that provide services with an aim to make life more convenient for residents and 96,000 community volunteer service organizations. Some of these community services can be provided through operations. They can be operated by the original competent organizations or through the cooperation with other social impact institutions. Therefore, it can become the recipient of the social impact investment.

Apart from the above-mentioned existing or potential producers of social impact (the demand side of social impact investments), traditional commercial enterprises can participate in the creation of social impact during the process of fulfilling their social responsibilities.

2. Social Impact Buyers

Social impact buyers include direct beneficiaries of related products and services, and third-party payers of these goods and services, such as government and various public organizations. It is due to the participation of these impact buyers that the cycle of social impact investment keeps going on.

Consumers play a key role in the realization of social impact investment. No matter the social impact products and services are for specific poor and disadvantaged groups or for a more general public, economic returns will be generated only when the purchase of products and services are completed and social impact will be fulfilled only when the consumption is completed. According to the data of the Commerce Ministry, China's total retail sales of social consumer goods reached 30.1 trillion yuan in 2015, an increase of 10.7%, demonstrating a huge potential for the future promotion of consumption with social responsibility.

Although the concept and model of socially responsible consumption are not widespread in China yet, the developments in this regard are heartening. Take the consumption of new energy vehicles for example. Guided by the national policy and supported by multiple parties, China has made remarkable progress in the development, promotion and technology of new energy vehicles. There is also a rapid growth in the sales volume of new energy vehicles, jumping from less than 500 units before 2009 to 350,000 units in 2015. According to the statistics of China Association of Automobile Manufacturers, sales of new energy vehicles increased at a relatively rapid rate from January to May 2016. The sales volume during this period reached 126,000 units, an increase of 134.1% over the previous year. The survey of AC Nielsen shows that as many as 14% of consumers would consider buying all-electric cars while 22% would consider plug-in hybrid electric vehicles. As for the reasons for considering new energy
vehicles, AC Nielsen found that 42% of consumers choose this kind of car for fewer emissions, more than 40% prefer the low cost and only 3% were influenced by car subsidies.\textsuperscript{30} This shows that most consumers who buy electric cars are driven by the awareness of energy-saving and environmental protection. The completion of their consumption will contribute to environmental protection and bring a positive influence to the entire society.

For social impact investors and producers, government that purchases the relevant services as the demand side usually constitutes the most critical support. In some localities, governments have started to procure social services from third parties. Guangdong Province was the pioneer of such exploration efforts. As of June 2014, Guangdong Province has spent nearly 2 billion yuan in procuring professional social services in the past five years. 350 million yuan of Beijing’s special fund for social development has been invested to purchase 2252 services projects of social organizations in the past five years since 2010. In 2012, Shanghai Municipal Civil Affairs Bureau and Shanghai United Foundation worked together and raised 5 million yuan to finance and support public service projects and public service organizations that are dedicated to "helping the elderly, the disabled, orphans and the poor". At present, many parts of Shandong, Jiangsu, Zhejiang and Sichuan have also carried out such kind of exploration.

VI. The Standards and Assessment System for Social Impact Investment in China

The effective operation of the social impact investment market requires identity authentication of investment participants, regulation of investing behaviors and assessment of investment results. In addition, since many products and services with social impact didn’t participate in market transactions in the past, the establishment of the initial market needs the introduction of an initial price basis to provide basic market signals. The identity authentication, regulation, assessment system and price basis are the most important infrastructure in the social impact investment market, and provide a basis for the decision-making of the government, enterprises and investors.

In China, the government and companies’ awareness of being concerned about social impacts is rising, and their demands for assessing social impacts are also increasing. The government has a lot of practices in assessment of environmental impacts, and has introduced corresponding policies and standards. Assessment of social impacts and poverty impacts has received more and more attention. There are also explorations and practices for social impact assessment in China. For example, in 2004, China International Engineering Consulting Corporation (CIECC) released Guidelines for Social Assessment of China Investment Projects; in 2007, the National Development and Reform Commission (NDRC) released Notice on the Generic Text of Project Application Report, and in the Project Application Report, social impact analysis was exemplarily listed. In the Outline for Development-oriented Poverty Reduction for China’s Rural Areas (2011-2020), the exploration of poverty impact assessment was cleared put forward, but in engineering project examination and approval in China, social impact assessment is still not a necessary link. These efforts have reference significance for tool development, norm establishment and case summary of social impact assessment. However, in China, the work on the identity authentication of market players, regulation of investing behaviors and assessment of investment results has just started, and the work of formulating a price basis has not yet started.

