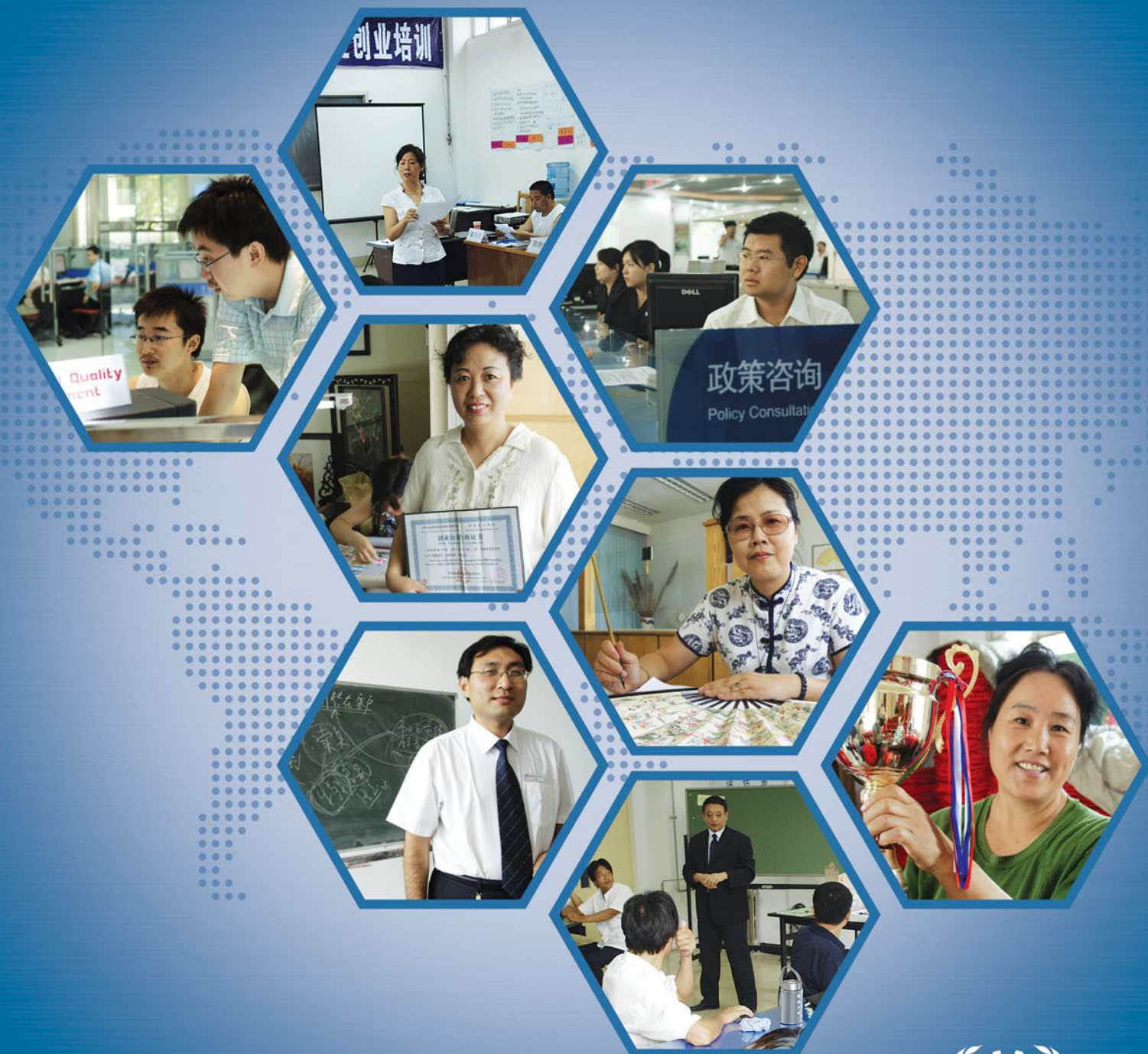


Promoting Employment through New Business Initiatives in China



MOHRSS

Ministry of Human Resources
and Social Security



International Labour Office

Promoting Employment through New Business Initiatives in China

MOHRSS

Ministry of Human Resources
and Social Security



International Labour Office

Copyright © International Labour Organization 2011

First published 2011

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with reproduction rights organizations may make copies in accordance with the licences issued to them for this purpose. Visit www.ifro.org to find the reproduction rights organization in your country.

Employment Policies Report – China: Promoting Employment through New Business Initiatives in China.

978-92-2-125661-8 (print)

978-92-2-125662-5 (web pdf)

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and electronic products can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org

Visit our web site: www.ilo.org/publns

Printed in China



Contents

Foreword

The urgent need to promote business initiatives.....	1
Challenges to entrepreneurship in China	2
Entrepreneurship promotion policies	5
Practices on promoting entrepreneurship.....	11
Lessons learnt from the new business initiatives.....	18



Foreword

China, now the second largest economy in the world, has seen strong economic growth over a prolonged period of nearly three decades. This high and sustained growth has been closely associated with massive economic, social and institutional reforms and with China's vision of its socialist market economy.

The ILO has been involved in Chinese employment policy reforms since the beginning of the era of economic reform and opening up. The ILO active labour market policy project launched in China in the early 1990s, for example, gave a timely impetus to the establishment of public employment services in the country, which benefited both urban and rural workers. The signing of a Memorandum of Understanding (MoU) between the Ministry of Labour and Social Security – now the Ministry of Human Resources and Social Security (MOHRSS) – and the International Labour Office (ILO) in 2001 defined a framework for cooperation based on China's national priorities and the ILO's Decent Work Agenda. One key outcome of the MoU is the production of detailed accounts of China's employment policies towards full and productive employment. The Asia Employment Forum jointly organized by the ILO and the Chinese Government in Beijing in 2007, gave the initial impetus to write a series of booklets on Chinese employment policies. The publication of this series of booklets today is thus the result of the fruitful collaboration between the MOHRSS and the ILO to showcase China's unique experience in economic restructuring and labour market adjustments over the period 1990–2010. Promoting employment through new business initiatives in China was written by the MOHRSS with editorial assistance from the ILO.

Since the start of the country's reform process in the late 1970s, there have been significant changes in China's economy. The country's once planned labour market is giving way to a market-oriented system. Productive employment through new business initiatives has been promoted in recent years as one of the core objectives and new drivers of growth in the national development strategy of China. Private sector development is the country's new path for creating jobs, based on national and international experience and lessons learnt on a renewed understanding of the laws governing economic and social development, and on a scientific analysis of China's labour market situation.

