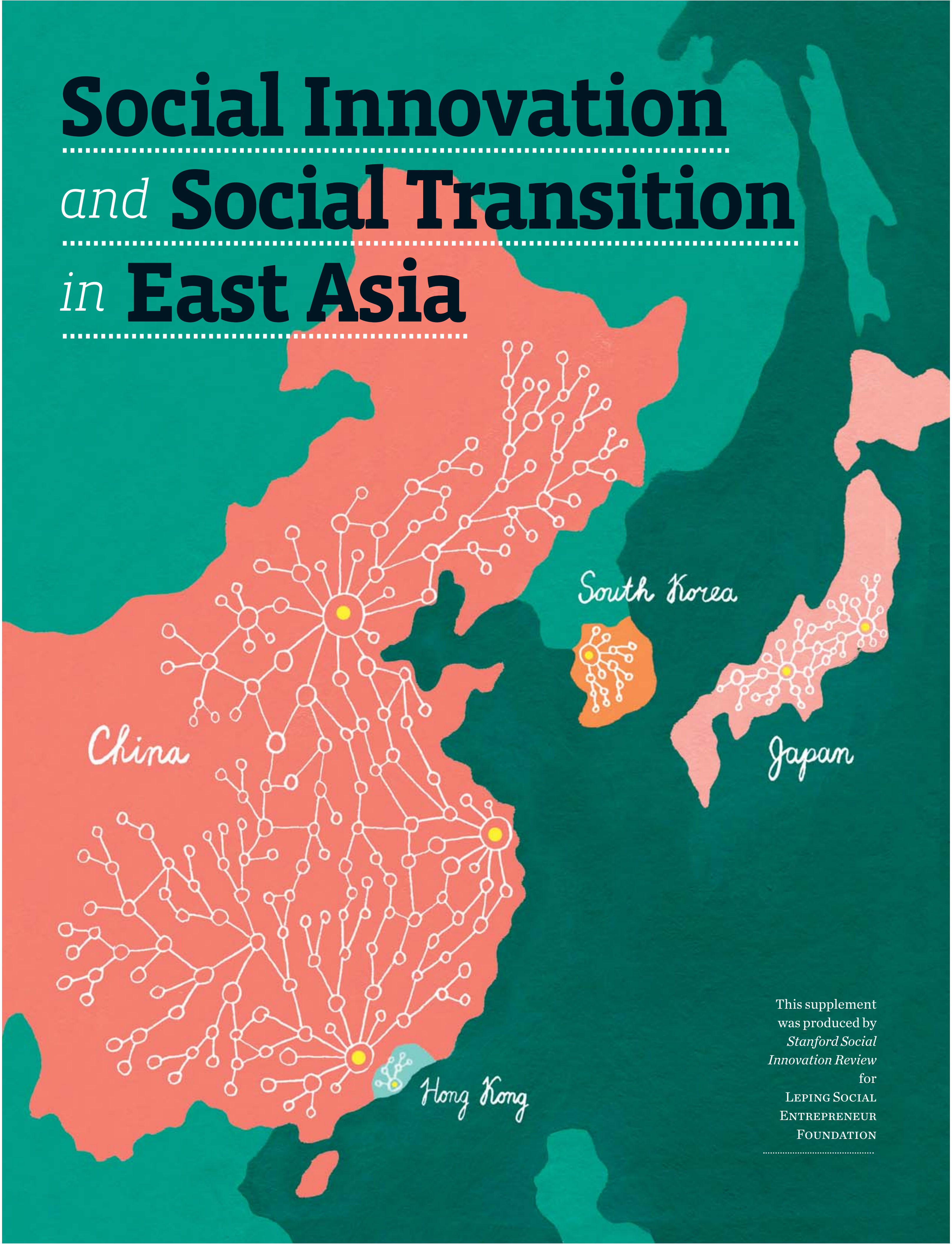
Social Innovation *and* Social Transition *in* East Asia



This supplement was produced by *Stanford Social Innovation Review* for Leping Social Entrepreneur Foundation

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This supplement, "Social Innovation and Social Transition in East Asia," was produced by *Stanford Social Innovation Review* for Leping Social Entrepreneur Foundation. The foundation, based in Beijing, seeks to address China's social problems by investing in social enterprises and social entrepreneurs and by building the field of social innovation.

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East Asia's Role in Global Social Innovation

China, Japan, and South Korea have been tremendously successful at growing their economies, which together account for roughly 20 percent of the world's GDP. Can these same East Asian countries now be as successful at devising innovative ways to improve their societies?

BY DONGSHU (JAFF) SHEN & FAN LI

Misfortune can be a blessing in disguise. Good luck can dwell in misfortune, but misfortune can also arise from good luck.—Lao Tzu[1]

The biggest news of 2016 would probably be the British vote to leave the European Union or Donald Trump's election as America's 45th president. Both events suggest that the spread of Western-style liberal democracy—alongside universal practices of free markets, free trade, and open immigration—over the past two decades has yet to become "the end point of mankind's ideological evolution," as Francis Fukuyama anticipated in 1992.[2]

Plainly, many in the West are no longer comfortable with accepted ideologies and institutions. Yet, as Lao Tzu reminds us, moments of crisis like this are also opportunities. It is important to acknowledge that globalization has lifted hundreds of millions of people—whether in developing or developed countries—out of poverty. However, the side effect is that it has also delivered enormous benefits to the wealthy, thus generating rising inequality. In some places, the declining working class that has been left behind is turning to economic nationalism and protectionism for a quick fix.

TAKING SOCIAL INNOVATION IN EAST ASIA TO THE NEXT LEVEL WILL REQUIRE AN ACTIVE EXCHANGE OF IDEAS AND COLLECTIVE CROSS-SECTOR IMPACT THROUGHOUT THE REGION.

Nevertheless, the world we are living in today is inextricably interconnected—it is impossible to go back to the past. Furthermore, issues such as climate change, energy shortages, and the aging society that people face today are increasingly complex and—political positions aside—demand new approaches to problem solving.

Social innovation—a concept that has captivated thinkers and policymakers around the world in the 21st century—offers a potential answer. As "a novel solution to a social problem that is more effective, efficient, sustainable, or just than present solutions,"[3] social innovation goes beyond "teaching a man to fish," and instead (to continue the analogy) aims to reform "the entire fishing industry" from its roots, in the context of the diverse cultural and ideological circumstances that we live in today. This is true around the world, and East Asia is no exception.

Three major economies in East Asia—China, Japan, and South Korea—account for roughly 20 percent of the world's population and 20 percent of the world's GDP. Generations of hard work and sacrifice have made this region's "economic miracle" a role model for many other nations. Yet China, Japan, and South Korea share many of the urgent social challenges that the rest of the world faces. These countries must deal with aging societies, urbanization, air pollution, and increasing income gaps between the wealthy and the rest of society.

But as we enter a new era of unpredictability, the question of social innovation's potential is becoming more urgent. Can East Asia become an engine of social innovation? Can this region use social innovation to become a responsible stakeholder in a global order that promotes peace and prosperity?

There are positive signs that the answer is "Yes." For example: Led by mayor and former human rights activist Park Won-soon, Seoul, a megacity of 10 million people, is positioning itself to be a model city in the "sharing economy"[4] by working in partnership with civil society organizations and private companies. Early results are promising.

In Japan, impact investing from the private sector emerged quickly—and effectively—to help those in need after the Great East Japan Earthquake in 2011, as a response to the government's failure to pursue prompt reconstruction in disaster-stricken areas.

And the China Social Innovation Award, launched in 2010 by Peking University and the Central Compilation & Translation Bureau (a Communist Party think tank), is now an established and increasingly well-known biannual event focused on identifying and encouraging community-based innovation led by nonprofit organizations.

Yet despite the growing amount of resources devoted to social innovation, the talent working in and drawn to the field, and the

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increased attention that the concept is receiving in East Asia, few studies have explored how this region as a whole is adopting and diffusing social innovation to solve problems. Here at Leping Social Entrepreneur Foundation, we believe that there is a need to expose East Asia's social innovation practices to the world and share successes (and failures), and that is why we have collaborated with the *Stanford Social Innovation Review* (*SSIR*) to publish this supplement.

As a foundation established in China in 2010 with the mission of empowering every underprivileged individual with equal growth opportunities, Leping is committed to making a greater impact in China as well as globally. Building upon 14 years of experience investing in and working with social entrepreneurs to help the most vulnerable groups of people in China, such as farmers and migrant children, Leping sees itself as a social innovation catalyst and market maker. We also strive to disseminate knowledge about social innovation in China and beyond because we believe that doing so will prove useful to others interested in the field, whether they are social entrepreneurs, philanthropists, governments, or other stakeholders. To that end, in these pages we have invited individuals working on the emerging frontiers of research and innovation in the field to share their perspectives on social innovation in their own countries.

TO ENSURE THE SUCCESS OF ANY EFFORT, SOCIAL ENTREPRENEURS MUST EMBRACE A LEARNING PROCESS THAT RECOGNIZES AND INTEGRATES LOCAL CULTURE AND PRACTICE.

This is by no mean a complete overview of the social innovation landscape in China, South Korea, and Japan; instead, it is more of a collection of snapshots of ongoing efforts to increase social impact and improve lives in the region. However, we hope this initial effort will lead to more open dialogues, collaborative learning, and in-depth research on the topic.

What Have We Learned from Putting Together This Supplement?

Articles in this supplement confirm that social innovation is an emerging field that takes many different forms, whether it's crowdfunding for grassroots organizations led by an IT giant in China or the first ISO standard for an elderly care management system in Japan. Social innovation is a patient battle to move boundaries, where success turns on the ability to integrate new efforts and approaches into an existing context. And although all social innovation efforts seek the same goal of better and happier lives, succeeding requires a deep understanding of and respect for the culture and value sets of each community and society in which the innovation will be deployed. It also requires an entrepreneurial mind-set that balances the need to "go slow"—to take time to build trust and long-term relationships with the people—with the equally pressing desire to "go fast" to solve problems and leverage opportunities.

The creativity and determination displayed by the social innovators featured in the case studies in this supplement are inspiring and encouraging—and speak to the need for complex solutions to solve today's complex social problems. Leping Foundation is proud to be recognized as one of the leading forces fighting poverty in China. Over the past 14 years, the foundation has nurtured five social enterprises, including microfinance and vocational schools that have served more than 180,000 low-income people directly and have benefited more than 500,000 people. At the same time, we know that even powerful isolated efforts aren't enough. Instead, what's needed is a market for social innovation where cross-sector players meet, get inspired, and work together. Creating that market will require systematic approaches and a new type of leadership that goes beyond "government-social sector collaboration" or "nonprofit alliances" and is instead marked by the ability to establish an ecosystem with stakeholders from all sides in the pursuit of shared goals.

Social innovation in East Asia is not a simple process of replicating trends from the West. A number of success stories from other nations have fallen apart or yielded a very different result when brought to this region. In order to ensure the success of any effort, whether it is homegrown or has roots and a proven track record elsewhere, social entrepreneurs must embrace a learning process that recognizes and integrates local culture and practice.

The use of information and communications technologies (ICT) to enable social innovation has become mainstream across East Asia. Among the many benefits of incorporating ICT during the innovation process, perhaps the most important in East Asia is the way in which ICT is engaging and empowering the millennial generation to become the leading force for positive change.

Innovations designed to meet emerging social challenges, such as the aging society, have been shared and reproduced in the region to an extent. However, this pattern of sharing and learning is still very rare. East Asia lacks a common base of concepts, research, and theories of positive social change that can fit its unique needs, culture, and environments.

To help create and foster such a base, Leping cofounded the East Asia Social Innovation Initiative (EASII) with partners in Japan and Korea in 2014. EASII aspires to serve as an accountable research body and network hub by working closely with leading cross-sector organizations active in social innovation to develop new concepts, benchmarks, and solutions to social investment and social innovation challenges.

