

## Suggestions on Promoting the Nonprofit Sector in China

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### Abstract

This article is a policy suggestion report on promoting the Non-Profit Sector in China. It aimed to promote the legislation environment and financial conditions for China's NPOs. The article is composed of three sections, the first section explores the necessity for promoting China's NPOs. The second section gives a legislation framework to promote and supervise China's NPOs. The third section is based on above analysis, and gives some policy suggestions on solving the financial problem for NPO development.

### Key words

Nonprofit Organizations ( NPOs ), Non-Profit Sector, legislation framework, China

Nonprofit Organizations ( hereafter "NPOs" ) in this article refer to the non-profit and non-governmental organizations, including social organization ( shehui tuanti ) defined by *the General Principles of the Civil Law of the People's Republic of China*, religious bodies, private non-enterprise organizations ( minban fei qiye danwei ) defined by relevant administrative regulations, and other nonprofit and nongovernmental organizations without the qualification of a legal entity.

All kinds of such nonprofit organizations constitute the nonprofit sector, which forms an indispensable part of modern society. It is estimated that, the ratio of the nonprofit sector to GDP is 4.6%, which is more than a quarter of that of the Government. Its ratio in China is about 2.8% ( Salamon, 1999 )

This article is a public policy report concerning the promotion of China's nonprofit organizations. Through positive analysis, it puts forward a series of policy suggestions for the purpose of improving the social, legal and funding condition for the development of China's NPOs.

It composes of three sections. The first section discusses the necessity of promoting NPOs in China. The second section brings forward a framework of laws, regulations and policies to promote and regulate the development of NPOs in China. The third section, based on the above two, raises different forms of policy choices to resolve the issue of funds for the development of NPOs in China.

### 1. The Necessity of Promoting NPOs in China

Before the discussion of the ways to promote development of NPOs in China, it is essential to talk about why it is necessary for the transition China to develop NPOs. We cannot find the useful methods to advance the cause until we understand its necessity.

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China's economic structure has greatly changed since the Reform. Before it, the Chinese Government monopolized the national economy and social services. It had ownership of the primary production means. There was no private sector of Chinese economy in those days. Moreover, the collective enterprises were under strict command of the governments at different levels. It also had an overall control over resources distribution and thus was responsible to provide comprehensive welfare to state functionaries and staffs in enterprises and institutions of urban areas. Meanwhile, in rural areas, people's communes supplied most primary social security to their members through systems as cooperative medical service and "household enjoying the five guarantees". At that time, China's economy, as a whole, is of the character of being nonprofit. For-profit was the goal of neither the State nor the economic organizations. Besides, the State monopolized the nonprofit institutions. In this sense, there was no space for civil nonprofit organizations to exist and develop.

The Reform has thoroughly changed China's economic structure in following two aspects. On the one hand, as to the system of ownership, the state-owned economy has gradually declined while the private sector has won rapid development. On the other hand, the market system has played a more and more important role in resources allocation. Now, market distribution had become the dominating one in China's national economy. It is evident that, besides the Government, the Reform has brought along another sector --- the market. In addition, the Government has begun its withdrawal from many aspects while the market has been expanding, which is clearly reflected by the financial revenue and expenditure. Graph 3 showed that the ratio of financial revenue and expenditure of China's Government to China's GDP has declined since 1978. Today, it is even far below the world's average level.

The current problem we are confronted with is whether the expanding market and shrinking government can fulfill all social demands; especially those new ones brought by the denationalization process and general adoption of the market principle. It has been proved by experiences that the development of market economy shall be accompanied by the protection mechanism towards the people, nature and society. Otherwise, it will endanger the existence of the mankind. In view of experiences of other market economy countries, the State cannot afford enough insurance to the above three ones. Then, the civil nonprofit sector shall be the necessary complement of the two sectors: the market and government. Only the system being composed of these three parts can make the society stable. This chapter will try to, from the perspective of theoretical analysis, explain the cause of China's urgently demanding promoting the third sector---the civil nonprofit sector.

There are two questions we shall to answer. Firstly, what kinds of social demand that neither the government nor market is able to fulfill? Secondly, there are some social demands unable to be afforded by the market, but theoretically by the government, while in China, they have not been fulfilled so far. Then what are those demands? Once we can get answers for the two questions, we can both understand the necessity of developing NPOs in China and ascertain the aspects they shall

be developed.

The social demands unable to be afforded by the government or market include following three kinds,

*Demand of social intercourse* Before the capitalistic period, the economy has two features: the one is the confined sphere of activity; the other is the Moral economy. The social relations of their social community confined people and thus social contact was easy at that time. Before the Reform, China's economy is a kind of moral economy. A secure job, extreme equalitarianism, danwei and system of registered permanent residence confined all people in some network of social relation--- nobody was a single individual.

The market economy has commercialized the whole shoot, including people. Regardless of people's having their feelings, it regards them as abstract "production factor" or "consumer" separating from any social relations. Nevertheless, people's sociality is impossible to be eliminated by the market economy. They are willing to associate with others, especially those having the same or similar belief, ambition, interest, taste, age, residence, family origin, and occupation, trade and status. Since the Reform, people's commune and danwei has been dissolved. Personnel lateral and vertical flow has greatly increased, which makes people know less with each other. Under such kind of circumstances, they will long for a sense of belonging. Meanwhile, the enlargement of State's zones of indifference provides more space for people's social intercourse independently.

