

## **The Present State of Chinese Philanthropic Foundations**

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### **Summary**

Together with the thriving of economy and rapid growth GDP in China during the last decade or so, the polarization of society has also been growing rapidly. Therefore, the age-old idea of charity has spontaneously emerged. The government attitude and policy have also become more and more positive and encouraging. At present the main body of NPOs doing philanthropic work is composed of GONGOs (Government owned non-government organizations), a special product of the Chinese system. For NPOs initiated by private sources, individual or corporate, the main obstacles lie in the “double registration” regulation and the vague tax policy. However, a quite spacious area could be explored between what is explicitly prohibited and what is positively legal. It can be called the “grey area”. It is in this area that the burgeoning of all kinds of philanthropy has been witnessed by the last few years. Besides individual efforts, there is also a rising consciousness among the more modern minded entrepreneurs. The term of “corporate citizenship” has emerged as well as the concept of “CSR”. Together, they are contributing positively to education, poverty alleviation, environmental protection, help for women, children and the disabled, as well as academic pursuits. This phenomena shows the irreversible tide stemming from the strong demands of the society and a rich reservoir of good will. Despite the immature state and various obstacles, on balance, favorable elements far exceed obstructing ones and one can say that the beginning of the 21<sup>st</sup> century coincides with a new stage of philanthropy in China. While it is a part of the building of civil society, there is still a long way to go before a full civil society will come into being in China as Westerners might expect.

### **Interesting historical circles**

The transition from planned economy to market economy, hence the confirmation of legitimacy of material incentive and profiteering, only started less than thirty years ago. Suddenly, the long suppressed desire for material comforts and acquisition of wealth was released and showed unlimited dynamism. Before long, along with the flourishing of economy and rapid growth of GDP, comes the polarization of society and the problem of alleviating the social gap between rich and poor reappears on the agenda.

At the same time, The old system of “Party and Government takes care of everything from cradle to grave” is no more viable, leaving ever larger vacuums concerning people’s basic need and social security. Thus, the age-old idea of charity which had been once repudiated by the Communist Party as a deceptive means used by the exploiting class to numb the militancy of the working class emerged spontaneously and began to be approved and even encouraged by the government. By the late 90s of the last century, there has been a steady growth of NPOs\*, laying basis for the thriving of philanthropic cause in China starting from the beginning of the 21<sup>st</sup> Century. So in less than thirty years, China’s trajectory of development has gone through two overlapping circles: from alleged egalitarianism in a impoverished society to polarization in a prosperous economy; from denying the existence of social inequality and repudiating all private

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\* The terms NPO and NGO are used in China with about the same implication. Some preferred NPO to NGO because many NGOs are not purely non-government

charity to recognition of the reality of social gaps and encouraging charity activities to help the underprivileged.

### **NPOs under Chinese Laws and Regulations**

By and large, the implication of “non-profit” and “philanthropic”, the scope of activities permitted, the accountability required and rules for registration included in Chinese regulations are not very different in principle from those of other countries. The particular Chinese characteristics of laws and regulations lie in the following:

First, the system of double registration. Briefly, it goes in the following way:

The Bureau for Management of Civil Organizations under the Ministry of Civil Affairs is in charge of registration for all “social organizations”. But before going to that bureau, the organization in question should get the ratification of certain “sponsoring unit”, which is responsible for supervising the said organization and is accountable vis-à-vis both its superior agency and the Ministry of Civil Affairs. Under this arrangement, any association, be it academic or professional or philanthropic or whatever, to the final analysis is under the control of a government unit at certain level. More than often, this control could be very loose to the point of almost invisible; but the power is always there and whenever the situation requires, it could interfere and decide the destiny of the said organization.

Secondly, vague tax policy. While the articles of concreded regulations laying out qualifications, restrictions, procedures of registration and sanctions are quite concrete, the wording on “tax benefits” and “preferential treatment” for organizations or individuals who “make donations to public welfare undertakings” is rather vague. These are only principles of which the implementing is at the mercy of relevant administrations. In practice, many NPOs have been working by “the Chinese way”, i.e., through negotiation case by case or year by year with tax administrations and/or officers.