We also look forward to a continued collaborative relationship with *SSIR*. Taking social innovation in East Asia to the next level will require an active exchange of ideas and collective cross-sector impact throughout the region, and we believe that EASII, *SSIR*, and other forward-thinking forums are critical contributors to this process. With their support, we are excited to see how social innovation in East Asia will evolve in the coming years. ■

NOTES

1 Lao Tzu was an ancient Chinese philosopher and writer.

2 Frances Fukuyama, *The End of History and the Last Man*, New York: Free Press, 1992.

3 James A. Phills, Kriss Deiglmeier, and Dale T. Miller, "Rediscovering Social Innovation," *Stanford Social Innovation Review*, Fall 2008.

4 The terms "sharing economy," "collaborative consumption," and "peer economy" are often used interchangeably. In 2015, "sharing economy" was introduced into the Oxford English Dictionary as "an economic system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the Internet."

HISTORY | CHINA

Understanding China's Third Sector

A historical look at China's third sector, from the country's first imperial dynasty some 2,000 years ago to the present.

BY HUI QIN

To understand the role of nonprofits and the ways in which the third sector is evolving in China—and to fully appreciate recent social innovations—it's important to first understand how social welfare and civic society has evolved in China over time.

China established a centralized state based on the imperial bureaucratic-peasant system (aka the Qin system created during the Qin dynasty) some 2,000 years ago. Compared with the aristocratic and church-diocesan system in the pre-modern West, China's system gave its leader—the Chinese emperor—significantly more centralized power. But the Chinese state actually shouldered far fewer welfare responsibilities than did the Western systems.

The classic Confucian thinkers of the time did generate some ideas about welfare. For example, they believed that the government should take care of the elderly—people over 70 years old—and children—those younger than 10—and that it should provide education to youth over 11 years old. The legalists who built the ideological foundation for the Qin system, however, pursued another route. They advocated for a strong state and a weak society. They believed that the state should monopolize all private interests, and that individuals should not accumulate wealth but instead should give their wealth to the state. They also believed in harsh punishments for those who didn't conform.

At the same time, these legalists reduced the state's civic responsibility, showing little sympathy to the weak by neglecting social protection and contending that poverty was the result of extravagance or laziness. To care for poor people, they maintained, was to encourage laziness or extravagance. They also defied notions of civic freedom and rights.

Constrained by the power of these legalists and like-minded emperors, and facing the insufficient provision of public goods, Chinese people traditionally turned to private associations for public goods and services. There is a consensus that in the West, church-

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Translated and edited by Chengpang Lee, a PhD candidate at the University of Chicago.

es and other religious organizations were the major providers of nongovernmental charitable and public services during the premodern period. But in traditional Chinese society, powerful kinship (family) organizations undertook that role. This understanding does come with a caveat, however: In the West, churches were often founded in political opposition to a king, while Chinese kinship organizations were completely subordinate to the emperor. However, the "legalist" Chinese royal court was always leery of the solidarity of the strong kinship organizations and attacked them relentlessly.

What's more, these multifunctional kinship organizations (ones that were big and wealthy enough to provide benefits to people outside their family lineage) were common in southeast coastal China but, at least initially, not prevalent throughout the rest of the country. It was not until the Song dynasty (960-1279) that this kind of organization began to blossom throughout China, and only during the Qing dynasty (1644-1912) did they become full-fledged. These kinship organizations not only had charitable functions but also were not strongly opposed to modernization, individual freedoms, or a market economy. In the modern period, some of these organizations even began to downplay their traditional exclusive membership rules (based on kinship lineage), preferring instead to provide goods and services to address social challenges under a constitutionalized structure.

It's important to note that during the premodern time in China, other associations responsible for the public good also emerged. For example, the *sheyi*, which was dedicated to providing obituary services, was functioning during the Northern and Southern dynasties and the Tang-Song dynasty. The public services undertaken by Buddhist temples were popular during the Song-Yuan period. And the *yicang* (public granary) and *yixue* (public schools) emerged during the Ming-Qing dynasty. However, like the *yamen* (local government offices) and local markets during the premodern time, these associations were not dedicated to serving the interests of the public but rather frequently were controlled by rulers of the country for their own interests.

The Emergence of Welfare Organizations in the Modern Period

During the modern period, beginning around 1840, traditional charitable organizations (including kinship and religious-based entities) continued to grow in China's rural areas. At the same time, Western-style charity organizations were emerging in coastal commercial cities; these included professional and community associations, and foundations.

After the communist revolution in 1949, however, private associations—including kinship organizations, temples, and other forms of nonprofits—were almost entirely extinguished. Theoretically, this meant that the socialist state monopolized the right to provide for all public goods. And indeed, at this time, the state did greatly expand its role as a provider of public services. Compared with people living in the Western-style welfare state at this time, however, Chinese people were not entitled to seek accountability from the state or to demand a given level of service. And in certain extreme situations, such as during China's great famine in the 1960s, many of those who were lucky enough to survive genuinely appreciated what the government did for them. Many of those who suffered from extreme starvation could blame only the natural disasters. Even compared to states with a laissez-faire welfare tradition, the Chinese governments during this period provided minimal social services.

The problems with China's welfare provision during this period can further be seen in the unequal treatment received by different groups of Chinese. State welfare services favored social elites, while subordinate populations received little. This trend exacerbated social inequality in China. Although the wage difference among Chinese workers was not large during this period, the external benefits that were provided outside normal wages (such as housing and medical care) were very different between the elites and ordinary people. The tensions over different groups' views of the distorted distribution of public welfare, and the repression of private welfare, were similar to those during the Qin system.

Strictly speaking, there was no private charity during the Mao period save for the charitable acts of individuals (such as helping beggars during a famine). However, the influence of the earlier, private-charity models was still felt. For example, most of the medical mutual-aid services that sprang up in China's villages in the 1970s were essentially revivals of the traditional private forms of medical mutual-aid organizations.

China saw a major change with regard to private charity beginning in 1978, during what is known as the country's first reform period. Although the market economy (or commodity economy) would generally align with some democratic ideals as in the West, in the first decade of the reform the Chinese people did not possess a parallel view of what a nongovernmental organization (NGO) could be, much less a nonprofit organization, the third sector, or volunteer-based activities of significant scale.

However, in 1995—three years after Deng Xiaoping preached the move toward a "market economy" during his historic inspection tour in south China—many Chinese got to know the term "NGO" for the first time through an international event. That year the Fourth World Conference on Women was held in Beijing, marking the first time that China held an international conference of this kind. A parallel NGO Forum held near Beijing attracted more media attention than the conference itself, which generated some concerns from the Chinese government. Beginning with this event, the concepts of NGOs and the third sector gradually made their way into China and gained momentum. Over time, the Chinese government also learned that NGOs were not antigovernmental organizations or oppositional political parties and thus relaxed its initial cautious attitude.

Most important, the popularity of the market economy in China has supported the attitude that the market is more efficient than political (coercive) force in solving social problems. An unintended consequence of this evolving view, however, was that the government invested even less in social welfare services than before, especially since the tax reform in 1994. The government expected society to take on the responsibility of providing welfare services that it also requires through initiatives such as Project Hope—*xiwang gongcheng*—encouraging donations to support China's mandatory education programs.

All of these conditions made NGOs and nonprofit organizations increasingly popular in China, and various third sector organizations mushroomed in the less restrictive environment. The more lenient regulations of the 1990s also created the running room that allowed foreign NGOs and other government-created organizations to develop in China. We witnessed the establishment of large charity organizations such as the China Charity Federation and the China Youth Development Foundation. We also witnessed the emergence of environmental organizations such as Friends of Nature, poverty relief organizations such as The Amity Foundation, numerous community service organizations and professional associations, and foundations for education and science. These social organizations have made great contributions to social welfare.

In the 1990s, Chinese third sector organizations were not only burgeoning in China but also organizing globally. International exchanges between nonprofit organizations were characteristic of this period. For example, the Tsinghua University NGO Research Center and the China Youth Development Foundation held international conferences on nonprofit organizations during this period. And in 1998, 18 foundations established the China Foundation and NPO Information Network as a forum for charity organizations.

The Challenge and Prospects of Philanthropy in Contemporary China

Beginning in the new century, however, the development of the philanthropic sector in China became more complicated. After the 2005 Orange Revolution in Ukraine, there were rising concerns in China about NGOs being used as a tool by the West for a "color revolution." As a result, the government began to tighten its control over NGOs. In addition, following a period during which the concept of a market economy gained ground, the concept of the welfare state again became an influential concept in Chinese politics.

During the 10 years of the Hu-Wen regime (2002–2012), the government began to realize that it needed to provide certain social services. This was the reason for the termination of the Project Hope initiative. As public welfare investment by the government increased, the need for this kind of private welfare decreased.

Also, during that time, government-organized nongovernmental organizations (GONGOs) began to monopolize various charities. For example, the China Red Cross attempted to monopolize the donation market by excluding other private organizations to raise funds from the public. The China Red Cross and other GONGOs were also often very bureaucratic and lacked transparency. Further, numerous scandals severely impacted their public reputation and donations decreased. All of these events and activities have severely hindered the development of modern charity and philanthropy in China.

Nonetheless, after 30 years of reform, just like the concept of a market economy and a modern government, the concepts of a modern philanthropy and charity have begun to have a significant influence on China. Facilitated by the Internet, the latest innovative concepts and practices of private philanthropy are diffusing into China. Concepts such as social enterprises, venture philanthropy, impact investments, B Corps, and the fourth sector have been introduced into China and are gaining in awareness and acceptance. These innovations have broadened the scope of philanthropy and charity in China; they have opened many possibilities for those who are interested in participating.

Furthermore, after several decades of economic development, there is now a group of well-off Chinese, whose investment capacity and ability to provide public goods far exceeds past capacities. With a growing middle-class consciousness, their ideas on doing good have also shifted from pure benevolence to a desire to promote positive social change through philanthropy. The weakening of the Chinese economy, the increasing risk of market investment, and the restriction of political participation are also contributing to this rising interest in philanthropy.

Although the Chinese government has recently paid more attention to welfare issues, the lack of accountability and the increasing complexities of welfare issues in modern society are leaving a large gap. The poor reputation of many GONGOs is also influencing society to demand more private welfare services.

The Chinese government today under the leadership of President Xi has not fundamentally changed the dynamic in China, where conservative and reforming tendencies coexist and conflict even as they guide social policies. This is evidenced in two recent pieces of legislation regulating public philanthropy, which tighten supervision on charities and at the same time ease restriction on fundraising from the public. Yet overall, Chinese philanthropy in the new century continues to develop and to persevere. The base of philanthropic resources is growing, and the ways in which to engage in philanthropy are expanding; and ultimately these are strong signals that the third sector and the fourth sector are advancing in China. ■

OVERVIEW | **CHINA**

Making Strides in Social Innovation

Social innovation has become a critical tool in China's efforts to tackle its social problems.

BY ZUOFU LAI & HONGYUN ZHOU

China's economic reform and development in the past three decades has resulted in some great achievements that have attracted worldwide attention. With these successes, however, have come challenges, such as an increasing social divide and environmental degradation. These issues are highlighting the need for the country to address social inequality while maintaining social stability.

To address China's challenges, governments, corporations, and society alike are looking to the potential of social innovation. Encouraging and guiding socially minded innovative behaviors is seen as having great significance for fostering a better society and improving the quality of governance overall. And social organizations—nonprofit organizations, social enterprises, and other entities engaged in doing work for the social good—are thus increasingly able to effect change in areas ranging from economic development to environmental regulation.

These organizations complement the current market economy in a significant way, as they are helping to transform government functions and facilitate the provision of public services, as well as expand citizen participation. Many social organizations have proved to be an important source of innovation—even a force for change—on the

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path to building a harmonious society. Social innovation has become a critical tool in China's efforts to tackle social problems and meet the needs of its most vulnerable citizens.