This report discusses the reasons for China's promotion of new business initiatives and summarizes the key challenges of starting up new businesses in China. It subsequently presents the main policies in place to support new business initiatives as well as good practices. The booklet concludes with an analysis of the contribution of new business initiatives to employment promotion, innovation and economic development.



The urgent need to promote business initiatives

Traditionally, China's economic growth has been highly dependent on capital and the input of natural resources. The economic reforms and opening up in China since 1978 have fundamentally transformed the structure of China's economy. Successive reforms have led to economic liberalization, which has radically changed the nature of employment. Employment security (the so-called "iron rice bowl") that guaranteed employment in state-owned enterprises gave way to greater levels of uncertainty in the labour market. In such a context, widening income gaps, and a rise in unemployment led Chinese policy makers to look for new means to stimulate employment creation.

Innovation and business initiatives were emphasized at a key policy response to the major challenge of unemployment, which is expected to continue to grow in the coming years. In light of the total demand for jobs and the problem of structural unemployment, the Chinese government has sought to stimulate alternative forms of employment creation and expansion.

- ***There are simply not enough jobs to meet the needs of the large labour force.*** Additionally, the skills mismatch appears likely to continue in the future. According to estimates of the Ministry of Human Resources and Social Security of China (MOHRSS), in urban areas, around 24 million new job seekers enter the labour market annually, 6.3 million of whom are college graduates. However, there are only about 12-13 million vacancies every year, leaving at least 10 million workers jobless.
- ***Structural unemployment.*** China's unbalanced development between rural and urban areas has created a dual structural imbalance between urban and rural employment. Productivity upgrades in rural agriculture have created a great deal of rural surplus labour, and many of these people have migrated to urban areas in search of employment without the necessary skills. According to the National Bureau of Statistics of China (NBS), by the end of 2009, the number of rural migrant workers had reached 140 million, with another 120 million rural workers in search of employment.

In addition, China's strategic development plan calls for the building of an "innovation nation" in the coming years. Current policy choices will significantly influence China's economic restructuring, economic growth, the industrial structure and sustainable economic development. However, China still does not generate many independently developed products. Most indigenous corporations still lack the capacity for continuous innovation compared with the world's leading brands or multinational enterprises. The government realized that new business initiatives were a very important form of innovation and began to offer strategic support to business start-ups in recent years. In the long run, job creation through business start-ups will promote innovation by fostering an environment that encourages individuals to exercise creativity. In the short run, the main objective is to remove the institutional barriers that inhibit business start-ups in order to build a solid foundation for an "innovation nation".



Challenges to entrepreneurship in China

The business environment

Constraints to market entry

For a long time, starting up a business in China meant facing high costs, and institutional obstacles when entering the existing market and unregulated mechanisms for getting out. This unfavourable business environment made it difficult for small enterprises to survive.

Unequal access to resources

As the state adopted tightening land use policies, small enterprises faced great difficulties in accessing land for their business operations, which has raised the threshold for small business initiatives. Compared to large state-owned enterprises (SOEs), small and medium-sized enterprises (SMEs) have less financial and political support which is a disadvantage for them in market competition.

Lack of standardized regulatory processes

Two major problems affect the process of business regulation in China: a lack of management capability and a lack of awareness of public services. Most public servants consider punishment as the most important method for the enforcement of law and regulation. As there is no standardized approach to regulating the private sector, arbitrary measures are often applied by administrative departments, which lead to abuse in terms of service charges and penalties.

High tax burden

Many entrepreneurs and private business owners experience difficulties in the initial period of their business operations, because the tax rate is too high. This increases their business operation costs.

Lack of business start-up education

The spirit of business initiative and innovation is not a part of the educational system in China. In most universities and middle schools, there are no specific courses teaching students how to start and manage their own businesses. The spirit of entrepreneurship is difficult to form without an encouraging educational environment. This deficiency in the business education of potential entrepreneurs may account for a general lack of awareness of business innovation.

The capability of entrepreneurs

Low education level

The higher the educational level of entrepreneurs, the higher the probability that they will be able to acquire new ideas and knowledge to enrich their business. However, a great number of new business owners in China have only a junior high school education. They generally lack vocational skills and experience in business operations. Most are urban unemployed people or laid-off employees from SOEs, decommissioned military personnel or returned rural migrant workers with poor educational background and the majority of them run micro-businesses. Consequently, their lack of entrepreneurial knowledge hinders the long-term development of their business.



Lack of business management and operation practice

Currently, most small businesses in China are managed in an unsystematic manner, and operated in a way that lacks creativity. Some indigenous enterprises engage in vicious competition without regard to consequences, lowering the prices of their products, cutting labour costs, ruining the environment and abusing the land and other resources. As a result, not many brands survive in the long-term and most products are low value-added and of low quality.

Business start-up services

Business start-up training

The (former) Ministry of Labour and Social Security provided business start-up guidance and training in more than 300 cities. During the 10th five-year plan period (2000-2005), 1.5 million participants registered for business start-up training. From 2006-2010, when the 11th five-year plan was implemented, the number of business start-up trainees increased to 2 million.¹ However, it still could not meet the demands of entrepreneurs. Currently, there is strong demand for new business consultancy and business start-up training opportunities in many small and medium-sized cities, whereas, most service providers are located in medium and large-sized cities. Small and medium-sized cities generally lack service agencies for business start-up consultation and guidance and especially advisory panels of successful entrepreneurs, experts and policy makers.

Financial services

The financing channels and mechanisms in China cannot meet the need for small, frequent and rapid loans for small business owners. Most SMEs face difficulties in accessing micro-loans due to asymmetric background information. Some SMEs have insufficient information as to which banks are able to provide micro-loans and have no knowledge of micro-credit guarantee policies. Banks that provide micro-loans often have little knowledge of their target customers. Small business owners have to go through costly and frequent application processes, but end up with limited credit availability. As the state-owned banks became more commercially oriented, many withdrew their grass root level services from counties, where many small businesses are located, making it even more difficult for SMEs to finance themselves.

Business incubators

The Chinese government is currently promoting high-tech business start-ups, with the emphasis on industrial upgrading and technology advances. Such enterprises take up most of the social and economic resources. In contrast, many small enterprises, although they play a significant role in job creation, have less access to key resources, in particular, business incubators.