1. Certification of social enterprises

As one of the participants of social impact investment, social enterprises still don’t have a uniform definition in the academic and practical circles, and different countries have different standards for certification of social enterprises. At present, in China, the academic circles, commonweal organizations and a few local governments are engaged in related work.

In September 2015, at the Fourth China Charity Fair (CCF), proposed by the CCF Development Center in Shenzhen, the Center for Civil Society Studies at Peking University, China Philanthropy Research Institute at Beijing Normal University, the Narada Foundation and the Social Enterprise Research Center, along with the CCF Development Center, conducted the certification of social enterprises for the first time in China, and formulated The CCF Certification Methods for Social Enterprises (for
Trial Implementation), which regards organizational goals, sources of income, profit distribution, personnel structure and registration information as the five core elements for certifying social enterprises, and provides financial, talent and hatching support for the certified organizations (Column 7). In addition, Shunde City in Guangdong Province also issued local certification standards for social enterprises, as the basis for government support.

**Column 7. The CCF Certification Methods for Social Enterprises (for Trial Implementation)**

The CCF Certification Methods for Social Enterprises (for Trial Implementation), jointly released by the Center for Civil Society Studies at Peking University, Shenzhen International Commonweal Institute, the Narada Foundation, the CCF Development Center and the Social Enterprise Research Center, is self-discipline and self-regulating certification standards for social enterprises.

1. Organizational goals: it has specific and clear social goals, namely to promote employment, support special groups or solve other specific social problems, including but not limited to poverty alleviation, education, health care, pension, environmental protection, agriculture and food safety.

2. Sources of income: over 50% of its income comes from the sale of merchandise, trade or service delivery (including government procurement\(^{31}\)).

3. Profit distribution: its articles of association specify that the profit used for distribution each year should not exceed 35% of its total annual amount of profit. (The profit of a social organization is used exclusively for the purposes and objectives of the organization).

4. Personnel structure: it has full-time salaried staff for internal management and business activities, with more than two years of qualified tax records.

5. Registration information: it is a legally registered enterprise or social organization\(^{32}\), and the date of registration on its operating license should be more than two years ago.

In 2015, the expert judges, through rigorous review and approval procedures, selected seven basically qualified social enterprises from 39 applicants nationwide; the seven qualified social enterprises were Dalian Icare Science and Technology Development Co., Ltd, Wu Weiquan Sheltered Workshop in Pengjiang District, Jiangmen City, Lanzhou Chongde Orphaned and Disabled Children Service Center, Dialogue in the Dark (Shanghai), Shanghai SOS919 Information technology Co., Ltd, Shenzhen Canyou Holding Group Co., Ltd, and Shenzhen Information

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\(^{31}\) It was newly increased in 2016.

\(^{32}\) It was newly increased in 2016.
Accessibility Research Association. These organizations were certificated and published at the Fourth China Charity Fair (CCF).

Source: adopted from “Accreditation Guidelines for Social Enterprises” by China Charity Fair

2. The standards and assessment system for social impact investment

The standards for social impact investment are not equivalent to the standards for social impact assessment. Currently, the social impact assessment popular in the world is basically the quantitative assessment on the output of social impact of enterprises receiving investment, and there is no screening criteria for social impact investees, not to mention a complete and practical system. In practice, there is no uniform and authoritative evaluation criterion for what is social innovation and what is a social enterprise; the conceptual confusion limits the optimization selection of investees, easily excluding some excellent commercial enterprises engaging in social innovation. This limits both ideas and entrepreneurial practices for social innovation, and becomes a bottleneck restricting social impact investment. To solve this realistic predicament, China Social Entrepreneur Foundation (YouChange) put forward 3A-Synergy Standards for social impact investment, to assess investment feasibility based on three elements: Aim, Approach and Action. Based on this set of standards, in 2014, YouChange developed a system that can convert qualitative evaluation into quantitative standards. At present, the standard, iterative and automatic online platform for 3A-Synergy standards has been put into trial operation; it has been applied in the appraisal and election of 2016 Star Social Innovation-oriented Enterprises, and many road shows held by Social Value Investment Alliance, and achieved good results.