This article explores the three key players involved in advancing social innovation in China: the government, corporations, and social organizations.

Government

The Chinese central government regards building an innovation-oriented country as one of its fundamental goals. "Promote social management system innovation" was proposed as early as June 2004 at the Fourth Plenary Session of the Sixteenth Central Committee. This proposal was interpreted in further detail in the 12th five-year plan (2011-2015), which included:

- "Accelerate reform of the social system: improve basic public services of social insurance, health care services and education."
- "Foster and support social organizations and supervise them in accordance with the law; support and guide participation in social management and social services."
- "Reform basic public service delivery by introducing competitive mechanisms and expanding purchasing services by the government to realize diversification of providers and ways of delivering these services."

At the national level, having these goals pushes the government to modernize its capacity for supporting innovation. Provincial and municipal-level governments are also leading experiments to outsource social services to nonprofit organizations and businesses. In 2012, the Shanghai Bureau of Civil Affairs and the Shanghai Charity Development Foundation launched a venture philanthropy fund of $750,000 to support social service organizations and projects aimed at elder care. Within a short period of time, Shenzhen, Dongguan, Nanjing, Suzhou, Ningbo, and other cities adopted similar models.

Another trend led by local governments is the growing number of incubators that have been created for nonprofit organizations and social enterprises nationwide. These incubators typically provide support such as rent subsidies, seed funding, and registration assistance for startup nonprofit organizations and social enterprises. The Social Innovation Center in Shunde District, Foushan City, for example, was the result of a $4.5 million government investment. And the Social Enterprise Industrial Park in Suzhou covers an area of 2,800 square meters.

Corporations

While not traditionally considered to be a key stakeholder in the social innovation space, corporations are becoming more important, particularly companies seeking to create commercial models for sustainability and shared value strategies and products.

Over the last decade there has been a strong movement by Chinese companies to implement corporate social responsibility (CSR) policies and to integrate CSR into their operations. Venture philanthropy, for example, has been incorporated into the CSR development plans of many large Chinese businesses. One example is Lenovo, the world's second-largest manufacturer of personal computers, which launched a venture philanthropy program in 2009 that has provided $900,000, IT products, volunteers, and training to build the organizational capacity of 32 nonprofit organizations and social enterprises. Lenovo has also used its marketing resources to promote its nonprofit and social enterprise partners.

A growing number of business leaders in China have started to explore ways to apply their business management experience and cross-sector networks and assets to innovative approaches to social businesses. By establishing or investing in private foundations and impact investment funds, these business leaders actively seek solutions to some of the pressing social issues in China, such as food safety, clean water and air, elder care, and education.

Social Organizations

At the end of June 2016, there were about 670,000 registered social organizations in China and an estimated 4.6 million unregistered social organizations. Being a registered organization not only opens the door to government support but also makes it easier to access grants and donations from foundations, businesses, and the public. A major barrier to nonprofit registration in China was the "dual administration system": the need to register at both the Ministry of Civil Affairs (or its local counterpart) and a supervisory agency of a government office.

That changed in March 2016 when the Charity Law of the People's Republic of China was passed by the National People's Congress. The new legislation is widely considered to be an important step forward in China because of the cancellation of the dual administration system. The law also broadens the scope of what constitutes public welfare or charity by relaxing strict limits on freedom of association. A large number of grassroots organizations that are currently operating without any legal status now have the chance to register as nonprofit entities.

Even before the Charity Law, private foundations had become a growing force. More than 3,100 private foundations existed in China at the end of 2015. The majority are operating foundations that prefer to run their own initiatives rather than fund grassroots activities that often seem too small to make a significant impact. Nevertheless, foundations that provide grants or investments to nonprofits and social enterprises, such as the Narada Foundation, are playing a growing role in identifying and supporting nonprofits and social enterprises. Under the Charity Law, private foundations will be allowed to raise funds publicly, which will likely enhance their growth.

Over the last 10 years, a growing number of Chinese universities have created courses or corresponding institutions that focus on the topic of social innovation. In addition to research and advocacy on the broad issues related to philanthropy, social innovation, and social investment, many research centers and institutes run capacity-building programs for business leaders and nonprofit organizations. An ecosystem to support social innovation, though still in a nascent stage, has started to take shape.

Emergence of Social Investment

Social investment, especially impact investment, is an important supplement to charitable donations and government subsidies to social enterprises and other types of social purpose organizations in China.

A boom in private foundations—led by the wealthiest and most influential people in China—has brought new blood to the social sector. According to the China Foundation Center, the net assets of foundations in China exceeded $15 billion in 2015. A growing group of these first-generation self-made millionaires and billionaires are interested in more than merely writing a check. Instead, they seek to engage in strategic philanthropy and impact investment.

Recent years have witnessed a rapid growth in the establishment of impact investment funds. Yet actual investments made by these funds have been limited due to the immaturity of social enterprises. Most of the social enterprises in China originated in nonprofit organizations and are often small in scale, with a short history and limited business abilities.

On the other hand, founders who came from a business background are rarely aware of the nature of a "social enterprise" when they are trying to use business tools to address a social problem. They don't see themselves as social enterprises, nor can they make use of their social impact to seek social investment or related consulting support or other resources. In many cases, it was only when investment institutions contacted them did they realize that the social enterprise model fit well with their business.

Presently in China, social investments are concentrated in social enterprises in the early stage of their development. In some cases, this even includes incubating early-stage enterprises. This phenomenon reflects, in part, the lack of infrastructure for social enterprise to grow, as well as the fact that there are too few social enterprises to invest in.

Challenges and Suggestions

Although the prospects for China's social innovation are encouraging, many practical challenges remain. China is still in the stage of what could be called "uncoordinated innovation," marked by lagging government policies, inadequate social enterprise development, a lack of grantmaking foundations and their financial support, and other factors.

To overcome these challenges, we believe that the government should promote social enterprise- and social investment-related laws and regulations, and relax restrictions on social enterprise investment by private equity funds. Currently there is no legislation that applies specifically to social enterprises, and as a result social enterprises in China appear in a variety of legal forms. Operating a social enterprise under a normal business registration can lead to doubts by the government and the public about the company's social mission and values.

It is also important that China do more to encourage the growth of social investment capital. The first step is to release the capital of foundations. Philanthropic capital has played an important role in supporting the development of social enterprises. In the early stages of social enterprises when support is needed most but investment institutions are reluctant to provide resources, philanthropic capital has become the leading force in helping social enterprises to survive, grow, and scale. Yet most of China's foundations are operating foundations, and very few undertake strategic grantmaking. It is important to find ways to help foundations transform from operating to grantmaking, and eventually evolve to venture philanthropy and impact investment.

In addition, it is important to release the power of personal capital. There are various methods to achieve this if we look at overseas practices. The Calvert Foundation in the United States, for example, raises funds by issuing Community Investment Notes and invests the money in organizations that can create positive social, economic, and environmental impact globally. The most representative model of releasing personal capital in venture philanthropy is the "giving circle," a group of individuals who get together for coordinated and systematic giving. Because of China's circumstances, it may not be feasible to create Community Investment Notes because the legal risk is too high. But it may be feasible to encourage the creation of giving circles because the potential legal risk is low.

As the Chinese economy matures and the model of balanced growth replaces the model of growth at any cost, there is an increasing awareness of the country's environmental, societal, and economic challenges. Despite this progress, the overall level of social innovation in China is still limited. If China hopes to realize its vision of a collaborative and healthy social landscape, the ecosystem that supports social innovation—in particular the government, business, and social sectors—needs to be improved. At the same time, the potential of social investment capital needs to be fully released to encourage individuals and organizations to contribute economic or noneconomic resources to social enterprises and other social purpose organizations. ■

CASE STUDY | **CHINA**

Using the Internet to Transform Giving

How the Internet giant Tencent is using its online platform to help increase charitable giving in China.

BY YULIN LI

Hengyi Huang is the founder of Aixingyiwu (The Loving House of Clothes), an organization based in Luzhou that collects used clothes, cleans them, and then donates them to those in need. The organization is two years old and very active, but it has struggled to make do with limited funding.

Huang recently received a request to donate 20,000 articles of clothing. However, his organization didn't have the budget to cover the cleaning cost. In fact, at the time, he already faced a deficit of about RMB 300,000 ($43,150). Huang sold some of his assets and donated RMB 100,000 ($14,400) to his own organization. But that still was not enough to cover the gap, even though his employees' wages are only slightly higher than the minimum wage in that area. Aixingyiwu's financial struggles continued.

In China, many people working in the world of charity are facing financial struggles that are similar to Huang's. These individuals often lead small organizations with fewer than 10 staff members. They dream of bringing positive changes to the local society; however, they lack productive fundraising channels. Ironically, as a result, they are themselves becoming people who need help.

The good news is that on September 9, 2016, a new opportunity to gain financial stability opened up for Huang. Tencent, one of the largest Internet companies in China, held a fundraising event called 99 Giving Day. (In Chinese, "99" has the same pronunciation as "forever.") Over the course of the event

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The author would like to thank Chengpang Lee for translating this article.

(which spans several days), Tencent promises to match the amount of money raised by participating organizations. Nonprofits can use the event to persuade potential donors to give more on those particular days, knowing that their donation will be multiplied. What's more, the event helps raise awareness of area nonprofits such as Aixingyiwu, potentially attracting other prospective donors.

It's an effective approach to fundraising; during the most recent 99 Giving Day event, one company—a longtime supporter of Huang's organization—made a gift several times larger than it had previously. As Huang says, "If Tencent had not initiated this campaign, this company probably wouldn't have donated several hundred thousand RMB at one time. They feel that it is a good deal, knowing that when they donate, say, 100 RMB, Tencent will donate the same amount of money. They want their money to have the most impact possible, and Tencent provides that opportunity."

Overall, Huang's organization received RMB 1.6 million ($230,175) during the most recent 99 Giving Day; Aixingyiwu's financial difficulties have been solved, at least for now.

The Potential of Internet Fundraising

This is the second year that Tencent has held 99 Giving Day. The Chinese Internet giant has RMB 200 million ($28.8 million) in its gift-matching fund for the purpose. Its efforts have clearly succeeded in mobilizing the passion of netizens; the event has attracted donations from hundreds of businesses. Whether Tencent was motivated by private business interest or by the mission for public goods, being an influential company, it has demonstrated the power to build a bridge between business and charitable organizations.

To those working in the Chinese charity and philanthropy field, this is a great sign; they have long been anxious about how best to realize the potential of fundraising on the Internet and at the same time conform to government rules pertaining to charitable organizations in China. These individuals are constantly trying to discover more ways to reach potential donors (those who give large amounts and small), as well as new ways to make donating easier and new ways to tap the power, reach, or resources of various institutions to connect more donors to the local causes that need their support. But these nonprofit leaders are acutely aware of the regulations within which they must work. Tencent's efforts represent the potential of the Internet to transform philanthropy's ability to effect positive and lasting social change more quickly than they ever could have imagined only a few years ago.

The Two-Track System

To fully understand the fundraising concerns of nonprofit leaders in China and the boon that Tencent's initiative represents, it's important to grasp how charitable organizations operate here. In China, where there is a tradition of a planned economy, charitable organizations are categorized into those with a government background (*guanban*) and those run privately (*minban*).

BY BRINGING ITS "WOLF CULTURE" TO BEAR, INTERNET COMPANIES ARE POISED TO ENABLE NOTHING LESS THAN A COMPLETE TRANSFORMATION OF CHINA'S NONPROFIT SECTOR

The charitable organizations with government backgrounds are considered part of the planned economy and have the right to publicly solicit donations. Typically, their boards are composed of people with deep political connections, and as a result, they generally follow the government's guidance and have proved helpful in government efforts to address welfare issues. Private organizations, however, may raise money publicly only with government permission, in accordance with China's *feigongmu* (nonpublic fundraising) regulation. In this context, raising money via the Internet is problematic.