Spirit of entrepreneurship

In China, positive recognition of new business initiatives is not culturally ingrained. There is a somewhat negative attitude towards the risks of starting up one's own business, and in the eyes of

¹ Data provided by the MOHRSS.



many, entrepreneurship is considered to be too aggressive. Nor is the general business entrepreneurial environment or culture enabling in terms of protecting and motivating new business ventures.

The spirit of entrepreneurship from potential business starters in China is generally weak. Among the economically active population, less than 5 per cent of urban residents in China are prepared to start up their own business. According to relevant surveys, less than 1 per cent of college graduates in China choose to start up their own business, whereas this proportion is as high as 20 per cent in developed countries.² An entrepreneurial spirit, combining resilience and creativity, is not popular among potential new business starters. Therefore, due to a lack of experience and resources, many small business entrepreneurs fail to follow through on their business initiatives.

² Zhou Yimei, 0.9 percent of college graduates chose to start up their own business, Jinghua Newspaper, 13.07.2011. Refer to: <http://edu.people.com.cn/GB/15141314.html>.



Entrepreneurship promotion policies

Government-motivated employment promotion through new business initiatives assists potential business starters by allowing them access to policies and services. These initiatives encourage business owners to take advantage of changes in technology, markets and their environment. Employment promotion through new businesses has provided a new means of employment, where individuals are expected to take initiatives, choose a particular business project and pursue self-employment. Through employment promotion, government departments not only provide employment services and training, but also develop a favourable policy environment for new business initiatives. Starting in 1998, a series of policies have been formulated by the Chinese government in the areas of tax deductions, small loans credit, and access to land, which significantly facilitated new business initiatives.

Tax deductions and exemption policies

Tax deductions and exemptions have been a key component of the strategy to assist individuals setting up businesses. It has proven to be particularly effective in the initial stages of entrepreneurship. In 1999, the National Tax Office issued the Directive on Preferential Tax Policies for Business Initiatives in the Community Services Sector regarding laid-off workers. This directive stipulated that laid-off workers from reformed state-owned enterprises who were re-employed or became self-employed in certain job categories (for example, domestic custodial work, primary health care and nursing) were entitled to be exemptions from business operations tax, individual income tax, city development tax and education tax.

In 2002, this preferential tax policy was further expanded to all industries with restrictions applicable to only certain sectors, i.e. construction, entertainment, advertising, sauna and massage services, and internet bars. Laid-off workers with a Preferential Re-employment Card³ (*zai jiu ye you hui zheng*) who started up individual businesses in all other sectors were entitled to a three-year exemption from business operations tax, personal income tax, city development tax and education tax.

In 2005, these policies were improved to resolve problems in implementation. The tax exemption for laid-off workers with a Preferential Re-employment Card seeking to establish individual businesses increased to a maximum of 8,000 Yuan. Such certificates were accorded not only to unemployed and laid-off workers from state-owned enterprises (SOE) and affiliated collectively-owned enterprises, but also persons registered as unemployed for over one year who received the minimum living allowance for urban residents. The scope of beneficiary groups was enlarged in light of the severe difficulties such workers faced in re-entering the workforce. Offering tax reductions or exemptions offered unique incentives by lessening their operational costs while contributing to greater stability during the pivotal early phase of running a business.

The tax deduction and exemption policies adopted in 2005 stipulated that a maximum total tax exemption should be set up, and deductions up to the maximum amount should be claimed in the following order:

³ Such a certificate provides preferential treatment for laid-off workers in relation to re-employment or support in the form of tax reductions and favourable conditions for those starting up a business.



business operations tax, individual income tax, city development tax and education tax. This measure has not only helped many small business owners, but has also enabled easier implementation of the relevant policies. Compared with the tax policies issued in 2002, three areas of activity, notably real estate sales, housing intermediary agencies, and transfer of land use rights were no longer eligible for preferential tax treatment.

Efforts were also made to encourage unemployed people to become entrepreneurs. Such measures included an increase of the tax threshold for personal value-added tax and business operations tax. In addition, spouses of military servicemen/women, decommissioned military personnel and ex-convicts were entitled to business and personal income tax exemptions within three years, if they started their own business venture. Persons living with disabilities received exemptions from business operations taxes; if they offered maintenance and repair services for electronic appliances, they could receive exemptions on Value Added Taxes (VAT). Lastly, small scale and low profit enterprises benefited from a reduced enterprise income tax of 20 per cent.⁴

Deduction of administrative fees

Administrative fees have become constraints for small business development. During several rounds of mission-monitoring for policy implementation, the governments noticed that excessive of administrative fees strongly hampered the take-off of small businesses. In addition, lots of entrepreneurs complained about the burden imposed by excessive administrative fees. The problems were addressed in 2002 when the government determined that administrative fees for business registration, certificates and licence issuance should be waived for laid-off SOE employees. This policy was further expanded to employees dismissed from collectively-owned enterprises affiliated to SOEs in 2005. By 2008, it applied to all registered laid-off employees and the disabled.

In accordance with current government regulations, various groups of individuals are exempted from administrative business registration fees, certificates and licence issuance expenses for three years. These individuals include those registered as unemployed, persons with disabilities, decommissioned military personnel and college graduates having completed their studies within the past 2 years.

There are two specific categories of administrative fee exemptions.

The first category refers to administrative fees which are stipulated in national laws and regulations, and are approved by the State Council, the Ministry of Finance and the National Development and Reform Commission. Such fees include business registration fees (business licence fee, fees for changing registered items after the first registration, registration fee for the application for a new business licence and copies of a business licence), administrative fees for individual entrepreneurs, retail market administration fees, business contract verification fees,⁵ and fees for the model business contract.⁶ The National Tax

⁴ Article 28, Enterprise Income Tax Law of the People's Republic of China.

⁵ According to relevant regulations, business contracts should be verified by relevant government agencies to avoid scams.

⁶ Relevant government agencies offer enterprises models for writing business contracts.



Office charges a fee for a certificate of tax registration. The Department of Health charges a public health inspection and evaluation fee, physical check-up fee for employees, and a fee for a health registration certificate. The Civil Affairs Department charges an enterprise registration fee as well as a fee for its respective certificate. The Human Resources and Social Security Department charges a vocational skills certificate.⁷

The second category refers to administrative fees set by provincial governments, municipalities and autonomous regions for business registration, licensing and administration.