As a result of persistent appeals and pressures from NPO circles, opinion leaders and scholars, a new document on “*Regulations on the Management of Foundations*” specially for philanthropic foundations was adopted by the State Council on February 11, 2004 and enacted on June 1 the same year. Compared with the previous pertinent regulations, this document marked a great step forward in the sense that it shows a more positive attitude and more feasible in practice. For the first time, it states its purpose as “to defend the legitimate rights and interests of foundations, donors and beneficiaries” and “to promote the participation of social forces in the cause of public welfare” Under the Chinese circumstances, this protection carries the same significance as the protection of private property in the newly amended Constitution of the People’s Republic. There are also detailed regulations for the prevention of abuse of the non-profit character of foundations as well as structure and rules of operation. The above mentioned obstructions, i.e., double registration and vague tax policy are still there; but the very fact that the government finds it necessary to adopt such a document is an encouraging sign, which resulted in the establishment of a series of new foundations in a short following period.

### **The special status of GONGOs**

In reality, the main body of national Chinese philanthropic organizations are made of “GONGOs” (Government owned Non-government Organizations). They not only possess the largest sums of funds, but are entitled to go out publicly in a big way to raise fund both nationally and internationally. The funding does not necessarily come from government budget; on the contrary, many of them receive less and less government financial support, relying increasingly on

private endowments both home and abroad.

Until the early 1980s, traditional “mass organizations” in China pertinent to Women, Trade Unions, Youth , etc. served as an intermediate between the Communist Party and people in concerned circles and their main function was educational. Welfare problems were also included in their work, but more on behalf of the Party and Government than in a philanthropic way. Starting from the early 1980s, along with the reform and opening up of China, a series of philanthropic organizations have been established under those mass organizations.

In the period over the past 10 years or so, many of these organizations which had been highly dependent on government support and bureaucratic in management could hardly survive once government financial support was greatly reduced and gradually faded out. On the other hand, those that were able to cope with the new conditions of market economy and make opportune changes according to the new development of the society have gradually become more independent of the sponsoring units both in program management and fund-raising and acquired new vitality. Though small in number and by no means perfect in their structure and management, they constitute the backbone of philanthropy and are playing a leading role in China today.

China Children and Teenagers’ Fund, established in 1981 by 17 national level organizations, marked the first endeavor in PRC of organized philanthropic work more or less in the modern concept. Its main purpose is to support education and welfare for children and teenagers. One of its famous and successful projects is “Spring Bud Plan”, run in cooperation with the All China Women’s Federation to support schooling for girls, particularly in remote and poor areas where girls are first victims of deprivation of education opportunities. Following that, a dozen of well-known nationally recognized prestigious organizations were established successively, including Soong Ching Ling Foundation, China Disabled Persons’ Federation, China Youth Development Foundation, China Foundation for Poverty Alleviation, China Women’s Development Foundation, China Red Cross Society, China Environmental Protection Foundation and China Charities Federation, just to name a few. Besides, there are numerous less well-known organizations at different local levels more or less of the same character. Although they are all government affiliated, the general tendency is towards more independence and more reliance on private financial sources. Compared with foundations of private initiative, they enjoy preferential treatment by government policies and are in a favorable position for fund-raising and other activities.

#### **A “Grey Area”**

According to normal logic, given the present laws and regulations, there seems to be hardly any room for private philanthropic organizations and activities. Yet, to understand China, one has to do away with the “black and white” and “either...or...” approach. China is in a transitional period unparalleled in both Chinese history and elsewhere in the world. There are very encouraging powerful dynamics pushing for change and at the same time, discouraging obstructions stemming from traditional forces, conventional concepts, as well as invested interests are also very strong. Regarding philanthropy, there exists another “Chinese characteristic” which might balance the restrictive rules, i.e., *flexibility*. A quite spacious area could be explored between what is explicitly prohibited and what is positively legal. It can be called the “grey area”, “grey” in the sense of something between legal and illegal, government and non-government, private and public. It is in this area that the burgeoning of all kinds of philanthropy has been witnessed by the last few years. Together, they are contributing positively to education, poverty

alleviation, environmental protection, help for women, children and the disabled, as well as academic pursuits. This phenomena shows the irreversible tide stemming from the strong demands of the society and a rich reservoir of good will.