In recent years, various local governments, including those in the Pearl River Delta economic zone near Hong Kong and Macau, have taken steps to ease the path for charitable organizations' fundraising efforts. The city government of Guangzhou, a pioneer of these moves, issued "Guangzhoushi mujuan tiaoli" (Principles for Fundraising of the Guangzhou City) in May 2012. The act enables charitable organizations to obtain the right of conducting public fundraising by completing a simple registration with the government.

The problem is that such a small-scale policy change cannot support the large-scale changes needed to sustain the growing Chinese nonprofit field, where, under the two-track system, private charitable organizations cannot effectively get the resources they need to grow or even survive over the long term. According to the *2014 Charity and Philanthropic Report*, published by Narada Foundation in Beijing, individual donations account for only 11 percent of total donations to Chinese nonprofits; they remain highly dependent upon support from the government and the business sector.

That's why the time and the technology are ripe for China's Internet companies to make a dramatic difference for China's nonprofits. By bringing the aggressive "wolf culture" prevalent in the for-profit sector to bear, these companies are poised to enable nothing less than a complete transformation of the nonprofit sector in China.

Inside 99 Giving Day

Internet companies such as Alibaba have deeply engaged in the nonprofit field in recent years. But Tencent, in particular, with more than 600 million users, is using its technologies, platforms, customers, and influence to serve the public.

Consider Tencent's first 99 Giving Day, held in September 2015. Using the incentive of gift-matching to amplify the effect of netizens' donations to nonprofit organizations, the company successfully mobilized 2.05 million people in three days. The total money raised—including Tencent's matching gifts—was RMB 203 million ($29.2 million). The event has had deep influence on the shape of fundraising in China, not only because of the sheer volume of cash flow but also because of the new possibilities for mustering support that it brought to light.

As a for-profit business, Tencent has deep knowledge of the system and regulations in China. The company does not intend to challenge the existing charity and philanthropic institutions; rather, its model is providing a way to better use these resources without threatening existing interests.

Specifically, Tencent (a platform with many users), participating foundations (with the right to do public fundraising), and the charitable organizations (on the front lines of problem solving) have a clear division of labor. The charitable organizations submit their proposals to Tencent's platform. Then, the foundations select the proposals most suited to their missions and collaborate with those charitable organizations, serving as their champions. In this way, the charitable organizations can legally engage in public fundraising through the auspices of the foundations and Tencent.

Helping China's Nonprofits in Two Ways

Ultimately, Tencent is helping transform the nonprofit sector in two ways—by fostering and facilitating compliant cross-sector collaboration, and by leading nonprofit organizations to expand and improve their own public base of support.

Consider the following example: In 2015, the nonprofit Meili zhongguo (Teach for China) raised more than RMB 1 million ($144,000) during the 99 Giving Day event. Zhenzhen Luo, the organization's chief marketing officer, was preparing to celebrate that success, but then she received a phone call from a Tencent staff member. That person told her that a total of just 17,000 people had made donations to her organization, and that most of those donations were for large amounts. Tencent's staff member went on to tell her that this pattern would not be good for the sustainability of her organization and recommended that she work to identify more donors.

Luo agreed with the suggestion and subsequently engaged in a crowdfunding approach in partnership with the China Children and Teenagers' Foundation in 2016 by mobilizing the employees of companies that regularly donate to her organization. Although the total amount of money raised was equivalent to the amount raised the previous year, the number of donors jumped 10 times, from 17,000 to 170,000.

Luo successfully used the companies that already supported her work as the bridge to connect to more people—something she might not have done without Tencent's guidance. And her organization is not unique. In fact, individual donations on 99 Giving Day amounted to RMB 305 million ($43.9 million) in 2016 and accounted for half of the total monies raised—demonstrating a positive reaction from society and a potential for the future.

The Need for Transparency

Tencent's initiative seems to offer a good way to alleviate the financial strain in China's nonprofit sector. Innovative steps forward often come with their own challenges, and 99 Giving Day is no exception.

For example, on September 7, 2016, the first day of Tencent's fundraising event, an article titled "Where did the [RMB] 60 million donation go last year?" was widely spread via social media. Its author cited the results of a survey conducted by an intermediary organization on the 99 Giving Day event in 2015. The article noted that it was difficult to tell exactly how significant amounts of the money raised were being used.

This piece stimulated a fierce debate over the issue of the transparency and accountability of nonprofit and charitable organizations. People who agreed with the report's point of view said that it brought to mind a past scandal in the Chinese charity and philanthropy world involving the China Red Cross, where a young woman named Meimei Guo received a substantive amount of money from a high official in the China Red Cross organization and subsequently showed off her luxurious lifestyle on the Chinese social media. Other readers, however, questioned the validity of the report and worried that the article would needlessly inhibit people's willingness to donate.

To counter the negative effects caused by the article, Tencent released a short response, pointing out that the data contained in the article was not accurate but acknowledging that some participants had failed to report fully on their results. However, Tencent emphasized, the organizations that were not forthcoming with information accounted for only 4.5 percent of the total projects and 1.6 percent of the total donations raised. Further, the company reported, those organizations were not permitted to participate in 99 Giving Day in 2016.

This incident reveals an irony in China's nonprofit world: Chinese nonprofit leaders must work as hard to convince the public that they are trustworthy as they do to convince them that their organizations will be able to make a significant difference in the world. To prevent future doubts and criticism from the public, Tencent is collaborating with media and nonprofit organizations to find a solution. As part of that work, the company convened two large-scale meetings with nonprofit leaders, philanthropists, and other stakeholders. One of the most important issues discussed at these meetings was how to improve the transparency of the Chinese nonprofit industry.

According to the vice director of Tencent Foundation, Yi Sun, as a result of these meetings, the company is planning to add areas to its online platform where donors and others can check the progress of various organizations that participate in 99 Giving Day. The hope is that by doing so, the platform will push nonprofit organizations to reveal more information. However, Tencent is also aware that its actions place an additional burden on the nonprofits. Many organizations complain that they are understaffed; the lack of enough human resources makes it hard for them to report all the details. What's more, much of the information they would need to analyze and put in an appropriate form for the public is controlled by the foundations that support them and supervise their projects. These foundations' operations are also often overstressed or inefficient.

Thinking Beyond the Face Value of an Innovation

If there is one major lesson from Tencent's experience for other companies in China and beyond that aspire to effect social change, it may be this: Tencent applies the idea of iteration from the world of computer science to its innovative charitable work. That is, the company does not wait until it has a "perfect product," but instead moves forward with a usable product that meets the minimum requirement. It then continues to revise the product, with an eye toward perfecting its performance.

Think of 99 Giving Day as such a product. Because of the company's effort to perfect this charitable product, compared with last year, the number of donors increased 230 percent, donations increased 166 percent, and the number of nonprofit organizations benefitting from the event doubled.

Many Chinese Internet companies are now involved in using technologies to upgrade the charitable and philanthropic sector. "Innovation is to be able to see the obvious, and to think the unthinkable," says Yiden Chen, Tencent's core founder and the honorary chairman of the Tencent Foundation. For him, the most interesting part of this work is to challenge the uncertainties. He adds: "We cannot predict what kinds of charity forms will be invented. However, whether we look at resources, technology, or innovation tools we have today, we are at the best time in history."

The Chinese Internet giants are confident that since they are proving that they can change the prevailing business models in China, they definitely can change the charity and nonprofit field as well. ■

Note: A long-awaited charity law was passed by national lawmakers in March 2016 and took effect in September 2016, in a move to ease restrictions on fundraising and operational activities of charity groups. According to the new law, organizations that have registered as nonprofit organizations for more than two years can apply for approval to fundraise from the public. At the same time, Internet fundraising was restricted to 13 online platforms approved by civil affairs authorities, including www.gongyi.net under the Tencent Foundation.

OVERVIEW | HONG KONG

Fashioning New Values in Hong Kong

Social enterprises are tapping into Hong Kong's free market culture to tackle social problems.

BY JANE LEE

The social enterprise sector in Hong Kong constitutes an insignificant part of the economy. At the end of 2015, there were only about 570 social enterprises listed in the Directory of Social Enterprises of the Hong Kong Council of Social Services (HKCSS).[1] This, in an area with more than seven million residents.

Despite the sector's small size, social enterprises in Hong Kong have created tremendous impact not only here, but throughout the region, particularly in mainland China and Taiwan. That's because Hong Kong's social enterprise movement is one of the few examples of the government effectively partnering with civil society without an overriding political agenda driving and shaping the work.[2]

One of the key reasons that this partnership has been successful is the way in which public policy and the emergence of civil society have helped social enterprises over the last 10 years. Today, these forces are fueling the gradual growth of social businesses, and they continue to shape the unique characteristics of social innovation in Hong Kong.

Public Policy Development

The terms "social entrepreneurship" and "social innovation" did not gain much attention in Hong Kong until after the new millennium. Even though there were NGOs that were self-financed well before then, those initiatives were not described as social enterprises. Awareness of the term—and the concept—began to take hold during the 2002-2003 recession, after which social enterprise became seen as a way to alleviate unemployment and poverty. Social enterprise in Hong Kong can trace its formal roots to the formation of the city's first Commission on Poverty,[3] which was approved by the legislature in part because of the advocacy of several socially oriented legislators.

The commission's first public funding initiative, Enhancing Employment of People with Disabilities through Small Enterprise, tackled the employability of disabled people. Subsequently, the first fund that officially encouraged the use of social enterprises to alleviate unemployment, the Enhancing Self-Reliance through District Partnership Program (ESR), launched in 2006.

These initiatives were critical steps for

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Hong Kong's social movement; however, a few significant challenges became apparent soon after the commission launched ESR. For example, the fund resulted in varied interpretations of the meaning of social enterprise—specifically around whether a social enterprise was a business or a welfare service. Many corporations saw the fund as confirmation that a social enterprise, by definition, was part of the city's poverty alleviation measures and thus not an investment opportunity. (This view explains why, initially, NGOs ran most of the social enterprises in Hong Kong.) Many NGO leaders also thought that a social enterprise had to be part of the city's funding initiative, and others balked at the idea of running a business, or claimed that they did not have the knowledge to do so.

A number of business professionals did offer help by giving pro bono advice to NGOs on running social enterprises. And in 2012, having drawn lessons from the experiences of those first funding efforts, the then-newly appointed chief secretary for administration, Carrie Lam, reformed the Commission of Poverty. Under Lam's leadership, and with the support of CY Leung, the chief executive of the Hong Kong Special Administrative Region government, this commission allocated HKD 500 million ($64.4 million) to the newly created Social Innovation and Entrepreneurship Development Fund (SIE Fund). The purpose of the fund was to support innovative solutions to deep-seated social problems in Hong Kong, and SIE Fund explicitly encouraged applications from both nonprofit and private corporations as well as from individuals. (Meanwhile, ESR also expanded its mandate to accept applicants from the business sector.)

In 2016, SIE Fund made additional funding available for would-be social innovators to incubate their ideas, testing and refining prototypes before taking the risk of establishing a full-fledged social enterprise.

The Roles of Civil Society

Although social enterprises constitute an insignificant portion of the economy, their existence is having far-reaching influence in Hong Kong, in particular on the formation of new social values in a place that has long been regarded as the haven of capitalism and the ideal free market environment. In large part, these new social values are emerging due to the advocacy efforts of a group of individuals who have been working since 2007 to promote new social values, ideas, and practices.

This movement began formally with the founding of three organizations in 2008: the Social Entrepreneurship Forum, the Hong Kong General Chamber of Social Enterprises, and Social Ventures Hong Kong. That year also saw the first Social Enterprise Summit, at which sector leaders worked together to define the characteristics of social entrepreneurship in Hong Kong as innovation, entrepreneurship, and impact. They also agreed that the term "nongovernment" (*min-jan*) would be deliberately highlighted in the Chinese name of the summit, to differentiate it from any government-led activity.