In order to monitor preferential policies for small business entrepreneurs, government agencies have undertaken responsible measures. For instance, the National Development and Reform Commission and the Ministry of Finance have published a list of applicable administrative fees. The Tax Office and the Industrial and Commercial Bureau have listed job creation and re-employment as key indicators in assessing their public service performance, while making special efforts to lessen the financial burden carried by small business owners.

Micro-credit guarantee policies

Access to capital is crucial for the success of small business ventures especially during the initial launch phase. However, due to a lack of credit and financial guarantees, applicants are often denied access to necessary capital, making it hard to real their goals. To address this issue, active employment polices implemented since 2002 have new policy stipulations for loans with particular regard for application procedures, the amount of the loan, maturity time, loan guarantees and interest deductions. Furthermore, people who start their own business or set up a cooperative are eligible for small scale loans from commercial banks with a loan guarantee statement from a credit guarantee agency. Small cooperative businesses set up by laid-off workers can qualify for larger loans.⁸ As for the maturity of loans, it normally cannot be more than 2 years and only one extension is allowed. For small businesses with low profit margins, the central government completely subsidizes the loan interest in full.

Starting from 2002, micro-credit loan guarantee policies were amended to expand the number of beneficiaries and to make such loans more accessible. Four major breakthroughs took place in 2008, six years after these changes began to be implemented. These included the following:

- **The scope of beneficiary groups was enlarged.** The following groups became eligible to apply for micro-credit loans: holders of the Preferential Re-employment Card, decommissioned military personnel, college graduates starting up new businesses and other unemployed and economically disadvantaged persons. These developments were a result of provisions of the Employment Promotion Law which recognized and respected the integrity of the microloan guarantee policy.

⁷ The vocational skills certificate verifies that the services offered by the enterprise as well the vocational skills of employees have reached the required level.

⁸ Small scale loans and larger loans are classified according to the amount of the loan issued and the type of recipient. The maximum amount of the small scale loan issued to female entrepreneurs is 80,000 Yuan, to college graduates is 100,000 Yuan, to other entrepreneurs is 50,000 Yuan. The amount of larger loans is up to 2,000,000 Yuan.



- **The upper limit for micro-credit loans was increased.** The upper limit for micro-credit loans, for individuals was increased from 20,000 to 50,000 Yuan. For small labour-intensive enterprises which met certain requirements, the loan limit was increased from 1 million to 2 million Yuan.⁹
- **The interest rate was linked to the central bank benchmark interest rate.** The interest rate for a secured micro-loan would be three percentage points higher than the Central Bank benchmark interest rate.
- **The management of funds for subsidizing interest on loans was improved.** The central government allocates certain amounts from the micro-credit interest fund to local finance departments to subsidize loan guarantee agencies and financial institutions with outstanding performance.

Infrastructure improvements facilitating new business

Particular efforts are made by government agencies at all levels to offer operational support to new business owners and the self-employed. Specifically, labour departments cooperated with land management departments and land use planning departments to ensure basic infrastructure and facilities for new business initiatives.

Assistance services were provided to small business starters through vocational training, counselling, and policy support, so as to enhance their management capacity and competitiveness, and stabilize their business operations. Basic infrastructure and facilities were established by local government at different levels in existing economic and technical development zones, industrial zones, high-tech and industrial parks, university science and technology zones and small business incubators.

Guidance on employment promotion through business start-ups

On September 28, 2008, the General Office of the State Council circulated the *Guidance on Employment Promotion through Small Business Start-up Initiatives* (also known as ‘the *Guidance*’)¹⁰, which requires local-level governmental departments to facilitate the start-up of small business ventures.

- **Basic principles.** According to the *Guidance*, the basic principles of employment promotion through small business initiatives are government facilitation, social support, market adjustment and individual initiatives.
- **The targeted groups** are college graduates from China and returned graduates from overseas universities, the unemployed, returned rural migrant workers and decommissioned military personnel.
- **The objective** is to stimulate entrepreneurship for small business job creation, and to significantly increase the number of business initiators over a period of three to five years.

The *Guidance* emphasizes the key role of the enforcement of preferential taxation policies, small credit loan guarantees, financial subsidies and access to business assistance for enterprises. It also stresses

⁹ The People’s Bank of China, the Ministry of Finance, and the MOHRSS: Announcement on Improving the Management of Micro-credit Guarantees and Actively Promoting Employment through Business Start-ups (People’s Bank of China Decree No. 238 [2008]), 04.08.2008.

¹⁰ General Office of the State Council Decree No. 111 [2008], 28.09.2008.



that financing from multiple channels is critical for employment promotion initiatives and new business ventures. To improve the small business environment with strong policy support, the General Office of the State Council has promoted an open and transparent record-keeping system to record all types of public administration fees paid by enterprises. This system has been set up to monitor policy implementation by local governments and to prevent them from charging enterprises excessively.

By the end of 2009, approximately 30 provinces, autonomous regions and municipalities directly under the central government had promulgated policy directives on employment promotion through business initiatives and had formulated measures and programmes according to their local conditions. Out of the 84 pilot cities, 54 cities promulgated implementation measures.

Guidance on improving public services for entrepreneurship

As for support for new businesses, the *Guidance* urges local governments to improve business service systems in order to provide high quality service to the business initiators. Public employment agencies should take an active role in supporting and facilitating business initiatives, for example, by improving their capacity to provide advice on raising the efficiency of new businesses. Such comprehensive service agencies could facilitate and develop business project ideas including operational design, risk assessments, consultation, financing, and follow-up business support. The *Guidance* also requests that local governments take the lead on new business programmes and make them a top priority for employment promotion.

Guidance on entrepreneurship training

With respect to new business training, the *Guidance* requests all levels of local government to set up vocational training systems to meet the needs of small business owners and the self-employed. The contents of the training should be expanded to make Start Your Business¹¹ initiatives more accessible for entrepreneurs in the need of assistance. Efforts should be made to standardize training curricula, facilitate the training of trainers, improve training modules and, most importantly, improve the quality and effectiveness of training for new businesses.

Entrepreneurship policies in response to the global financial crisis

The global financial crisis in late 2008 had a great impact on both China's economic growth and employment rates. The GDP growth in 2008 was 9 per cent, 4 percentage points lower than that in 2007. The registered urban unemployment rate was 4.2 per cent in 2008 and 4.3 per cent in the first quarter of 2009.¹² As a result, many small and medium-sized enterprises went into foreclosure or bankruptcy and left many employees jobless.