Column 11. YouChange’s 3A-Synergy Investment Principles & Evaluation System

China Social Entrepreneur Foundation (YouChange) thought that enterprises with social impact creativity should meet three assessment standards: Aim, Approach and Action, so it put forward put forward 3A-Synergy Standards for Social Impact Investment. Based on this set of standards, in 2014, YouChange developed a system that can convert qualitative evaluation into quantitative standards. This set of standards calls for comprehensively assessing enterprises based on three elements: Aim, Approach and Action, and their coherence, in order to identify social innovation-oriented enterprises that can actually solve social problems with innovative solutions and sustainable business models. It adopts the internationally recognized impact assessment standards for assessing social impacts of investment. The 3A-Synergy Social Impact Investment Standards & Assessment System integrates standards for social impact investment, strategic management tools for social innovation-oriented enterprises, and assessment on results of social impact investment.

In terms of Aim, through investigation on publicity of social issues that enterprises are concerned about, strategic positioning of their projects and whether their ability to solve social problems matches with their resources and endowments, we can
estimate the coherence of passion, capacity and teamwork of the founders and their teams.

The targets required by Approach are very unique. Relying on commercial terms to integrate social goals and social innovation elements into investigation on enterprises, we can verify if their solutions are consistent with their social goals, if their profits are from innovation, and how social stakeholders participate in their profit distribution. Enterprises’ innovation includes innovations on technology, products and services, and we can verify if these innovations magnify their social impact and benefits of target populations, and if the social innovation brings the amplification of business impact, so as to estimate the coherence of orientation, efficiency and interests between their innovative solutions and social goals.

In terms of Action, focusing on output and outcome, we can verify whether enterprises’ previous investment turns into real social impacts, and whether they turn social problems into business opportunities—products can be sold and accepted by the market to get lucrative profits, which can turn into long-term social benefits, bringing benefits and changes to target populations, in order to estimate the coherence in process and over time.

Based on the 3A-Synergy Standards, YouChange and Social Value Investment Alliance have established an online technology platform supporting 3A-Synergy assessment, as well as a 3A-Synergy index database, a model base, a questionnaire assessment system, an assessment weight algorithm system, an assessment report automatic generation system and other functional modules, to fully support the application of the social impact investment standards throughout the process (See Figure 3).

![Figure 3. Social Innovative 3A-Synergy Principles & Evaluation System (for Social Innovation-oriented Enterprises)](image)
管理制度与流程: Management Policy & Process;
市场成效与成长性: Achievements in the Markets and Growth;
社会影响力: Social Impact
社会议题: Social Issue; 战略定位: Strategic Positioning;
整体意识: Sense of Integrity; 崇高热切: Lofty Ideal and Zeal;
远见魄力: Foresight & Boldness; 勤奋务实: Diligence and Pragmatism;
能力禀赋: Capacity; 资源禀赋: Resources; 自我成长: Self-development;
新创意、新技术、新设计: New Idea, New Technology and New Design;
关键业务的独特性: Uniqueness of Key Business;
由创新带来的利润空间: Profit Margins Brought by Innovation;
价值链闭环: Closed Loop of Impact Chain;
资源的激活优化和共享: Activation, Optimization and Sharing of Resources;
成本结构和收入来源: Cost Structure and Source of Income;
治理结构: Governance Structure; 分配制度: Distribution System;
公开透明: Transparency; 制度建设: Mechanism Construction;
过程管理: Procedure Control; 持续改进: Continuous Improvement;
用户数量和渠道增长: Growth in the Number of Users and Channels;
品牌价值增长: Growth of Brand Impact;
利润及增长率: Profit and Its Growth Rate;
社会成效: Direct Output & Outcome;
长期影响力: Long-term Impact;
影响力归因: Attribution of Impact;

The standard, iterative and automatic online platform for 3A-Synergy standards has been put into trial operation; it has been tested in the appraisal and election of 2016 Star Social Innovation-oriented Enterprises, and many road shows held by Social Value Investment Alliance, and received good feedback from expert judges and investors.
**VII. Policy Environment for China’s Social Impact investment**

A supportive policy environment is crucial for boosting social impact investment, especially in the early stage of market development, in which government intervention is of essential importance. In countries like the UK and the United States, the development of social impact investment is acknowledged by a legal framework, and gains preferential policy support in tax, financing and government subsidies. This makes a significant contribution to the resolution of social problems, and social and economic development.

China has rolled out laws, regulations and policies on both the supply and demand side of social impact investment, which provides a certain institutional foundation for its development. However, the existing legal framework and policy systems have not yet introduced the concepts of social impact investment or social enterprises, and the laws and policies on both the supply and demand side do not match each other well. Consequently, there is much room for improvement for the policy environment.