The government, however, responded positively to these civic efforts and has since sponsored subsequent summit programs; the summit has become the key platform in Hong Kong for exchanging concepts, ideas, and good practices from within the city and beyond. Summit events now take many forms, including symposiums, workshops, dialogues, dinners, book sales, bazaars, exhibitions, awards, and competitions.

Over time, summit leaders (this author included) began to articulate the belief that social innovation and entrepreneurship should not be the responsibility of any single sector or group of people. Rather, doing good as well as doing well should be a core value for everybody in Hong Kong. The development of cross-sector partnerships, they realized, would be the key to developing an environment in which social innovation and entrepreneurship could succeed over the long term.

Opportunities to advance this view arose when Hong Kong's tertiary and secondary education systems strengthened their liberal education components in 2011 and 2012. Teachers and student affairs officers alike welcomed new social enterprise courses and activities. Concurrently, public awareness of the potential of social enterprise increased substantially.

New Value Creation

The social business landscape has made substantial gains in the past 10 years amid Hong Kong's continuing commitment to a free market economy. Business leaders representing all types of entities, including Bernard Chan from the insurance sector; David Fong from a family business; Alan Cheung, a Young Industrialist Awardee; and Simon Wong, who operates restaurant services, have been very supportive of social innovation and the social entrepreneurship movement.

Many members of the younger generations of multinational family businesses are also drawn to the idea of addressing social challenges through social enterprise. They find Michael Porter's concept of "shared value" and his efforts to persuade global businesses to create social value through enterprise (as well as through philanthropic and social responsibility activities) compelling. The "blended value" concept proposed by Jed Emerson has been taken up by at least one prominent Hong Kong philanthropist, Annie Chen, who has been advocating for family businesses to engage in social investments.[4] These new concepts are also being introduced through the joint efforts of civic groups and complemented by new courses offered by schools and universities. And more research reports are being published to provide updated analyses of these trends.

But the social innovation movement still has a long way to go, and it must continue to work hard to promote supportive mindsets and to clarify government roles, identify optimal impact assessment measures, and improve governance and accountability structures and standards.[5] And there remains a critical need to convince more organizations that cross-sector collaboration can be both socially beneficial and economically rewarding.

Although social enterprise has yet to form a significant part of the Hong Kong economy, the emergence of this new landscape should be evaluated not only on the number of social enterprises created but also on the increasing wealth of new concepts being discussed and the new efforts being introduced to offer solutions to Hong Kong's social problems.

Looking ahead, it will be important to have more corporations participate in the social enterprise sector and genuinely integrate social objectives into their mission. With the increased level of acceptance of the concept that we're seeing now, it is possible to envision the blurring of the boundary between NGOs and business in the foreseeable future, and to see significant progress toward solving Hong Kong's social challenges. ■

NOTES

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CASE STUDY | HONG KONG

Partnering for Impact

A foundation, the government, and academia are working together to nurture social entrepreneurship in Hong Kong.

BY KENNY CHEUNG & YVETTE YEH FUNG

Once a small fishing village, Hong Kong is now a crowded and vibrant commercial metropolis, a crossroads of the East and the West. Despite these accomplishments, Hong Kong remains a tale of two cities. Hong Kong's Gini coefficient (a measure of income inequality) rose from 0.429 in 1976 to 0.537 in 2011, even as per capita GDP rocketed from $2,850 to $35,1423 during the same period. And according to a 2016 report by the Economic Intelligence Unit, Hong Kong tied for second place among the 10 most expensive cities to live.[1] It is indeed both "the best of times" and "the worst of times" in Hong Kong.

During periods of great social challenge, communities traditionally turn to government and the nonprofit sector for answers. But in Hong Kong, an emerging class of engaged citizens has also taken an increasingly active role in helping the area's most vulnerable populations. These entrepreneurs seek to develop solutions and organizational models that focus on sustainability, scalability, and social impact. They're seen as the heart of a developing ecosystem of support, and stakeholders across sectors are not only taking note, but also looking for ways to collaborate to foster their proliferation and development.

This is the story of one such collaboration, a tripartite partnership between a family foundation, the Hong Kong government, and two universities, formed to educate and support the rising generation of social innovators. The result of the partnership was Nurturing Social Minds (NSM), a program launched in May 2015 that delivers interdisciplinary action-based learning courses on social entrepreneurship and venture philanthropy at the university level.

The courses attract a mix of graduate and undergraduate business students as well as those from other disciplines, including engineering, science, and the social sciences. Although the courses are introductory, students are exposed to a range of industry experts brought in as guest speakers. The students work in teams as consultants for the founders of social enterprises addressing poverty alleviation in Hong Kong. There, students learn firsthand what it takes to be a successful entrepreneur, and the social entrepreneurs benefit from new perspectives and ideas that the students contribute to their business.

The courses address both social entrepreneurship and social finance. As former course instructor Christine Chow says, "Teaching social entrepreneurship without addressing the funding side is like running a race with one leg. You can wave your hands and shout all day about how innovative you are, but if you don't understand the concerns of funders, it will be difficult to succeed." The students develop a personal stake in their social venture partner because they are the ones pitching on behalf of their partner organization for HKD 250,000 ($32,000) in grant funding provided by The Yeh Family Philanthropy (YFP). The judging panel consists of cross-sector experts along with the students themselves, who account for 50 percent of the winning score. The funder, YFP, plays no part in determining the final grant recipient.

To better understand the cross-sector partnership that gave rise to NSM, it's important to consider each partner in turn and how they worked together to achieve success.

The Foundation

In August 2013, Asia Community Ventures published a report that mapped out the various stakeholder groups within Hong Kong's social ecosystem, identified the weaknesses therein, and offered recommendations on how to address those weaknesses.[2] Among other issues, the report identified a "gap" in academia, noting, "Despite growing student demand, local universities have been slow to offer courses on topics such as impact investing, venture philanthropy, social entrepreneurship, and social innovation."

In the same year, YFP arrived at the same conclusion after becoming frustrated in its efforts to find social enterprises serving the Hong Kong community that were worthy of investment. YFP decided that "learning by doing" was a good model not only for students but also for the foundation itself. Serendipitously, YFP's chair met a business school student keenly interested in the subject, and together they conceived the prototype for a new course. YFP provided a two-year seed grant to the Hong Kong University of Science and Technology (HKUST) School of Business and Management to launch a pilot course on social entrepreneurship and venture philanthropy. There were no faculty within the university with the relevant expertise to teach the course, so YFP brought in adjunct professors, along with external speakers and panelists with industry experience.

The Government

Meanwhile, in September 2013 (almost at the same time the aforementioned report was issued), the Hong Kong government launched the HKD 500 million ($64.4 million) Social Innovation and Entrepreneurship Development Fund (SIE Fund) under the Commission on Poverty. The SIE Fund supports collaborative efforts aimed at reducing poverty and social exclusion.

Since its creation, the SIE Fund has acted successfully as a catalyst for social innovation in Hong Kong, facilitating collaboration among a growing number of businesses, NGOs, philanthropists, and the community. From the outset, the SIE Fund focused on partnering with intermediaries (local organizations with experience and networks to help build capacity and identify social entrepreneurs) to help stimulate the ecosystem for social innovation through collaboration and innovation. In February 2014, the SIE Fund announced an invitation for proposals from organizations interested in becoming an intermediary organization that would operate programs in social innovation and work with the SIE Fund to support poverty relief in Hong Kong.

YFP, wanting to utilize the positive feedback received from students in its pilot HKUST courses, saw an opportunity to partner with the Hong Kong government to scale the course across different universities, so that more students and social enterprises alike could benefit from the experience. YFP became one of the four intermediaries selected by the SIE Fund. This funding helped give rise to NSM.

Kenny Cheung and **Yvette Yeh Fung** are program executive and chair, respectively, at The Yeh Family Philanthropy. Cheung is a "reformed" former banker. Fung serves on the boards and committees of educational institutions, NGOs, and businesses.

The Universities

The NSM program will deliver nine cohorts of the course on social entrepreneurship and venture philanthropy over a three-and-a-half-year period at HKUST and at the Chinese University of Hong Kong (CUHK) Business School. Under the partnership, the SIE Fund provides funding for the operating costs of the program, while YFP continues to provide the HKD 250,000 in grant funding to the winning social enterprise of each cohort. This arrangement allows YFP to scale up its program and reach more social entrepreneurs and students, while the SIE Fund is able to engage firsthand with bright young students and budding social entrepreneurs and achieve its objective of developing the ecosystem and building a community of enthusiastic young professionals eager to contribute to Hong Kong and globally.

Both HKUST and CUHK have embraced the concepts of social innovation and social entrepreneurship, incorporating new introductory courses on the topics into their undergraduate curriculum. In turn, NSM has now evolved into an advanced-level course aimed primarily at graduate students.

Lessons Learned

In a project of this nature, the learning curve is steep and continuous. Some of the lessons that were learned in the process of creating NSM may prove useful to other organizations and agencies forging collaborative relationships to drive social change.

Learn by doing | Personal experience is the best teacher. NSM's students are encouraged to learn by doing. The program's philosophy is that the only way to know what it's really like to be a social entrepreneur is to work with one and think like one. Similarly, YFP did not begin with any idealized vision of the program or wait for the perfect one to be developed by a university. Believing in the power of entrepreneurship and its mission of "building capacity in promising young minds," YFP instead took the plunge of working with HKUST (and its enterprising students) to create, design, and fund the course from scratch. Although much has been learned since that first day in April 2013, new lessons emerge with every cohort, and much can still be done to improve the student learning experience.

Great artists steal | One of the key takeaways for the students from the course is that solutions to many social problems already exist in other parts of the world. That is, you don't need to reinvent the wheel to be innovative. Often, taking an existing solution and adapting it for a local context is more effective and efficient than coming up with a unique solution for the sake of innovating. In designing the original pilot course, for example, YFP borrowed ideas from innovative courses on other subjects. Even the idea of a student-directed venture philanthropy fund was adopted from business courses teaching investing, whose instructors had found that when real money was on the line, students took the process much more seriously than they did when it was not.

Iterate with an open mind | Just as the social entrepreneurs achieving the most success in the program have kept an open mind in working with the students and incorporating their recommendations, so the course managers have kept an open mind in order to deliver the best instruction possible. As a result, the course has evolved over time, with an eye toward continuous improvement as lessons from failures and stakeholder feedback are incorporated into the next iteration of the course. Details such as the number of credits offered for the course, the framework for student assessment, and the level of content covered have all been scrutinized and adjusted. New elements have been introduced to enhance the course, such as extra pitch training from investment banks, modules in design thinking, and guidelines to help the students transition into their roles as consultants for social enterprises.

Value the unique attributes of each partner organization | One of the great strengths of the course has been its focus on interdisciplinary learning—the commitment to bringing together students from different backgrounds to work for a common cause. This is considered a critical element for student learning because in the real world, social entrepreneurs emerge from every sector and background. It's important to be able to communicate effectively and find common ground on which to build, as quickly as possible. Similarly, cross-sector collaboration involves working with people from different backgrounds and institutions that have (sometimes drastically) different organizational cultures and hierarchies.

Align stakeholders | In a typical university course, students need only worry about writing a good paper or being well prepared for an exam. With NSM, they must balance the academic demands of the course with the demands imposed by their social enterprise partner. Often, after visiting the ultimate beneficiaries of the social enterprise (whether people with disabilities, low-income students, or ethnic minorities), students find themselves compelled to balance the needs of the beneficiaries as well. Cross-sector collaboration also requires a fair amount of finesse. Government and universities naturally work within a certain level of bureaucracy and dispersed decision making. Understanding and empathizing with the motivations and incentives of various stakeholders has been paramount to engendering trust among partners and, ultimately, the program's success.