¹¹ The Start and Improve your Business (SIYB) China Programme, organized by the ILO, is discussed in the section 4.4.

¹² Tang, Min, Zhang Cheng, The Global Financial Crisis's Impact on the Chinese Poor, <http://www.adb.org/documents/events/2009/poverty-social-development/WG1A-social-impact-prc-Tang-paper.pdf>.



In response to these problems, the government formulated policies in the six following policy categories.

- Employment promotion through economic growth stimulation
- Enterprise support to maintain job security in enterprises with financial difficulties
- Encouragement of entrepreneurship initiatives
- Job placement services targeting college graduates, rural migrant workers and other disadvantaged groups
- Implementation of specific vocational training programmes to enhance people's employability
- Improvement of public employment services and facilities.

Based on the general policy of the central government, local governments have also made great efforts to stabilize their employment situations. In the aftermath of the global financial crisis, local governments placed high priority on entrepreneurship promotion programmes for job creation. Free business consultancy services were offered to encourage individuals to develop their own entrepreneurial projects. As a result, successful individuals could run their own businesses and create more jobs for others at the same time.



Practices on promoting entrepreneurship

Central government level

The central government was determined to promote and implement its employment policy on new business initiatives. Coordinating with different departments, the central government organized a series of activities and programmes, notably

- A national conference on employment promotion for new business initiatives. It formulated the basic objectives of promoting employment and stimulating business initiatives, which included the following: first, by strengthening business start-up training, entrepreneurs' capacity to start up a business should be improved and the number of entrepreneurs should grow accordingly; second, by establishing business start-up services and improving the service quality, the success ratio of business start-ups should increase; third, by formulating and implementing entrepreneurship promotion policies, the development of small business start-ups should become more stable, which should significantly facilitate job creation and employment promotion.
- A Forum for Employment Promotion through New Business Initiatives for the purpose of initiating discussion within senior management teams in local governments. 15 mayors, relevant government officials and experts were invited to exchange ideas on policy making and good practice to promote employment through business ventures.
- The signing of a memorandum of understanding (MOU) between MOHRSS and the Tianjin municipal government for the Joint Establishment of a Pilot Zone for Employment Promotion through Business Start-up Initiatives. This MOU serves as an important instrument and offers guidance on the promotion of business start-ups.
- A consultation seminar on the development of innovative cities, during which policy recommendations for nationwide employment promotion through business start-up initiatives were presented.
- A workshop to discuss employment promotion through business initiatives in 82 pilot cities, and to share the latest policies and sound practices with local government officials.
- A training workshop in Shanghai to brief mayors on policies to promote employment through business initiatives and to sensitize them to specific programme objectives.
- A College Graduate Business Start-up contest to encourage potential business initiators to show off their entrepreneurial skills and creative business ideas and compete on a same level playing field.

Social organization level

Social organizations play an important role in encouraging the nascent entrepreneurship of women and youth in China.

Promotion of entrepreneurship among women

Besides the general measures undertaken by the central government to promote business start-up activities, specific measures to motivate female entrepreneurs were formulated by social organizations.

The China Association of Women Entrepreneurs and the Resource Centre for Women Entrepreneurs, under the aegis of the China Federation of Entrepreneur Associations, provide training, advice and



financial support for female entrepreneurs. They also cooperate closely with other women's associations to understand the views and needs of women entrepreneurs. According to an ILO General Survey, such support "created conditions for the start-up and expansion of women's enterprises, as well as for the enjoyment of equal opportunities and favourable policy treatment".¹³

The All-China Women's Federation and the China Association of Women Entrepreneurs administered several programmes to encourage women's entrepreneurial activities, such as, the Women's Successful Career Programme, the Women's Innovation and Entrepreneurship Programme, and the Outstanding Women Entrepreneur Programme. Women entrepreneurs were assisted with entrepreneurial skills, information, laws, and capital support while planning to start up new ventures.

Several training and support centres have been established throughout the country to train female entrepreneurs. In 2005, the China Women's Development Foundation initiated a Women's Entrepreneurship Training Fund, which helped to organize professional training for women entrepreneurs, establish women's entrepreneurship training centres, promote the Female Entrepreneurship Forum, issue awards to women entrepreneurs who make extraordinary contributions, and organize activities to promote women's entrepreneurship and re-employment.¹⁴ Moreover, there are many Women's Entrepreneurship Guidance Centres established in 22 provinces, five autonomous regions and four centrally administered cities, by the local level Women's Federations.¹⁵

Promotion of entrepreneurship among young people

In 2009, the All-China Women's Federation also took the lead in carrying out a training and consultation programme to encourage female college graduates to start up their own businesses. By March 2010, around 6000 entrepreneurship incubators had been set up to assist female college graduates to exercise their entrepreneurial ideas all over the country.¹⁶

In 2009, the Chinese Communist Youth League established a number of youth employment and business training programmes through a project to train rural youth to set up business ventures. In the spring of 2009, the Youth League carried out several Start Your Business training activities, including Business Start-up Week for returned graduates from overseas universities, Rural Youth Employment Programmes and Business Start-up Programmes in the outskirts of Shanghai.

Good experiences at local government level

Entrepreneurship promotion programme in Huangshi City, Hubei Province

Altogether 15 government departments and agencies in Huangshi City have carried out Entrepreneurship Promotion Programmes offering the following services:

¹³ ILO General Survey 2003 on Employment related Conventions and Recommendations: Analysis of member States responses to Recommendation No. 189 (Job Creation in Small and Medium-Sized Enterprises), Chapter X, Draft SEED Working Paper by Maurice Allal, ILO Consultant, October 2003.

¹⁴ The introduction of the China Women's Development Foundation 'Women Entrepreneurship Training Fund', http://www.cwdf.org.cn/Aid_project.asp?classid=326.

¹⁵ Ilan Alon, Shengliang Deng, Xu Wang, "Framework for Female Entrepreneurship in China", International Journal of Business and Emerging Markets 3 (1): 3-20, 2011, p9.

¹⁶ The All-China Women's Federation set up 6000 entrepreneurship incubators to support female college graduates, <http://www.8002008.com.cn/uu/html/36793.html>.