There is a great variety of such NPOs: Some are technically affiliated to official organizations but practically driven through individual efforts and receiving very little government attention. Some are founded and funded by private entrepreneurs or corporations with a loosely connected professional sponsors as required and registered at the Industrial and Commercial Bureau, or other government institutions. They are called “non-commercial institutions” or “popular non-enterprise work units” . Despite the strange and illogical wording, they have been functioning for quite a few years and more or less fruitfully under this arrangement. The inconvenience is that they don’t enjoy status of NPOs hence no automatic tax benefits even in principle. But in practice, that can be solved at least partly one way or another between the foundations and the administrative offices or officials concerned. And last but not least, numerous individuals and small private grass root organizations are active in all kinds of philanthropic work in every province of China, mostly in remote poor areas. It is this category that is most interesting but hard to identify and to make a more less comprehensive picture. Even the term “private” is also vague because some of them are jointly run by private individuals and local governments in name, but the latter’s role is minimum in reality, except giving the permission, tacitly or explicitly. Strictly speaking, some of them may considered not legal in that they have not a “sponsoring unit” and not registered with the local department of Civil Affairs; but they are not sanctioned as illegal. As long as they are bringing benefits to the people concerned and do not offend the local or departmental governments, they are allowed and, indeed, welcomed to continue their activities.

Private efforts could be roughly divided into two categories: by individuals and by corporations.

#### Individual efforts

The most interesting initiatives come from individual volunteer efforts, a conspicuous case of which is Professor Mao Yushi, who is present with us and who will tell you his own experiences.

I would only cite one other example, i.e., Ms. Zhang Shuqing’s special Children’s Village.

Zhang Shuqing is a woman police officer who used to work in a jail in Xi’an, Shaanxi Province. Her attention was caught by children of prisoners, especially women prisoners. Left without care and education and often discriminated against, these children would easily go into street crimes. In 1996, with the first support and cooperation of a wealthy local entrepreneur, they started building the first special “Children’s Village” in China, collecting prisoners’ children in the Shaanxi Province. With publicity, they began to receive contributions from different sources as well as hundreds of letters from all over China requesting to send to their “villages” children of similar plight and also appealing for the establishment of such a Village on national scale. In 2000, Zhang Shuqing came to Beijing and founded a national version of “Special Children’s Village”, now called “Sunshine Village for Children”. Her former partner remains in Shaanxi running those “villages” in different localities. Those villages have reared hundreds of children of prisoners over the years and so far, not a single child coming out has committed any offense of law, nor have their parents after released from prison. Like other individual efforts, all the way through, Zhang Shuqing had the same difficulty of being recognized as a philanthropic NPO and enjoying no tax benefits. The “Villages” survived on individual donations from different sources home and abroad and part of the personnel are volunteers. At the same time, the children are also taught to

various skills such as tilling the small plot of farm land in front of the school, helping with cleaning and cooking and learning some carpentry and tailoring work. The latest news is that Ms. Zhang bought a piece of land to grow vegetables and fruit trees. Some of labor hands are hired among released prisoners, thus solving their job problems. Those village children that have come to age, also give part time help after class. By selling the fruits, they are on the road of self-supporting and form a benign circle, making the children's villages sustainable.

Ms. Zhang's case represents the more successful ones and by tenacity and ingenuity created a new way which might prove to be an example for others to follow. However, there are also numerous cases ending up in failure. By and large, because these grass root organisations fit in the need of the society, represent the wave of the future and led by people with ideal and purpose, they have shown extraordinary viability and have been thriving despite of the restrictive regulations and difficult conditions, making ever greater contributions not only to people in need but also to the development of social consciousness in general.

#### Rising consciousness among entrepreneurs

The first group of owners of small and medium business that came into being in the early years of China's reform were mostly rooted in the countryside and small towns with little education and modern ideas. Those who became the first "nouveaux riches" often spent their money in excessively luxurious or even decadent life styles. Most of them had the traditional idea of accumulating wealth for their descendents. When they thought of donating to some public affairs, more than often it is to football clubs, star singers and other items that could help them or their business to go into the limelight. Charitable donations are made mostly on individual occasions like flood, drought and earthquake, or individuals in need reported by the media. Over the years, however, the nature and quality of entrepreneurs and enterprises have undergone important changes towards modernization. Many of the owners and/or CEOs have been exposed to Western culture. Accordingly, a sense of social responsibility has been growing among those more modern minded entrepreneurs. From scattered individual initiatives, a reservoir of good will has been gradually accumulated and rapidly translated into actions.

