

Stanford SOCIAL INNOVATION^{Review}

Supplement
Using the Internet to Transform Giving
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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, philan-

thropic 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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(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

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organizations are categorized into those with a government background (*guanban*) and those run privately (*minban*).

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 Chi-

nese 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.