Communication and transparency are critical | The one thing that successful social enterprises and social entrepreneurs have in common—as exemplars and partners in the courses—is that they provide an extraordinary level of transparency into their operations and thought processes to the students. They know that the more time and effort they put into communicating with their student teams, seeing them as true partners, the greater their chances of realizing a "win-win" outcome. The best partnerships occur when there is two-way learning. Some relationships have become so well established during the course that students continue to work with their social enterprise partner long after the formal instruction has ended.

The Intangible Reward

Within the short history of the program, students have gone on to do incredible things. At the time of this writing, NSM alumni have founded five social enterprises and one NGO; others have redirected their careers to focus on social finance. One student organized a Startup Weekend Social Innovation, and another established a student organization promoting social entrepreneurship. Sean Ferguson, associate dean and director of MBA programs at HKUST Business School, is a staunch supporter of the program. "As a university, we are preparing students so that they can go out into society and make a difference in the future," he says. "The beauty of this course is that they get the opportunity to make a difference, now." ■

NOTES

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OVERVIEW | SOUTH KOREA

Engaging Citizens in Society

In South Korea, a core principle of social innovation is finding ways to engage citizens at the grassroots level.

BY EUNKYUNG (E. K.) LEE

South Korea, home of global conglomerates such as Samsung and Hyundai Motor, is often portrayed as an icon of economic development and democratic progress. In just half a century, its per-capita income jumped from a meager $100 to more than $27,000. Seoul, the country's capital, is a metropolis of 10 million people where modern skyscrapers and subways abut traditional Buddhist temples and street markets.

South Korea is also one of just a few countries to succeed in changing its political landscape from authoritarian to democratic through civil movements, and—equally or perhaps more importantly—to have maintained political stability for decades following that transformation.

The country's notable gains, however, have come with some significant downsides. Consider these social challenges:

- The level of social inequality in South Korea is comparable to that in many advanced nations.
- Fast-track economic development has brought with it serious environmental degradation.
- Driven by an excessively competitive culture, South Korea has the highest suicide rates among OECD countries, along with a dangerously low birth rate.
- Young people face an unfriendly job market; unemployment is rampant. In many ways, South Korean youth want to live differently than their parents did, but the barriers to do so are great. What's more, intergenerational conflict is worsening.
- The social welfare system in South Korea is weak. That reality, coupled with the destruction of community and social bonds, has been cause for despair among underprivileged citizens.

Clearly, South Korea has great needs. But there's also great potential in the ability of social innovation to meet the country's formidable challenges. Social innovation, done right, can help solve social problems and promote sustainable growth by engaging citizens, promoting and supporting more comprehensive and inclusive policies, and directing business interests toward the gaps in the society's fabric.

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A Granular Look at the Challenges

South Korea is not alone in many of the problems it faces. Rapid state-driven economic development has given rise to a wide gap in wealth distribution, poor labor and human rights practices, and uneven distribution of resources and services between cities and rural areas in other Asian countries as well.

While South Korea shares many problems with its Asian neighbors, some of its challenges are unique. Its economic development has been led in large part by business conglomerates (chaebols) that have strong government support.

Not only is there little evidence of any trickle-down benefits from the chaebols' economic success to small and medium-size businesses; there are indications that the chaebols are actually becoming a significant obstacle to their growth. There are also ongoing concerns about the corrupt relationships between the chaebols and the government, and the chaebols' weak attention to their social responsibilities.

Another social challenge that South Korea faces is education. Its highly competitive educational system puts enormous pressure on students to enter college. Suicide is the leading cause of death among teens.[1] Stress continues as teens become young adults because getting a decent job after graduating from college has become harder due to slow economic growth and a tight job market.

South Korea is also getting older, due to declining birthrates and increasing lifespans. People aged 65 or older made up 13.1 percent of the population in 2015; that level is expected to reach 40.1 percent in 2060. These trends create new challenges, not only to increase welfare spending and create job markets for the elderly, but also to reactivate retiring baby boomers as active contributors to the society.

Another challenge facing South Korea is that many people distrust a political system that no longer seems to represent its citizens. Party politics in South Korea have failed to embrace the voices of existing social groups or support the transformation of civil society.

In addition, a handful of political elites who have been controlling the political arena in South Korea still foster Cold War ideologies and continue to operate a party system based on the regional antagonism between the Yongnam (southeastern South Korea) and Honam (southwestern South Korea) provinces. Distrust and cynicism, in turn, have led to a steady decline in voting rates.[2]

Promising Signs of Social Innovation

All of these factors contribute to a challenging environment for social innovators. But the good news is that social innovation has a toehold in South Korea, and the movement is growing. At its core, social innovation in South Korea is based on a commitment to full-fledged citizen participation. Through such participation, increasing numbers of people become strong economic players and increase their involvement in the country's decision-making processes regarding policy. Many people firmly believe that through these types of changes, South Korea's current (and destructive) path of fast-track economic development can be redirected toward a path of sustainable economic growth.

Citizen participation in local issues existed long before the concept of social innovation was introduced. The difference now is that this participation is taking new forms; it is more independently organized, and focused on explicit and sustained results. The agricultural movement, for example, has evolved into regional self-help cooperative movements. These cooperatives have grown into grassroots citizen networks and are now playing a key role in the regional community. Examples can be found in Wonju and Hongsung. Wonju, a medium-size city, has tried to build a self-reliant economy centering around the local social economic network based on various cooperatives. Hongsung is a rural area that has set up an independent economy by being the first to introduce an environmentally friendly agricultural system.

And some citizens' local engagement efforts in urban areas are now focused on reviving communities. Grassroots projects aimed at revitalizing communities in Seoul, Suwon, Ansan, and Incheon have linked up with innovative government policies at the municipal, township, and district levels, promoting citizen participation, citizen governance, and balanced regional development.

Community village movements that organically emerged in the 1990s to promote environmental sustainability, social welfare, and well-being among progressive city residents have evolved into the village community project of Seoul City and other cities. Many of these residents-led village communities have become a base to promote urban revitalization as well as residents' participation in local administrative and policymaking.

Young People Lead the Way

Clearly, the potential of the rising generation to effect change is a bright spot on South Korea's horizon. Broadly speaking, these young people have little respect for authority, do not like to form organizations, and are very individualistic. However, they also can easily carry out various online-based activities, having grown up in one of the world's leading information technology powerhouses, and can proactively lead and disseminate public opinion in online communities.

As a result, young people are stirring up a fresh new wind among the traditional South Korean civil society organizations, which have typically been led by a strong elite individual, backed by a well-organized structure, political parties, and the media. The younger generation, by contrast, works with new media, utilizes new platforms for dialogue and knowledge sharing in rapidly expanding online communities, and makes full use of technology tools. Most important, young people are extremely flexible in terms of putting together activities across sectors, organizations, and businesses to achieve their goals.

Young social innovators in the private sector—including community businesses, self-help companies, and cooperatives—are armed with a challenging spirit and the desire to achieve their aspirations as social innovation entrepreneurs. Their goal is to build a strong basis for social innovation throughout the social economic ecosystem.

Local Government Support

Local governments, in particular, deserve recognition for their efforts to create and implement diverse social innovation policies. These policies are based on the idea that social innovation is an effective means by which to maintain transparent administration, motivate community independence, and encourage local citizens to participate in the decisions and activities that will shape their futures.

Several local governments either have officially declared social innovation as the basis of their policies or have let their actions convey their intentions by quietly implementing policies that encourage local people's participation and communication. One example is the Seoul Metropolitan Government, which pronounced social innovation as its policy base and has been implementing tangible social innovation policies, such as Sharing City, Seoul Youth Hub, and the Seoul Senior Support Center. (See "Innovating Local Government" on page 18.)

Other local governments, including Wanju-Gun, are also promoting socially innovative concepts and strategies. For example, they are setting up offices to oversee social innovation programs and work on legislation. They are securing funds, from either government budgets or social financing, to support social innovation, and are establishing intermediary organizations and networks to facilitate collaboration between governments and companies. Some local governments are also supporting their local social innovators by adopting social innovation projects to foster local self-reliance, leading to the revitalization of local economies and communities.

Building a Better Future

In a matter of decades, South Korea has gone through rapid changes and development, from a premodern to a modern society, from a dictatorship to a democracy, and from an aid-recipient country to a donor country. These changes were largely positive, but they came with significant unwanted and negative side effects. That fallout—coupled with a slowing economy, an aging population, and a falling birthrate—has put South Korean society at a crossroads. A promising future is not a given; it is up to the country's leaders and citizens to find and follow the right course. Creating a better future depends on well-designed social change efforts, anchored by social innovation. ■

NOTES

1 Elise Hu, "The All-Work, No-Play Culture of South Korean Education," NPR, April 15, 2015.

2 The voting rate of the 13th general election, the first election held after the 1987 nationwide democracy movement, was 75.8 percent. However, the voting rate fell sharply to 46.1 percent in the 2008 18th general election, and was 54.1 percent in 2012 and 58.0 percent in 2016.

CASE STUDY | SOUTH KOREA

Innovating Local Government

Under Mayor Park Won-soon, the city of Seoul has become a leader in fostering social innovation.

BY WONJAE LEE

Let's say you commute to and from work on the bus. The bus line is near your office, and the trip takes about an hour. It should be convenient, but it's not; you often work late hours, and the bus stops running before midnight. What can you do? You can write a letter to city government, suggesting that the bus lines run later into the night. You can stage a protest in front of the bus company demanding that the operation hours be extended. You can submit a proposal to the city government, suggesting that it provide some subsidy to cover the cost of gas if you organize a carpool with your neighbors.

As you consider these alternatives, you know that you must take into consideration the fact that you will be interacting with a local government, notorious for being slow, ineffective, and nonresponsive. So you think—maybe you'll give up on the idea of reaching out to the government. Maybe you'll just buy a car, drive yourself, and be done with it.

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Unless, that is, you are living in Seoul, South Korea. As a Seoulite, if you have a complaint or a suggestion, you can send a tweet to the mayor of Seoul, Park Won-soon. After that, you might get a very quick tweet in return, and that response might be followed in short order by fruitful action.

That's exactly what happened when a person, using Twitter, contacted the mayor about his frustrating commute. His tweet: "By the time I get off work, there are no bus lines running. I do not have a car. I wish there would be a bus service operating in the late hours as well." (The actual tweet in Korean had fewer characters.) He received a reply almost immediately. And the Night Owl Bus service—a direct result of his communication—launched eight months later.

That's because Seoul—the country's capital and home to 20 percent of South Korea's population—actively welcomes input from residents and has been experimenting with ways to encourage citizen engagement and to ensure that when citizens raise an issue, the city is poised to work efficiently and collaboratively toward a solution.

Park Won-soon, mayor of the Seoul Metropolitan Government (SMG), believes that administrative functions should be used not only to govern but also to foster collaborative innovation. And the people of Seoul—citizens and government staff members alike—believe in him because his approach is rooted in a strong, personal track record of success. In addition to holding office, Park is the founder of a social enterprise called The Beautiful Store, an NGO called The Beautiful Foundation, and a social innovation think tank called The Hope Institute. Park, in short, is a champion of social innovation.

Night Owl Bus and a Citizen's Suggestion

What happened, exactly, when the Seoul resident tweeted Mayor Park? The process of moving from tweet to transportation is an example of what social innovation in Korea is all about. It started with purposeful *listening*. The SMG had a system in place through which citizens could voice their opinions, and their comments would quickly be relayed to people and departments within the government who had the authority and bandwidth to respond.

Thus, the SMG, on seeing the tweet, quickly began to analyze the situation. The government's transportation leaders knew straightaway that it would be too costly to extend the operating hours of all the bus lines operating in Seoul. So they sought to identify the areas where late-night bus service would matter the most. And here, they relied on the power of *collaboration*. Looking for the data that could best inform their decisions, the SMG team tapped the private sector and found the answers it sought through the mobile telecommunication companies that served Seoul. Mobile phone usage provided a clear picture of people's movements late at night.