- **Free business training.** All unemployed citizens who were holders of the Preferential Re-employment Card can attend business training organized by MOHRSS for free.
- **Guidance on the direction of business investment.** The Municipal Development and Reform Commission periodically formulates and disseminates the city's industrial development priority plans to guide small business entrepreneurs in deciding on particular business initiatives. In this way, new business ideas can go hand-in-hand with the development of the city. Similarly, the City Department of Labour and Social Security lists entrepreneurship business projects and proposals on its website, providing information for potential small business and employment start-up initiatives. Business start-up training agencies and experts provide guidance and counselling for prospective business starters, helping them to identify particular business opportunities.
- **Business registration.** The City Department of Industry and Commerce is responsible for assisting business starters with business registration.
- **Tax registration.** Tax Offices are responsible for registration, tax collection and dissemination of tax relief information to allow equal access to information for every potential business starter.
- **Loan and credit support.** Loan and credit support is offered to new business starters by the City Department of Labour and Social Security, the Department of Finance, the Economic Affairs Commission (credit guarantee agency), the city branch of the People's Bank and local commercial banks.
- **Implementation of preferential policies.** District and county level governments and the administrative offices of local industrial development zones are accountable for implementing preferential policies on taxes, administrative fees, and financial subsidies from government.
- **Follow-up services.** These include public resources to assist with business launching and operations, legal assistance and technical support.

Business start-up route map programme by Jingzhou City, Hubei Province

The Department of Labour and Social Security in Jingzhou City created a new business start-up guide, including seven steps to help prospective entrepreneurs establish their new businesses. The guide provides instructions in both text and graphic form to guide small business starters on how to get better access to government support throughout the business start-up process. The brochure includes information on government-sponsored entrepreneurship training, project design, initial financing, business location, the application process for licenses and certificates as well as how to launch a business plan and run business operations. Moreover, contact information is provided for agencies that offer business assistance.

Incubator programme in Xiangfan City, Hubei Province

A business incubator and a high-tech industrial park were established in Xiangfan city, Hubei Province, covering an area of 100,000 square metres. By the end of 2008, 320 small to medium-sized enterprises were running in those areas. Of those business initiatives, 87 succeeded while 93 remained undeveloped. 129 projects have intellectual property rights and created jobs for 1,287 employees. An 8,000 square metre business incubator centre was constructed at the cost of 80 million Yuan. This industrial park housed multiple business incubator units as well as commercial centres, training centres, demonstration centres, an



assembly hall, business negotiation rooms, cafeterias and apartments with access to broadband networks. Annually, these facilities can host 120 small businesses. Such business incubators have proven very attractive as they offer a high quality platform.

Business incubator base in Wuxi City, Jiangsu Province

By the first half of 2009, more than 50 business incubator bases in Wuxi City were providing support to 732 new entrepreneurs who had created 6,830 jobs. Their management and development are administered by the city departments of labour and social security, human resources and finance. Several measures and policies have been put into practice to strengthen management and ensure service quality.

- ***Setting entry standards in the incubator bases.*** A legal business incubator should function for three years after 2009, assist 40 per cent of local potential entrepreneurs to start-up businesses, and significantly contribute to local employment. In addition, the incubator should sign contracts with new business starters for more than one year.
- ***Categorizing incubator bases.*** Business incubators were classified according the needs of different groups of potential entrepreneurs. The municipal government tried to establish different groups of business incubator bases integrated within existing industrial parks, information technology parks and private economic parks to suit the various needs of the prospective entrepreneurs. This gave business starters more choices with regard to the type of incubator and the best location for their business.
- ***Formalizing the registration process.*** To set up a business incubator base, an application must be sent to the local labour and social security department. The administrative departments of labour and social security, human resources and finance will form a joint evaluation panel to consider the application and determine admission. Qualified candidates will be recognized by the Wuxi City Re-employment Leading Group and named as a Wuxi incubator base for Business Start-up Initiatives.
- ***Providing public services.*** Specified administrative offices at each of the business incubator bases will provide business counselling, new project advice, reductions in office rent, business follow-up services and assistance in employment and social insurance registration for employers.
- ***Subsidies.*** Local governments will grant financial subsidies for the development of business incubators. For newly established incubators, subsidies could be up to 150,000 Yuan; for business incubator renovation, subsidies could be as high as 100,000 Yuan. New business owners and their enterprises are also entitled to tax relief and administrative fee deductions. They may also be qualified for a business launch subsidy of 2,000-3,000 Yuan, rental subsidy of 2400 Yuan annually on their business location, subsidized social insurance contributions, free access to business training and a new business loan of up to 100,000 Yuan.
- ***Annual evaluation.*** The municipal administration of labour, social security, human resources and finance carry out an evaluation of business incubator bases every year. If a base fails in the performance evaluation, it will be disqualified for preferential treatment for the following year.

Business start-up services - a “one-stop shop” programme in Taizhou City, Jiangsu Province

A “one-stop shop” programme to assist business start-ups has been carried out in Taizhou City in Jiangsu Province. The “one-stop shop” was established in local business training bases or employment service



centres to provide training on Start and Improve Your Business (SIYB)¹⁷, internships for business starters, business incubator facilities, business start-up counselling, follow-up services and financial assistance. This programme has proved effective in promoting employment through business start-up initiatives. In addition, a joint working mechanism was set up in the employment service centre composed of representatives from the tax office, the administration of industry and commerce, credit guarantee agencies, and labour and social security department. Representatives from relevant departments work together for one day every two months in order to simplify administrative procedures for a business starter.

Credit and small loan practice in Puyang City, Henan Province

In Puyang City, small business loan applications go through a specific screening process. The local community administration in Puyang first launches an investigation, then the credit guarantee agency will verify the applicant's family background, employment background, social relations, personal trustworthiness, business proposal as well as the availability of the intended business location and any counter guarantees. Qualified businesses are granted a loan guarantee based on verification.

Particular steps are taken to ensure loan repayment. Successful repayment rates have become key performance indicators that determine the annual bonus for staff who approve loans and evaluate applications. Any changes of information regarding the applicants are updated and notified to related departments and loan issuers. Furthermore, information provided by the applicants will be examined periodically to ensure repayment.

Among the measures that the loan guarantee agency can take to ensure repayment is to send an advance reminder to the loan recipient of the deadline for repayment, and if a repayment is overdue, send an overdue notice to both the loan recipients and their guarantors. After that, one week before the three-month late repayment period elapses, a legal notice is delivered to request repayment within one week's time. For entrepreneurs with business or repayment difficulties, the loan guarantee agency formulates an instalment or payback plan. Legal action is taken against those who intentionally default on their repayment responsibilities. Such misconduct is publicized through the media and the local community in order to discourage other potential misbehaviour.