1. The Laws and Regulations

Laws and regulations on social investment activities can be generally divided into three categories including general laws and regulations on the charity industry, laws and regulations on the supply side (especially investment intermediaries), and laws and regulations on the demand side (especially people who create social impact). Table 3 summarizes some of the relevant laws and regulations.

Table 3: Part of the laws and regulations on social impact investment

<table>
<thead>
<tr>
<th>Category</th>
<th>Names of the laws and regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>The industry level</td>
<td>Donation Law for Public Welfare (1999);</td>
</tr>
<tr>
<td></td>
<td>Charity Law (2016)</td>
</tr>
<tr>
<td>On the supply side</td>
<td>Commercial Bank Law (1995, revised in 2015);</td>
</tr>
<tr>
<td>On the demand side</td>
<td>Regulations on the Registration and Management of Social Organizations (1998, exposure draft issued in 2016)</td>
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<tr>
<td>--------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Provisional Regulations on the Registration and Management of Private Non-corporate Organizations (1998)</td>
</tr>
<tr>
<td></td>
<td>Foundation Management Ordinance (2004)</td>
</tr>
<tr>
<td></td>
<td>Regulations for the Registration of Farmer Cooperatives (2007, revised in 2014)</td>
</tr>
<tr>
<td></td>
<td>Assessment and Management Procedures for Social Organizations (2010)</td>
</tr>
<tr>
<td></td>
<td>Management Measures for Overseas NGOs to Conduct Activities within China (2016)</td>
</tr>
</tbody>
</table>

From the above table which sorts out relevant laws and regulations, we can get the following 3 findings. Firstly, while there are comprehensive laws on the entities and activities of social impact investment, the laws and regulations on certain social impact creators are still lacking, such as those of policy banks and social service providers. Moreover, some of such laws and regulations are temporary or have low authority. Secondly, relevant legislations have sped up development in recent years, a lot of legislations and amendments have been rolled out since the Third Plenary Session of the 18th Communist Party of China (CPC) Central Committee. Thirdly, core concepts including social impact investment and social enterprises have not yet been reflected in the legislation yet, which is not conducive to link both the demand and supply side and form a complete legal framework.
2. Management Mechanism

At present, the registration management of welfare enterprises, farmers' cooperatives, private non-enterprise units, foundations, community groups and other existing or potential creators of social impact are not the same.

(1) Welfare enterprises. Ministry of Civil Affairs issued the Interim Measures for the Management of Social Welfare Business in 1989, and then the Approach for Qualifying Social Welfare Enterprises in 2007 which renewed conditions for being qualified as social welfare enterprises, or that welfare enterprises need to be registered by the Industrial and Commercial Bureau and qualified by Ministry of Civil Affairs.

(2) Specialized farmer cooperatives. The Farmer Cooperatives Act enacted in 2006 recognizes clearly the legal status of farmer cooperatives. The Registration and Management Regulations of Farmer Cooperatives defines clearly that the registration management bodies of farmer cooperatives are the industrial and commercial administrative departments, and their business is under the supervision of the Ministry of Agriculture.

(3) Social organizations, private non-enterprise units and foundations. By law, the registration authority of these three types of organizations is the Ministry of Civil Affairs. (4) Overseas NGO. According to the Law for Managing Activities Conducted in China by Overseas NGOs of People's Republic of China adopted in April 2016, the public security departments of central and provincial government are the grade management authorities of all kinds of non-profit and non-governmental social organizations which are established legally overseas, and relevant central and provincial departments and units are in charge of managing the business of such organizations.

In addition to the registration management mechanism, China has improved the assessment and management mechanism for various social organizations in recent years. In 2010, the Ministry of Civil Affairs rolled out the Assessment and Management Approaches for Social Organizations, which aims to make integrated assessment of social organizations and foundations in terms of basic conditions, internal governance, work performance and social evaluation, as well as to conduct standardization assessment of private non-corporate organizations in terms of basic conditions, internal governance, business operations, integrity construction and social evaluation. Moreover, the Approaches also make clear assessment bodies and their responsibilities, assessment procedures and methods.