There are now various "Forums" of entrepreneurs on regular basis discussing corporate social responsibilities. The term of "corporate citizenship" has emerged as well as the concept of "CSR". Compared with activities initiated by individuals, corporate efforts meet less difficulties in practice. On the other hand, rising expectations from both the public and administrations at different levels sometimes go to another extreme, forming excessive pressure with unlimited and irrational requests on potential donors, which was also a reflection of the pre-civil society mentality in China. Anyway, there is still a long way to go before a situation of healthy, rational and sustainable civil philanthropy as a part of normal social life will appear. Nevertheless, the recent rapid developments heralds a promising prospect.

#### Question of Accountability and Credibility

If the adoption of appropriate and adequate laws is an urgent appeal to the government, accountability occupies the center of requirements on the part of foundations themselves. This question is specially important for Chinese foundations at present, for in general, the transition towards market economy in China is still in the process and partly in a disorderly situation. Pending the establishment of an adequate system of rule of law, structural corruption remains a chronicle social disease in all areas. Philanthropic organizations that inevitably deal with large sums of money can hardly be immune. Some individuals started by genuinely good intentions

and achieved positive results that won public appreciation, would end up in scandals and even crimes because of ignorance of proper management and lack of supervision. Besides, it is common practice that funds managed by the GONGOs are distributed to the receivers all the way through levels of government offices. Often, parts of the money would be detained by one level after another on its way and deviated to other purposes. When it reaches the designated beneficiaries, not much would be left, if any. Except those already well-known organizations, grassroot NPOs had more difficulties both in fund-raising and carrying out programs on their own because of existing general mistrust on the part of public towards such activities. This question has become the focus of attention of both official and public and constitutes one of the main considerations in the drafting of the 2004 *Regulations for the Management of Foundations*.

### **The Emerging of Coordination and Research**

Organizations, research centers and journals specially devoted to the introduction, study and advocacy of philanthropy in China have been developing quite rapidly both by official and popular initiatives. Thus, a special field of NPOs in general and philanthropy in particular is in formation. This is a noteworthy and encouraging phenomenon. Publications on paper and on web have been increasing. The most influential ones include China Philanthropy Times, China NPO Network, Website of Chinese NPO, China Association for NGO Cooperation (CANGO), etc. They have different focuses; but as a whole, provide useful information concerning government regulations and serve as a platform for discussions and exchanges of experiences among similar organizations home and abroad, as well as and a bridge between donors and fund raisers, grant makers and grantees. They also promote transparency and help capacity building of grassroot social organizations.

Besides those liaison associations and information centers, scholarly research on NGOs, particularly on the role of philanthropy in Chinese society have also developed quite rapidly in recent years and have now formed a branch of social sciences. Research projects are being pursued and special centers have been established at different high learning institutions. Among others, The NGO Research Center of the School of Public Policy & Management, Tsinghua University , Research Center for Volunteering and Welfare of Beijing University and NGO Research Center at the Institute of Sociology, Chinese Academy of Social Sciences are the more important ones. There is increasing realization that work for NGOs is a special field which needs professionally trained staff and the lack of such personnel is keenly felt. Therefore, different kinds of training classes have been propping up just recently.

Needless to say, the development of Chinese philanthropy cannot be separated from the help of and cooperation with foreign foundations. But this is another special subject to be discussed separately. It suffices to mention here that along with the rapid development of popular philanthropy in China, foreign foundations' work in China has also increased both in speed and in scope. In fact endowment from outside the mainland constitutes the main financial source of Chinese grassroot philanthropic activities. Besides obvious material and visible benefits, they all push towards the building of civil society, some more consciously than others.

In conclusion, the thriving of popular philanthropy is an irresistible trend in China today pushed by both objective necessity and rising of social awareness. The attitude of the government is mixed: It welcomes the positive contributions of "social forces" to the solving of ever aggregating problems that the government alone cannot handle. At the same time, the fear that

they can be politically out of control is always there. The same mentality can be applied to its attitude towards foreign organizations. On balance, favorable elements far exceed obstructing ones and one can say that the beginning of the 21<sup>st</sup> century coincides with a new stage of philanthropy in China. While it is a part of the building of civil society, there is still a long way to go before a full civil society will come into being in China as Westerners would expect.

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