The city was then ready for *action*, and here is where Park's influence proved crucial. Many a good suggestion goes through all the necessary analysis, yet fails to be executed due to lack of political support. Ultimately, the SMG was able to respond to the Night Owl Bus inquiry swiftly and effectively because it had both an efficient administrative system that supported innovation and the support of a strong political leader.

The Seoul resident sent his original tweet in January 2013. Before the end of February, the city had launched a pilot project. By the end of April, two pilot bus lines were running. And by August, the city launched additional

Night Owl Bus lines, adding seven more to complete the project in September. Today, 44 Night Owl Buses operate across nine bus lines in Seoul.

Overall, the project has been a huge success. In its first year, an average of 6,000 passengers rode a Night Owl Bus each day. Passengers saved on average KRW 6,000 per ride ($5), the difference between average taxi fare and Night Owl Bus fare. And female passengers reportedly feel safer using the Night Owl Bus than other transportation services at night.

A Social Innovation Ecosystem

It might be relatively easy to introduce a single policy and claim success based on short-term metrics. It is not so easy, however, to set up an ecosystem that enables long-term change driven by social innovation, and that results in continued performance across a range of activities year after year.

If you take a look at the Sharing City initiative in Seoul, though, you might find some hints on how to build such an ecosystem. Sharing City—the city's initiative to enhance the sharing economy—provides as close to a blueprint for cities aspiring to build a sound ecosystem for social innovation as any approach we've observed. That's because the Sharing City encourages an infrastructure that promotes social innovation, essentially by providing a "map" and resources to guide would-be social innovations from idea to delivery. Here's how it works.

In Seoul, a typical beginning for any organization striving to innovate for a social purpose involves a party, often hosted by an intermediary organization such as the Seoul Youth Hub. It's not unusual to see would-be social innovators gathering at the Youth Hub to chat with their peers over tea, establish working teams, attend a performance or a lecture, and connect with more experienced entrepreneurs, investors, and NGO activists.

When they home in on a goal and assemble a team, they can then take their ideas to a social innovation incubator, such as the Seoul Innovation Park[1] or the Seoul Social Economy Center, to receive help in the form of coaching, funding, and recruiting people and organizations that have the skills (or authority and influence) they need to succeed. At this stage, social innovators may begin producing the product or service that is needed to solve the social problem they hope to address.

With the support of an incubator, their next step is to engage with the government directly, sometimes by participating in the government procurement process. The SMG gives priority to products and services made by social innovators. And when a project begins to scale up, the Seoul Social Investment Fund, an impact investment fund set up by the SMG, may play an important role by extending a loan. Here, the incubators may help with connections to private sector investors, and with efforts to promote the new product or service. At this point, socially conscious consumers act as pioneers, promoting the new product or service by using it and by influencing their peers to follow suit. And finally, the project gains enough strength to compete in the for-profit market.

Take the example of SoCar, a car-sharing company based in Seoul. Sopoong, an impact investor, made the initial investment in SoCar. But the company also benefited from the SMG's sharing-economy support program; through collaboration with the SMG, SoCar obtained public parking spaces—an essential element in operating such a business. Then, SoCar obtained funding from the Seoul Social Investment Fund to expand. And subsequently, the business secured funding from private investors Bain Capital and SK Group. The company will soon issue stock to the public.

How Can a Local Government Do This?

Local governments are almost always considered to be conservative and difficult to work with. So what makes Seoul different? When asked this question, Chun Hyo-Kwan, the director in the Seoul Innovation Planning office, explains that a big part of his role is to make the government easier to work with: "A huge bulk of my work is persuading other government officials, and also talking to the city council," he says.

Chun started working at the SMG in 2014, just as Mayor Park was beginning to emphasize the importance of social innovation. As he explains it, his division—which comprises 100 government civil servants across six departments—serves as the control tower for all social innovation activities within the SMG. Put more specifically, the Innovation Planning office has three primary responsibilities:

First, it serves as a change agent within the SMG (which employs more than 50,000 civil servants). The division works to persuade and support other departments in the SMG to accept social innovation policies and take on specific projects. For example, the car-sharing project falls under the responsibility of the transportation division. In these cases, Chun's direct reports have not handled the actual project work; rather, they have served as advocates, raising awareness and promoting social innovation in each division.

Second, Chun's division is in charge of securing funding for accepted social innovation projects. The SMG allocated KRW 1,812,000,000 ($1.5 million) in 2014 for social innovation policies and increased that figure to KRW 9,060,000,000 ($7.5 million) in 2016.

Last, the division is in charge of setting the social innovation agenda. The "Sharing City" and "Social Economy" have become popular buzz phrases in South Korea, in large part due to the work of people like Chun and Mayor Park. But if Chun's division is working hard to secure the necessary budget and conduct advocacy activities, then that raises another question: Who comes up with the policies that guide social innovation, and who implements them?

The answer is the city's intermediary organizations. These organizations provide the missing link that sets Seoul apart from other bureaucracies. The Seoul Social Center nurtures social enterprises and cooperatives. The Youth Hub provides a productive "playground" for young entrepreneurs. The Seoul Community Support Center helps entrepreneurs to revitalize the local community. The Seoul Share Hub leads the Sharing City initiative by supporting sharing-economy ventures. The city's Social Innovation Park provides an overarching platform—as well as a single physical location—where innovators, citizens, and various stakeholders can gather to bring social innovation concepts to life.

These intermediaries are fully funded by the SMG, but they retain an independent spirit. They execute and manage social innovation policy initiatives; plan and set policy through dialogues with those involved in the projects (including beneficiaries); help build social innovators' capacity; and make investments.

The complete package—Mayor Park, the SMG's attitude, Chun's department, and the intermediary organizations—is what's needed for social innovation in Seoul to thrive. And anyone who knows how an administrative system typically works should agree: Seoul's system is itself a social innovation. ■

NOTES

1 Seoul Innovation Park was created as a hub to bring together ideas, people, and organizations in Seoul. The park hosts intermediary organizations such as Seoul Social Economy, Seoul Youth Hub, and Seoul Senior Support Center. By the time of its opening in 2015, more than 190 social ventures, NGOs, and other organizations had moved into the park.

OVERVIEW | **JAPAN**

Creating Systemic Change

Japan is opening the door to new approaches, such as social enterprise, for solving its pressing social problems.

BY KEN ITO

Japan has long had efficient government services as well as a highly competitive commercial market. As a result of this structure, the scale and role of social enterprises or nonprofit organizations is small compared with third-sector entities in countries with different structures or relatively small governments, such as the United States.

Nonetheless, social enterprises and nonprofits in Japan are important: They are the source of social innovation, which can create systemic changes in society, such as new social systems, legal systems, and business models. They can also serve as models for third-sector entities in other Asian countries with developed welfare states.

Consider elderly care insurance in Japan as one prominent example of social innovation. In the 1980s, when it appeared that the country's aging population would soon begin to cause major social issues, several pioneering Japanese nonprofits started offering progressive care management systems with various options for payment. These services, designed to fill the gap between available government services and societal needs on the ground, were unique because there was no commercial elderly care industry in Japan. Until that time, elderly care had been seen as a family responsibility.

One of these nonprofits was Care Center Yawaragi, created in 1987 as a volunteer organization to provide care for the handicapped and elderly. But within a short time, Harue Ishikawa, Yawaragi's founder, realized that volunteerism by itself wouldn't adequately fill the service gap. And so, relying on gap analysis to inform his decision making, Yawaragi developed a standardized menu of care services and a care management system. The organization's efforts were widely acknowledged, and it was granted ISO9001 certification in 2001 (highly unusual for a nonprofit).

Importantly, Yawaragi also disseminated the concept of having a care management system that could cater to varying needs. In doing so, the organization essentially launched the era of modernized elderly care in Japan; Yawaragi soon began to receive many visitors, including government officials, seeking to learn how its paid elderly care model works.

Ultimately, the model that Yawaragi de-

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veloped was incorporated into Japan's national elderly care insurance system; it was adapted by the Japanese Ministry of Health in 2000. All Japanese above 40 years old are now required to pay an insurance premium equivalent to about 1.5 or 2 percent of their annual income. Subsequently, when a citizen needs care, she submits an application to the local government office; approval results in an allowance of between $500 and $2,000 a month to purchase services from any authorized provider.

With this insurance system, elderly care in Japan has transformed into an $80 billion service industry, in which even major publicly held companies are now participating. What's more, the idea of elderly care insurance has also been replicated in other East Asian countries facing aging populations. South Korea introduced a similar type of insurance in 2008, and Taiwan is planning to follow suit in 2019.

Encouraged by the proven impact of the elderly care insurance and other examples, a new generation of Japanese social entrepreneurs has begun to prioritize larger societal impact. These forward-thinking individuals are scaling their unique business models for greater systemic change. Some are also actively lobbying the government to change certain forms of public social services.

One entrepreneur demonstrating the potential of social innovation in Japan is Toru Suzuki, executive director of the Hokkaido Green Fund (HGF), which he founded in 2001. Before that time, as a director of a consumer cooperative in Hokkaido, Suzuki was looking for effective ways to persuade the government to reduce the country's dependence on nuclear power. One day, he came up with the idea of encouraging a cooperative approach to producing electricity—using a model similar to a market contracting with organic farmers to produce vegetables and fruit.

To bring his idea to life, he sought investors to support the creation of a wind power plant and ultimately raised an initial $2 million from 217 individuals. The electricity produced by the plant, which began operating in 2001, is sold to the local electricity company to generate revenues that will help to repay investors in 18 years. That seed of a renewable energy industry led to the creation of a model whereby the government started to set feed-in tariffs (policies guaranteeing payment for renewable energy, thus encouraging investment in the field) in 2012. As a result, by the end of 2016, HGF was operating 18 wind power plants in Japan.

Collective Impact Through Multisector Collaboration

The context that surrounds and compels social innovation in Japan is clearly different than in many other countries in South and Southeast Asia. Japan has a mature welfare society and enjoys economic prosperity, efficient government services, and an established market mechanism. Yet, the country today finds itself faced with unprecedented challenges, such as depopulation, due to low birthrates and insular immigration policies. In this environment, the social sector is looking to the potential of collective impact to create new social systems and provide needed supports. It is no longer enough to scale individual businesses to maximize direct impact and address needs.

To enable collective efforts, the Japanese social sector is focusing more explicitly on engaging in cross-sector collaboration with the government and with Japan's businesses. A project led by the Nippon Foundation since 2014, focused on the prevention of dementia, provides a good example. Roughly 26 percent of the Japanese population is over 65 years of age, and about 20 percent of the elderly are at a higher risk for dementia; treatment and care (formal and informal) can cost the country more than 14 trillion yen ($116 billion) annually for both formal and informal care, representing a significant challenge.

To determine what actions were needed most and to set priorities for investing, the Nippon Foundation (Japan's largest private foundation) worked in collaboration with the Ministry of Economy, Trade and Industry (METI), as well as the Ministry of Health, to conduct a feasibility study. Keio University soon joined in the effort as an independent evaluator. (These collaborators are also engaging in efforts aimed to facilitate adoption, reduce unemployment among Japan's youth, improve and expand cancer-screening services, and prevent diabetes.)

Subsequently, in 2015 the METI funded 40 million yen ($333,000) to support a pilot project aimed at preventing dementia. The program utilizes a Learning Therapy program, catered specifically to the elderly, developed by Kumon, which specializes in child and adult education. Participants in the pilot spend 30 minutes per day studying math and the Japanese language in an effort to prevent the progress of dementia.

After one year of this experiment, Keio University evaluators concluded that its outcomes were positive. The elderly participants in the project maintained their level of brain function, while the control group showed clear signs of increasing dementia. A cost-benefit analysis subsequently demonstrated the strong potential of turning this project into a social impact bond (SIB) project. The analysis found that the pilot project cost approximately 98,000 yen ($816) per person to operate but generated a benefit of approximately 300,000 yen ($2,500) per person.