3. Preferential Policies

Involving greater social participation: Currently, some departments have announced their support for involving more participants in the charity cause. Some cases in point are Notices of Encouraging Trust Companies to Support Reconstruction after Disasters by Conducting Charity Trust Business (2008) by China Banking Regulatory Commission, Guidance on Promoting the Sound Development of Philanthropy (2014) by the State Council, Advice on Further Mobilizing Various Forces of the Society to

**Fiscal Policy:** though there is no standard definition of social impact investment in our country, the government has rolled out various preferential fiscal policies for investments in the charity sector. For instance, The Notice of Preferential Tax Policies for Promoting the Employment of the Disabled People (2007) clarifies conditions for welfare enterprises to enjoy tax rebate, which stipulates that the tax rebate for each disadvantaged person shall not exceed RMB35,000 each year. The Notice of Issues on the Pre-tax Deduction for Charitable Donations promulgated by the Ministry of Finance, State Administration of Taxation and Ministry of Civil Affairs clearly defines pre-tax deductions for income tax of both enterprises and individuals who donate for the charity cause. To be more specific, for corporate donations that exceed 12% of their overall annual profits, the exceeding part can be deducted from the income tax in calculation; for individual donations, if they are no more than 30% of the taxable income claimed by the taxpayers, they can be deducted from the tax payable.

The two guidelines on charity and poverty reduction rolled out by the State Council in 2014 stipulate clearly that preferential tax policies including pre-tax deduction and tax exemption for donations that aim to alleviate poverty, and supportive policies for market entities to invest and start business in poor areas which in turn brings along with the growth of employment and revenue, shall be implemented fully in a comprehensive manner in accordance with national tax laws and relevant regulations. However, in terms of implementation, though there are provisions on implementing and expanding tax incentives, detailed policies and documents for implementation are still insufficient. Meanwhile, there are strict qualification and implementation regulations for preferential tax policies, which makes it difficult for entities of social impact investment or social enterprises to enjoy tax exemptions, tax credits and other benefits.

**Service procurement by government:** In June 2002, China promulgated the Government Procurement Law of the People's Republic of China, which provides guidelines for government’s procurement of services. With the gradual expansion of its service procurement, the government has introduced a number of guidelines which emphasize the nature of public welfare of service procurement, and encourage the application of services procured to more public service areas. On September 26, 2013, the General Office of the State Council issued Guidance for Governments to Purchase Services from Social Forces, which stressed the importance of purchasing services from social forces by government, and required that the government should purchase services from social forces in an orderly and standardized manner. However, in current practice, the majority of social organizations have not yet been included as procurement service providers.
Financial services: The social impact investment is in need of special financial services to support the entire investment process. As far as China's current system and policy environment is concerned, the financial services which can be enjoyed by social impact investment are concentrated on specialized farmer cooperatives, small and micro enterprises and other organizations and entities.

Talents Development: Currently, mechanisms and policies on the development of qualified personnel of social impact investment are insufficient and only some of the administrative regulations were issued for promoting the development of professionals of social work. These include Guideline on Enhancing the Training of Professionals in Social Work promulgated in November 2011, and Guideline for Strengthening the Development of Professionals of Social Work for Teenagers’ Affairs rolled out by 6 departments including Communist Youth League of China, Central Comprehensive Management Office and Ministry of Civil Affairs. On 26th April, 2012, the Ministry of Civil Affairs compiled and announced the Middle and Long-term Plan (2011-2020) for the Training of Professionals of Social Work.
VIII. Social Impact Investment and Reform of State-owned Enterprises

It is probable that one of the major contributions of social impact investment to China’s reform and development is that it offers a novel thinking on the reform of state-owned enterprises (SOEs). In turn, the progress in SOE reform might be helpful in promoting the development of social impact investment. They are complementary and one functions as an opportunity for the other.33

1. Social-impact-oriented SOEs

As a form of management and organization of production, SOEs have the nature of profitable legal person, sociality and public welfare. Profitability is reflected in the maintenance and appreciation of impacts for the state-owned assets; sociality and public welfare find expression in that the establishment of SOEs, in general, is to achieve the goal of realizing national strategies and regulating economy, mediating different aspects of development in national economy.

In December, 2015, jointly released by State-owned Assets Supervision and Administration Commission (SASAC), Ministry of Finance and National Development and Reform Commission (NDRC), Guidance on Function Definition and Classification of State-owned Enterprise states that, “state-owned enterprises fall into two categories, SOEs for business and SOEs for public welfare. Reform, development, supervision, responsibility allocation and assessment should be done according to the categorization, promoting deep integration of SOEs with market economy and facilitating the organic combination of economic benefit and social benefit of SOEs”. Goals of SOEs for public welfare include protecting people’s livelihood, serving the society and providing public products and services, with the prices of necessary products and services being subject to governmental regulation and control; while in the meantime there is need to introduce the market mechanism to constantly improve the efficiency and capacity of public services.