Quality new business start-up programmes in Jiamusi City, Heilongjiang Province

Quality new business programmes emphasize each part of the chain leading from the business project design, selection, evaluation, promotion, and training to follow-up services. An employment promotion website for new business initiatives offers an index of proposals for business starters, which can be searched by category of industry, the scale of business investment and business operation model. In 2009, the Jiamusi Municipal Government organized eight business promotion fairs, and invited experts to provide business counselling services, which benefited 2,386 small business starters. At the city and county levels, 11 business project databases were set up which altogether compiled more than 5,100 new business proposals. About 36 per cent of those project proposals were used by small business starters to initiate their own business.¹⁸

¹⁷ The Start and Improve your Business (SIYB) China Programme run by the ILO, the overall programme will be further discussed in the Section 4.4.

¹⁸ Jiamusi Municipal Government Report, 2009.



Business parks for returned rural migrant workers in Chongqing

Business start-up parks in the form of industrial parks for returned rural migrant workers have been established in many districts, counties and townships of Chongqing. By 2012, there will be an estimated 40 such parks in operation, with the number of new enterprises and rural migrant workers attracted to these parks expected to grow by 20 per cent or more annually.¹⁹

A series of favourable policies to stimulate the spirit of entrepreneurship among rural migrant workers has been carried out in the city. The municipal government offers 500,000 Yuan to subsidize returned rural migrant workers who pursue their new business initiatives in the business parks, where entrepreneurs also benefit from credit and preferential financing policies.

Chongqing is a pilot city for promoting the integrated development of rural and urban areas. The business start-up parks lead the implementation of related policy initiatives, such as integrated rural and urban employment services. Rural migrant entrepreneurs in the parks are provided with new business training, employment policy training, and vocational training through the Sunshine Project²⁰ and access to loans to launch their business. There are also administrative offices in the business parks. Experts are invited to form panels and provide business follow-up advice to small business entrepreneurs. Promotional campaigns on small business ventures are conducted through the media, bulletin boards and brochures. Successful new business owners are regularly invited to share their experiences at seminars and workshops. Exhibition of products are also organized to promote sales and marketing.

International cooperation: ILO's Start and Improve Your Business (SIYB) and Know About Business (KAB) programmes

The SIYB China Programme

The ILO SIYB China Programme was launched in July 2004, and extended to most parts of China. The following three developmental objectives were identified from the start:

- To contribute to poverty alleviation, employment creation and private sector development.
- To contribute to equitable growth and the alleviation of urban poverty in south west China.
- To contribute to more equitable economic growth through small enterprise development in secondary cities of western China.

The implementation of the programme was organized in three annual financing stages that involved shifts in the technical and regional focus of support. The target group focus was on vulnerable groups, starting with the urban unemployed in phase one, laid off workers and migrants in phase two, and three specific vulnerable groups in phase three (disabled persons, ex-convicts, and female migrants working in the entertainment industry). The programme was implemented in partnership with MOLSS with the objective

¹⁹ Chongqing Municipal Government Report.

²⁰ The 'Sunshine Project' was initiated by the central government in 2004 to provide vocational training for rural workers to facilitate their migration from rural to urban areas. Training was only conducted by training agencies based on specific requests from enterprises which provided details regarding the number of workers and skills sets required. Training agencies worked with the local government on the contents of the training. Upon finishing the training, qualified trainees found employment in the enterprises which had registered their request for skilled workers with the training system.



of enabling the Ministry to implement and manage the SIYB China programme and its extension to the entire country. Overall, SIYB China was highly successful as it positively affected unemployment and contributed to the re-employment and absorption of laid-off workers and surplus labour.²¹

Following the devastating Wenchuan earthquake in 2008, the Emergency Start and Improve Your Business (E-SIYB) Project was set up to pave the way for livelihoods recovery in selected townships in the most affected counties of Sichuan Province. The aim was to re-establish small businesses and set up new ones to provide jobs and economic opportunities during the reconstruction phase. The project delivered Emergency Improve Your Business (E-IYB) training to a total of 1,400 small business re-starters, almost half of whom were women. Of those, almost 1,200 restarted their enterprises, creating almost 9,000 job opportunities. The project also delivered Emergency Start Your Business (E-SYB) training to more than 1,000 new starters, of whom more than 56 per cent were women. More than 85 per cent of the trainees started up enterprises, which created more than 5,400 jobs.²² The project paid special attention to the particular circumstances of the disaster affected areas, making full use of locally available resources and markets, in an effort to stimulate local economic recovery. Market opportunities were sought, and entrepreneurship training and vocational skills training were provided to vulnerable groups such as rural women and disabled persons. In addition, some 21 group business starters were assisted in setting up their businesses, which led to the creation of more than 2,200 new jobs in the affected areas.²³

Such achievements have influenced national thinking and approaches to employment creation through private sector development. Moreover, the sustainability of the SIYB China programme has been ensured by the national employment fund, which has allowed local labour and social security departments to continue to support SIYB training and to fund the continued operation and development of dedicated local training centres.

Know About Business (KAB) China Programme²⁴

Know About Business (KAB), an ILO entrepreneurship education programme, was introduced to China in 2006. The programme seeks to prepare young people for the transition from school to work by imparting entrepreneurial knowledge and skills that will prepare them to work productively in enterprises or to start their own businesses in the future. It promotes an entrepreneurial and enterprising mindset and attitude that can be applied in all aspects of life, including both the personal and professional arenas.

Since that time, a number of institutions of higher education have integrated KAB into their curricula and since then, the programme has been rolled out to an increasing number of institutions every year. As a result, KAB operates in 950 universities and colleges, which is roughly half of all tertiary educational institutions in China. This effort has been led by the All-China Youth Federation.

²¹ ILO evaluation summaries on 'Start and Improve your Business (SIYB) China Programme'.

²² Livelihood Recovery through (Re)starting Businesses-Report on the Implementation of Livelihood Recovery in Sichuan Province: (Re)starting Businesses through E-SIYB, ILO, Department for International Development of UK (DFID), and MOHRSS.

²³ *ibid.*

²⁴ Supporting Entrepreneurship Education: A report on the Global Outreach of the ILO's Know About Business programme, International Labour Office, Small Enterprise Programme, Job Creation and Enterprise Development Department, Geneva: ILO, 2009.