Emerging Social Impact Investment Market

Social innovation that leads to collective impact requires financing. The good news is that growing numbers of investors are showing interest in innovative social initiatives. Companies in the private sector in particular have stepped up in this area since the Great East Japan Earthquake in 2011, when it became clear that the public capacity for reconstruction was insufficient. Mitsubishi Corp., for example, set up an impact investment fund and put up $15 million in short order to support entrepreneurs working in areas damaged by the earthquake and suffering in its aftermath. Other companies, including the Benesse Corp. and Toyota Tsusho, soon followed, establishing impact funds for overseas investments.

Other types of organizations are emerging in support of social innovation as well. Kibow, a spin-off impact investing fund from Globis, a Tokyo-based venture capital company, started operating in 2013. And in 2014, a group of private equity professionals founded Social Investment Partners, a social investment intermediary.

Intermediary organizations are also involved in the formation of this new market. The Japan Fundraising Association, established in 2009 with the slogan "A society with 100 billion-yen charitable donations," provides training for certified fundraisers, the first of its kind in Japan. Its goal is to achieve "100 billion yen donations," or eight times more than what is currently being raised, to support social innovation. And the Asian Venture Philanthropy Network, a philanthropy and social investment intermediary based in Singapore, was founded in 2012 to promote and facilitate social investment in Asian countries including Japan, South Korea, and China. To date, the network has more than 50 members active in these three countries, among 311 members in 28 countries.

Impact measurement, another vital aspect of investing in social innovation, is also gaining traction. The SROI Network Japan (an affiliate of Social Value International, based in the United Kingdom) has been active since 2012 in providing training on best-practice social impact measurement methods. The Cabinet Office in Japan formed a research group in 2015 focused on improving and promoting impact measurement. The group, now called the Social Impact Measurement Platform, is supported by 50 organizations and corporations.

Becoming the "Land of the Rising Sun" Once Again

With its social capital accumulated since the Edo era, a collectively established civil society since the 1970s, and a rapid economic growth model that has been replicated by other Asian countries, Japan has held a unique leading position in Asia for some time. However, with the recent rise of Koreans and Chinese, the country seems in some ways to be falling behind.

Can Japan revive itself to be the "Land of the Rising Sun" again? Can it provide new models for solutions to social and environmental issues on top of economic growth? This depends on how well Japan can open up to new approaches to resolving the complex social challenges it is facing. The good news is that the potential to do so is clear.

CASE STUDY | JAPAN

Solving Japan's Childcare Problem

Florence, a social enterprise, is helping cause major reforms in Japan's childcare system.

BY FUMI SUGENO

Last year, in Japan, a strongly worded blog post written by an anonymous mother went viral. The post was titled "My child wasn't accepted for nursery school. Die, Japan!!!" In it, the irate mother wrote, "I will now have to quit my job. Seriously, get your act together, Japan." The author also attacked Prime Minister Shinzo Abe's slogan about Japan being a "society in which all 100 million people can be active," writing: "I can't be active, can I? ... And what's all that blabber about falling birthrates? When you say 'You can have children' but it's going to be practically impossible to put them into nursery schools as you want, no one's going to have children."

The post was shared about 50,000 times and was mentioned in a parliamentary debate. But the prime minister's initial response—"There is no way to verify the post since it is anonymous"—angered parents, who voiced their views on Twitter using the hashtag, "# it was me whose child was not accepted for nursery school." Their reactions quickly evolved into a social movement, which included a two-day protest outside the National Diet (Japan's legislature), an online petition signed by 28,000 people, and rising public interest.

The parents' ire was understandable. Until March 2015, the government authorized and subsidized only nurseries that had more than 20 children enrolled, and it was not easy to secure the space needed to accommodate such large groups, especially in large cities. Previously, unauthorized, unsubsidized nurseries with fewer than 20 children were compelled to collect higher fees from parents to cover operational costs, such as staff salaries.

Many young parents, who could not afford such fees, simply gave up on the idea of sending their children to day care. But their other options were limited as well. Japan suffers from a lack of affordable and reliable babysitters, due in part to the country's tight immigration control. As a result, only 2 percent of Japanese working parents use babysitters, compared with 41 percent in the United States. Is it any wonder that many parents found themselves unable to work outside the home?

In 2012, Japan passed a law making it easier for small-scale nurseries to operate, and in 2015, the government began implementing the law. Overnight, 1,655 existing small-scale nurseries were able to get authorized and begin collecting subsidies, enabling them to lower their tuition. This represented an immediate 7 percent increase in the number of authorized nurseries in Japan, up from a total of about 24,000 nurseries. Over time, these small-scale nurseries (along with additional ones likely to be created in the future) are expected to make a significant contribution toward meeting the demand for nurseries.

A lot of the credit for this change goes to Florence, a Japanese social enterprise focused on childcare issues. It was Florence's founder, Hiroki Komazaki, who pitched the idea of converting vacant apartment rooms into small-scale nurseries to the Ministry of Health, Labor, and Welfare (MHLW). (A typical small-scale nursery these days is often a converted vacant room in an apartment; these businesses provide day care for six to 19 babies under the age of 2.) Komazaki also forged partnerships with municipalities to develop and run model nurseries, and provided valuable input on designing an effective system for authorizing small-scale nurseries.

Florence's Roots

A natural entrepreneur, Komazaki ran a successful IT venture during college in the early 2000s; however, before graduation, he came to realize that his goal in life was to effect social change. At about the same time, he learned that in the United States, many nonprofits endeavor to solve social issues by running profitable, socially oriented businesses. He was shocked by this trend, as it stood in stark contrast to the many Japanese nonprofits managed by volunteers rather than professionals. And that knowledge compelled him to leave the IT venture and start a social enterprise.

In search of an issue to focus on, he remembered something that his mother, who worked as a babysitter, had told him: Her client had been fired from her job for taking a week off when one of her twin babies caught a cold and passed it on to the other one. He conducted market research and found that working parents' biggest difficulty was that nurseries do not accept children who have a fever over 99.5 F; he also found out that there were not nearly enough facilities providing care for sick children.

Seeing an opportunity to fill the market gap, Komazaki founded Florence in 2004 as a nonprofit focused on providing Japan's first home-care service for ill children. (Komazaki was one of the first social entrepreneurs to be featured by the Japanese media when the concept of social entrepreneurship itself was

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introduced to the country in the mid-2000s.)

His business model is straightforward: Florence sends professionally trained staff to households to take care of sick children while the parents are at work. But his approach to pricing has an innovative twist: parents pay a monthly membership fee regardless of their actual usage of the business's services. In fact, parents use the service only 1.7 times a year on average. For working parents, becoming a member of Florence's program is equivalent to purchasing insurance. The more frequently that parents use the service, the higher the monthly membership fee they need to pay.

The approach has proved wildly successful. In 2004, Florence had 38 members. That number had grown to more than 5,000 in 2016 and is still increasing rapidly; today, there is a long waiting list.

Making Systemic Change Happen

When Komazaki was about to roll out his business taking care of sick children, he received an e-mail from an MHLW official asking for information about Florence's business model as a reference for the ministry's new program. Komazaki provided that information and followed through with a presentation. But two months later, he was shocked when he found a newspaper article about the launch of a new government program that looked like a virtual copy of his model. Coming from a for-profit background, Komazaki was at first furious at the ministry for copying his business model without permission. Then he talked with Harue Ishikawa, his mentor and the founder of Japan's first "24-7-365" home-based care services for the elderly. Ishikawa, who had provided critical inputs to the MHLW regarding the design of Japan's long-term-care insurance system for the elderly, scolded Komazaki for being immature as a social innovator. And then Komazaki realized that influencing the government should be a critical part of Florence's role because of the government's ability to create impact at a large scale.

From that point on, Komazaki determined to play an active role in influencing the government for systemic change. His first step was volunteering to become a member of an advisory committee for childcare policies in Shinagawa Ward Government in Tokyo, where his office was located. Soon after, Komazaki was invited to become a member of several central government advisory councils.

Komazaki was doing work he enjoyed and looking for other opportunities for Florence to pursue. But, interestingly, the catalyst for Florence to start small-scale nurseries was an internal incident. A staff member on maternity leave had to quit Florence because she could not secure a seat at a nursery. Komazaki was shocked and embarrassed that he had allowed such an incident to happen in an organization with a mission to solve childcare-related issues. He felt that there was no other choice but to challenge this social issue on a large scale and work to address the severe shortage of nurseries in metropolitan areas.

Komazaki's idea was simple; it called for utilizing vacant apartment rooms, which are abundant in big cities, to start small-scale nurseries for groups of around 10 children under the age of 2. In this way, the initial facility and land investment costs would be much lower than what would be needed to establish conventional, greenfield nurseries.

The problem, however, was that small-scale nurseries fell outside of Japan's existing laws. Komazaki was well aware that Florence could solve only a small part of the big problem if it were to run the small-scale nurseries by itself. So he set about to persuade the government to establish a new system that would authorize and subsidize small-scale nurseries in order to create nationwide impact.

Komazaki first took his idea to Takaji Matsui, then deputy chief cabinet secretary, with whom he had previously built a connection when he spoke at the Democratic Party's study group on childcare issues. Through Matsui's influence, he was given the opportunity to pitch his idea at the MHLW. To Komazaki's surprise, he found that some officials at the MHLW were developing a similar idea, and with their support, he swiftly obtained the ministry's support for implementing a model small-scale nursery in a municipality.

The next step for Komazaki was to find the right municipal partner. He wanted to launch the first small-scale nursery in his hometown, in Tokyo Prefecture's Koto Ward. He approached the Koto Ward government through Mito Kakizawa, a House of Representatives member whose electoral base is Koto Ward. Komazaki had begun to build a relationship with Kakizawa months before, when Kakizawa had responded to a blog post that Komazaki had written, commenting on Kakizawa's childcare policy. The Koto Ward agreed to support the first small-scale nursery and consider it a pilot.

The pilot, launched in 2010, was successful, and Florence quickly was on track to open and operate more small-scale nurseries. At this point, Komazaki knew that Florence needed to provide politicians and government officials with useful input based on its experiences. At that time, the Japanese government under the Democratic Party's leadership launched an initiative to tackle childcare issues under the Comprehensive Reform of Social Security and Tax. To persuade the government to include small-scale nurseries in its new reform, Florence invited politicians and officials from the central government to observe its small-scale nurseries in Koto.

In spite of this progress, Japanese political parties were deeply divided on childcare policies. So Komazaki organized an online debate on childcare issues by inviting key politicians from different parties. Such an informal setting enabled politicians to share a common goal of tackling childcare issues despite their differences. Subsequently, a law called "The new support system for children and childcare" was passed in 2012, authorizing small-scale nurseries. Komazaki was tapped to become a member of an advisory council for designing the details of the system. To deliver collective voices to the advisory council, Komazaki launched the National Small-Scale Nursery Association with other organizations that ran unauthorized small-scale nurseries.

Florence Today

As of this writing, Florence has eight business lines, including care for sick children, small-scale nurseries, Japan's first nurseries that provide full-day medical care for children with disabilities, and an adoption-support service. Florence's annual revenue was more than JPY 1.3 billion (about $13 million) in 2015. Its budget—with more than 50 percent coming from earned income and the rest coming from subsidies and donations—places it in the top 10 percent of Japanese nonprofits. Revenues from the business providing care for sick children continue to secure the organization's financial sustainability and independence, and also give it the freedom to initiate innovative but high-risk business models (such as the nurseries for children with disabilities and adoption support), as well as to engage in advocacy work.

Florence provides a good example of the growing role that social enterprises play in addressing social problems in Japan. It is a happy marriage between the entrepreneurial characteristics of an innovative business and the concern over social impact of a nonprofit organization. And, no doubt, Japanese social enterprises will continue to effect social change in the future. ■

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