Driving SOEs for public welfare to become social-impact-oriented enterprises means that these SOEs, both as investors and director creators of social impact, need measurable social impacts that are strictly defined. Prior planning and estimation & measurement of the social impact that the enterprises can create will expand the discourse space for the reform of SOEs for public welfare, because for one thing these preparation works will deepen people’s understanding of the impact and performance of SOEs for public welfare and for another, they will restrain moral hazard behaviors of enterprises. Besides, giving up the target of obtaining moderate profit is not a

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33 This report discusses the relation between social impact investment and SOE reform; however, the analyzing approach, logic and findings are referential to reform of public institutions. Due to the length limit of the article, there will be no further discussion.
benchmark for social-impact-oriented enterprises, which is helpful for the maintenance and appreciation of enterprises and reducing the resistance of reform.

Even for SOEs for business, their branches or part of their businesses can have strong nature of social impact. The Guidance gives definition of SOEs for business that apart from “SOEs for business whose main business is in fully competitive industries and fields”, they also include “SOEs for business whose main business is in important industries concerning national security and lifelines of the national economy and that are undertaking major specialized tasks”. The latter kind of SOEs for business also shoulders significant social responsibility. The Guidance points out that, “for these SOEs, while assessing their operational performance indexes and maintenance and appreciation of state-owned assets, it is also necessary to reinforce the assessment on their service for national strategies, protection of national security and national economic operation, development of forward-looking and strategic industries and accomplishment of special tasks”. Thus, though some enterprises are categorized as SOEs for business, they are assessed by the country for their performance of sociality. In other words, this kind of SOEs is run according to a sustainable for-profit model with a measurable target of social impact at the same time.

For social-impact-oriented SOEs which provide products and non-financial services, the government is their capital source of social impact and enjoys the rights and interests of an investor. As the investor of social impact, the country manages and supervises the state-owned assets of these enterprises; management organizations of state-owned assets perform the rights of the investor and exercise property right management on state-owned assets. As for the maintenance and appreciation of state-owned assets and the rights of state-owned investors, the goal is to prevent loss of state-owned assets and to make sure that SOEs undertake part of the social responsibility. For listed SOEs, some shareholders become their investors through transactions at stock exchanges. Their approval of enterprises’ social responsibility will influence the extent that social-impact-oriented enterprises fulfil their social responsibility. With the deepening of the mixed ownership reform, some capitals from private enterprises will be invested into SOEs. If these enterprises of mixed ownership are social-impact-oriented, naturally, those investors from private enterprises will become investors of state-owned social impact. It is safe to say that if social-impact-oriented SOEs go public, it will greatly increase of pervasiveness of social impact invest in economy, which offers opportunities for the development of social impact. Though in all the experimental units of mixed ownership reform so far, there is basically no shareholding investment to state-owned social impact-oriented enterprises, but it is still an option.

2. Social impact investment-oriented SOEs

SOEs serve not only as the targets of social impact investment, but also as investors or intermediary channels of social impact invest. If SOEs use their own capitals to make social impact investment in other organizations, they are the investors; if they finance
impact investment through soliciting funds, borrowing or issuing bonds, they are the intermediary channels. Sometimes, an organization can play two roles at the same time. If there is no detailed information about the resources and nature of investment capitals, it is difficult to define the type of an organization.

In China,, some SOEs have been playing the role of investment intermediaries, including development- and policy-oriented financial institutions and commercial financial institutions. Take China Development Bank (CDB) as an example, its major development-oriented businesses are all for social impact investment, such as new-type urbanization, affordable housing project, etc. For new-type urbanization, CDB tackles transformation of city slums and villages in cities with special efforts. It also favors, with credit and loans, sinkholes in coal mining areas, forest zones, reclamation areas, resource-exhausted cities and regions going through large-scale slum transformation where used to be congregations of third-line enterprises in the middle-west and northeast. For livelihood, CDB covers business on provision of affordable housing for the aged, medical services for the aged, cultural services for the aged, community service, student aid, etc. These investments and loans offer great social benefits, thus belonging to social impact investment, of which the majority is investment to SOEs. As mentioned above, agriculture-related loans and poverty-alleviation loans provided by commercial financial institutions like the Agricultural Bank of China and Postal Savings Bank of China also show obvious nature of social impact investment.