Lessons learnt from the new business initiatives

Great contribution on employment promotion

In China, opportunity-oriented entrepreneurship is defined as entrepreneurship through which people realize their career goals rather than support their life. By contrast, people engage in survival-oriented entrepreneurship mainly to support themselves economically. According to a relevant study, by 2012, 26.9 per cent of opportunity-oriented businesses (OOB) will create one to five jobs, 19.2 per cent of OOB will create six to 19 jobs and 42.3 per cent of OOB could create more than 20 jobs. Also 35 per cent of newly created small survival-oriented businesses are projected to create one to five jobs, 9.8 per cent of such businesses are expected to create six to 19 jobs and 19.5 per cent will create 20 plus jobs. By the end of 2007, there were 5.5 million private enterprises which employed 72.5 million employees. There were 27.4 million micro-enterprises with 55 million workers. In total, these business initiatives provided 127.5 million jobs and accounted for 16.6 per cent of the total employment. If this growth remains constant, 315 million jobs could be created by 2012 and account for 41 per cent of the total employment, a potential increase of 187.6 million jobs.²⁵

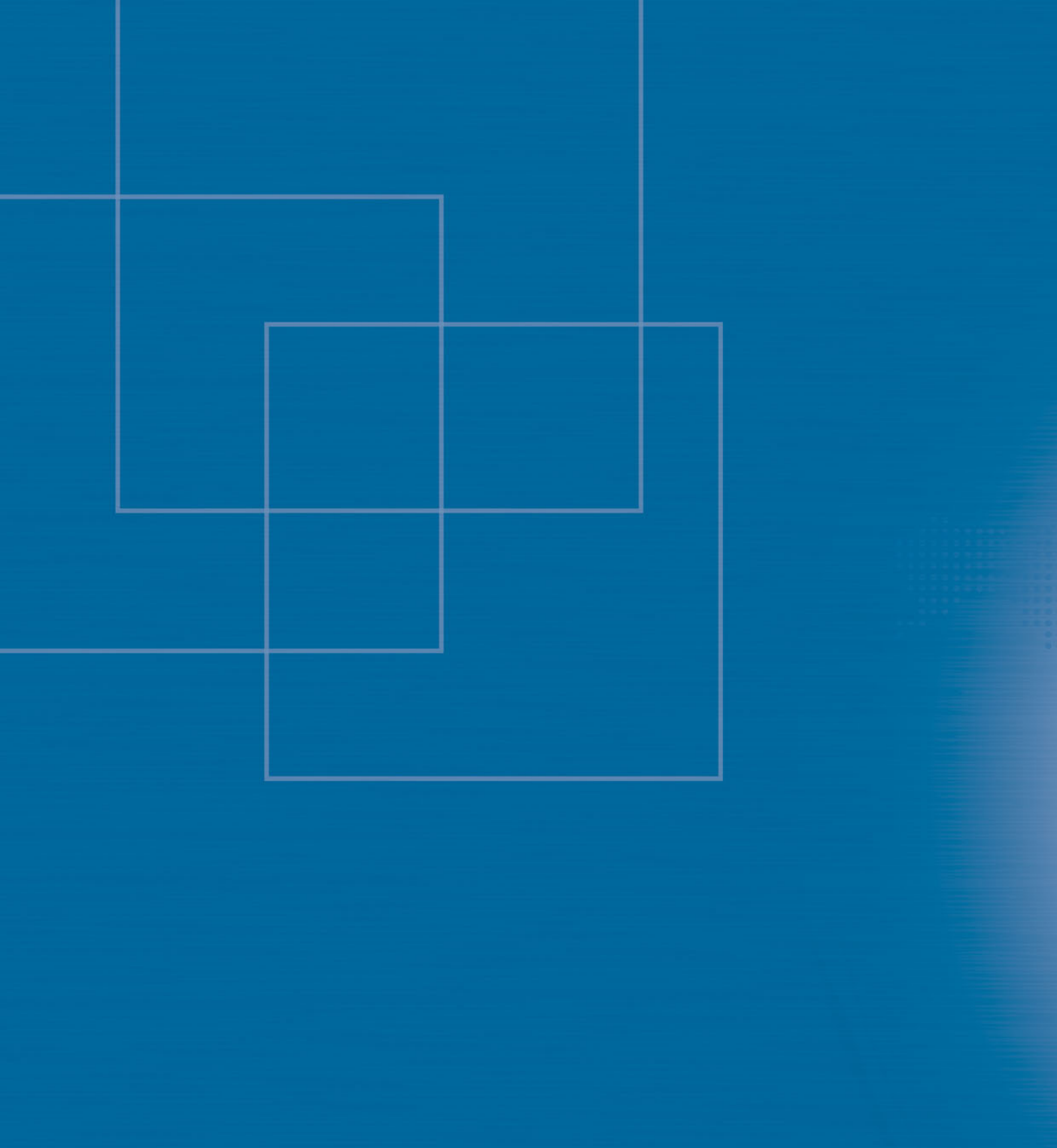
Promoting sustainable economic development and industrial innovation

New businesses contribute to innovative economic development as they stimulate technological advancement through the application of advanced techniques. Furthermore, apart from their importance in the national economy, new business initiatives have become a cornerstone in generating China's sustainable development in the recent years. They optimize economic structures, enhance national competence and promote scientific and coordinated socio-economic development. New business initiatives are also critical to address employment in China by transforming it from a country with abundant human resources to a country rich in human resources. It is clearly beneficial to promote productive employment through Chinese business initiatives in the near future.

Policy direction in the future

In light of the current employment challenges and lessons learnt from the past, MOHRSS plans to continue to promote entrepreneurship as a means to create more jobs. In so doing, it will widen the scope of the entrepreneurship policy in order to encourage new businesses start-ups in a wider range of industries, and enable all kinds of entrepreneurs to benefit from the policy.

²⁵ Gao Jian: "Changing the entrepreneurship model: Effects on employment – Global observations and a Chinese report 2007". Tsinghua University Press, 2008, 1st edition, 4-58.



International Labour Office for China and Mongolia
Tayuan Diplomatic Office Building 1-10, Liangmahe Nanlu No.14,
Chaoyang District, 100600 Beijing, P.R.China

Tel: 86-10-65325091

Fax: 86-10-65321420

Email: beijing@ilo.org

www.ilo.org/beijing