3. Social Impact Performance Evaluation of SOEs

The most important element of SOE reform by social impact investment may be its social impact evaluation system. SOEs, especially the abovementioned social-impact-oriented SOEs, have a stronger sense of sociality and public welfare and undertake more social responsibility than average private enterprises. However, there is no detailed scheme for the social impact performance evaluation of these enterprises. The concept of “social impact investment” can help with the standardized measurement of the social effect of social-investment-oriented SOEs. The social impact evaluation of SOEs should be conducted throughout the whole process of investment, production and service. By collecting and tracking of data and information, it is a qualitative and quantitative evaluation on the output and results of investment. Through this kind of strict evaluation, the government, investor of SOEs, can acquire valuable information on the micro level, beneficial to resources allocation and adjusting operation and strategic decision-making inside the organization, in the meantime, can help the government and SOEs to convey the social impact of the projects more effectively to the public with truthful data. These methods will improve the evaluation of the economic and social performance of SOEs and strengthen the supervision over the reform and development of SOEs.

In fact, enterprise performance evaluation is not something new. It once focused on physical quantities such as “production output” and “enterprise output impact” during the period of planned economy, and then took the form of financial performance
assessment index system mainly based on financial data after the reform and opening-up. In the late 1990s, the promulgation of *Performance Assessment Rules for State-owned Capitals* marked the official establishment of a performance assessment system for SOEs. Taking references from some performance assessment systems of western enterprises, such as Dupont Financial Analysis System and Balanced Scorecard Method, this assessment system takes consideration of China’s national conditions and the actual situations of SOEs. It consists of 32 indexes in four categories, which are financial benefit, assets operation, debt paying ability and development ability, covering the basic qualities, market shares, development and innovation abilities of enterprise operators among other non-financial indexes, initially achieving the organic combination of financial and non-financial indexes.

Generally speaking, however, this system still centers on financial performance, making it unqualified to evaluate the social impact of SOEs. In the *Guidance on Function Definition and Classification of State-owned Enterprise* issued by the State Council in 2015, it is clearly pointed out that, “for SOEs for business, they should give consideration to both the industrial features and their operation nature according to their function positioning, development aim and responsibility & mission. Taking account of the different index requirements of economic and social benefit for different enterprises, they should set up differentiated appraisal criteria and establish an appraisal system that combines annual appraisal and term appraisal, integrates results appraisal and process assessment, and links appraisal results with reward & punishment. For SOEs for public welfare, the emphasis of appraisal should be put on cost control, quality of products, level of services, efficiency of operation and guarantee ability. The appraisal on operation performance and the maintenance and appreciation of state-owned assets should be flexible based on different characteristics of enterprises and social assessment needs to be incorporated to the system”. However, so far a systematic set of assessment indexes on the social performance of SOEs is still absent.
IX. Summary and Suggestion

Social impact investment (SII) possesses a bright future in China. SII matches closely the Chinese impacts of “adopting a balanced approach to friendship and interests and putting friendship before interests” - the current five concepts on development and the ideological pursuit of the socialist market economy. From the standpoint of the ecological environment for investment, China has various main participants in demand and supply sides with the increasing capacity of the government, main market players and charitable sections. In addition to this, China has also achieved a lot in economic society since the implementation of reform and opening up policy, and the rapid development in financial market has provided abundant resources for SII growth. In order to handle the before-mentioned weakness and constraints confronting, the government, market and society should reach consensus and work together to coordinate advantaged resources by means of SII and address the urgent social and economic challenges.

There still exist some weak points in SII programs in China. Not to mention the scale of the investments, only few programs are clearly claimed for the SII. And these programs also have no clear business model, and influential organizations are not willing to be involved. Successful cases are rarely seen. In China, there are some large-scale programs actually meet the demand of SII. But the investments are conducted without full recognition of the framework of SII, which consequently leads to the inability of managing their asset and regulating themselves accordingly. As for the programs which can be regarded as SII in name and in nature, their ratio in the total social investment is still low. For the existing SII programs, state sectors accounts for the most of the investments and big-scales. On the contrary, investments from private sectors and civil society are way small. As for the SII investee, the number of social organizations is limited. For the investing methods, rather than the security and stock equity, many SII programs choose the traditional way of credit and loan to invest.

The disadvantages mentioned before are resulted from many factors, including the poor publicity and research of related concepts and knowledge, the imperfection of market bases such as the certification, rule and evaluation tools and systems, the absence or underdevelopment of some major market players, the financial market, legal system, policies and implemented details, and social sectors, and the buyers’ poor knowledge. In order to deal with these defaults, here is to give some suggestions as follow:

Short-term policy proposals:

(1) **Strengthen the publicity and advocacy of SII.** Summarize the concept, mode, strength and weakness of SII and its relationship with other patterns of social investment by analyzing the SII cases abroad and in China. Increase the popularity and advocacy of SII among the government staff, young students and general public and in the market (particular in the financial market) by publishing related manuals, articles and ads and giving related education and training.

(2) **Establish SII alliances to encourage the entrepreneurs and scholars** who are interested in SII to performance the related promotion and pilot work. **Build some SII funds** which can absorb the guiding funds from the government. **Perfect the**
enforcement regulations on how the public services were bought by the government and include SII companies into the government’s PPP programs. The government should purchase public services from SII companies actively and define the scope, standards and quality demand of its purchase. Make SII group list on the third board market and support the group in intern of market access, regulation, evaluation and participants.

(3) **Promote the infrastructure development of SII actively.** The related departments should empower 3-5 SII promoting organizations with autonomy and expertise to issue their own tools and systems on SII certification, rule and evaluation. And these different tools and systems should compete with and complement each other to benefit and guide the government purchase and funding. The government departments should cooperate with the research institutes and main market players to generate and perfect the cost lists of key social services based on the practice for the main related players’ access to market.

(4) **Conducting more research on the conceptual frame of and ecological environment for SII.** The government should bring the SII into the finance-supporting programs, encourage the local government and related departments to launch pilot programs and summarize experience. SII should also be incorporated into the entrepreneurship and innovation courses of the universities and research institutes. According to the situation in China, academic institutes, think tanks, charitable organizations and investments corporates shall be established to study and tackle the problems confronting in SII. In addition, it should be more popularized among the corporates that the research of SII investments should be listed in the plan of public contribution and donations.

(5) **Advocate consumption and purchase with responsibility.** The government, enterprises and society should cooperate with each other actively and promote consumption and purchase with social responsibility. The government should meet the social despicability standards when purchasing products and service and support the involving industries to form social purchase evaluation system with which to urge the enterprises to fulfill their social duties. At the same time, improve the consumers’ consumption with social responsibilities through publishing public-interest ads and launching theme activities.

(6) **Bring SII into the reform of SOEs and public institutions.** Build reliable evaluation agencies which are suitable for SOEs to conduct SII under the support of SASAC and other related departments. These agencies are responsible to validate and evaluate the SOEs’ performance before, during and after the SII. Enable some SOEs and public institutions to transform to social impact oriented enterprises and build SII funds for SOEs.

**Medium and long-term policy proposals:**

(7) **Perfect the legal and policy system.** First, the government should press forward with legislation to regulate SII and the operational activities carried out by social enterprises and charitable institutions and guide the establishment of key market subjects (such as SII institutions on wholesale), security exchange market (such as social stock exchange) and new financial tools (such as social impact bonds). Second, revise the existing law and regulations related to the supply side, demand side and charitable activities by bringing into the concept of SII and linking up them with the new ones under the framework of SII. Third, launch the related policies to guide the private and
SOEs to take part in the SII. Forth, the government should take the concept and method of SII into consideration when it is making the plan on social investment and development programs such as poverty alleviation, energy conservation and environment protection, pension scheme, health, education and PPP. Fifth, formulate the related tax, subsidy and financial policies based on the SII performance.

(8) **The market entity and services should be well developed, as well as the ecosystem.** Public social investment companies, social investment banks or investment funds should be established to offer most cost-effective SII capital. For the purpose of pressing forward the development of social organizations, it is necessary to improve the public charity services and register and evaluation system of the social services sectors by lowering the bar and strengthening the supervision. The auditing, evaluation, research, consulting and legal services, or any other related services should be listed in the coverage of tax-free and finance-supporting plan to develop the investment services companies. Supporting policies should be put forward to guide or back the training of the talents.

(9) **Establish “SII Exchange” or create SII Group** on Shanghai Stock Exchange and Shenzhen Stock Exchange to issue SII bonds. Enable the investor who have interest on SII to participant and supervise the related work.

(10) **Establish an steering committee on the development of SII** which consists of the officers from different government departments such as NDRC, Ministry of Finance, SASAC, CSRC and the experts from financial investment agencies, public benefit community, academic circles and international organizations.