Hardly can the State be helpful for people's need of social intercourse. Since it cannot successfully operate the planned economy, how can it improve people's sense of belonging through method of plan? It is natural and normal for people to pursuit their sense of belonging, and in this sense, we shall not forbid but lead the social NPOs. It is why the heresy Qigong named as *Falun* caters to such kind of people's needs that made its once prevailing in China. It is by no means reasonable to force-out the NPOs in order to cope with groups of evil religion as Falungong. Otherwise, it will only force such kind of organizations to change from open to secret, and even opposite to the State ( Kang Xiaoguang, 2000 )

*Polynary demand of public goods* It is generally approved that it is the State that shall bear the responsibility to provide public goods. However, people can never reach meeting of minds in kinds, quality and quantity of public goods to be provided. It is possible that urban residents will pay most attention to environmental protection while suburban residents will attach higher importance to free nine-years' compulsory education. Even if they agree on the education's taking priority, some ones will have high requirement on educational quality while others care little about it. People have polynary demand of public goods while the State can only supply them in a single method. Then, it cannot satisfy some peoples' excess demand and some others' differentiated tastes. NPOs can fill a vacancy of the Government and market in this aspect. They are going to supply public goods because of their being nonprofit. They are civil and thus can provide excess public goods to groups

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with high demands and special public goods to special groups for the purpose of satisfying social preference that is unable to be fulfilled by the Government or market.<sup>1</sup>

The organizations of environment protection active all over the world are a typical example of this point of view. Today, almost all governments of all countries have taken environmental protection as one of their responsibilities, which is the same to China. It is actually a most active aspect of China's NPOs. Most of the organizations are located in large cities, which reflect the excess demand of urban residents' of the public good as environmental protection. The organizations apply themselves to different aspect of environmental protection, such as multiform protection of living beings, maintenance of ecology, prevention of desertization, afforestation, purify of water quality, prevention and cure of air pollution, refuse classification and cyclic utilization of resources. Their different occupation shows the difference of people's attention towards environmental protection.

*Demand of private matters of asymmetrical distribution of information* They are not public and thus will not be supplied by the Government. However, it will bring about many problems when profits-making private organs provide such matters since they will make use of their advantageous position in the asymmetrical distribution of information to cheat consumers for maximization of profit. NPOs cannot distribute their earning of undertaking to their members. They will accordingly be less possible to infringe on interest of consumers. Consumers certainly will prefer those liable organs supplying such kind of service. It is the reason of most or all of the nursery, hospital and charitable organs' being nonprofit in developed market economy countries ( Henry, 1980 )

The above paragraphs have discussed the circumstances where neither the market nor the Government could manage well, whereas, NPOs can fill in the vacancy and thus meet the social demands. The following paragraph will discuss the other social demands that cannot be satisfied by the market, but theoretically by the state, and whereas, has not been fulfilled yet in practice.

This kind of social demands can be divided into two categories. One is social relief demand of groups in special difficulty. The other is the demand of average person's sense of income security. The former include relief of orphan, lonely aged person, handicapped, and patient suffering from a serious illness, poor family and children unable to go to school. Because of their own characteristics or other causes, they are often poor and even can hardly make a living. They are in urgent need of help from the society. The latter one is possibly involved with anyone. Once the staffs lose their secure job and be confronted with the uncertain market economy, they and their family will get into a hobble due to aged, unemployment, occupational injury, serious illness, etc. The possible moral hazards and adverse selection<sup>2</sup> makes profit making issuance companies refuse the two kinds of assurance. Theoretically speaking, families, civil clarify societies or the Government can satisfy the two demands. As a matter of fact, in traditional society, the kinship family shouldered the responsibility of poor relief and reducing income risks. Governments of the West undertake it through social relief and social security. However, civil charitable organizations play an important role in the two aspects ( especially

the former one ) wherever the society may be.<sup>3</sup>

The transition China is faced of special difficulties. On the one hand, the kinship family has dissolved in both rural and urban areas while current nuclear family can hardly meet with the demands. On the other hand, the former “enterprises insurance” and “danwei insurance” has changed into “social security”. As a result of the decline of fiscal levying capacity, the Government is incapable of supplying elementary social relief and decent social security to the whole society ( Hu Angang, 2001 ) At the same time of little people’s getting rich quickly, the proportion of people with insecurity of economics and life in China’s urban population has been increasing and reached an unheardof height ( see Graph 4 ) The insecurity of rural population is also becoming worse and worse ( Cao Jingqing, 2000 )

Insecurity of economics has become a serious social problem, which will directly threaten the prospect of the Reform and Opening to the Outside. It can be predicted that, the role of family in providing economic security will become less and less important while the Government will unlikely shoulder more burdens. Accordingly, it is urgent for China to pay much attention to development of civil charitable organizations.<sup>4</sup> It is certainly impossible for civil charitable organizations to fundamentally resolve the problem of economic insecurity. The common effort of the family, Government and charitable organizations will be more effective than a single one.

In the first section, this article has, in theory, explained the cause of the transition China’s need of associated support of the Government, market and NPOs. China’s society has huge demand of services provided by NPOs. However, the existence of demand shall be catered of sufficient supply. The supply provided by China’s NPOs is far less than the demand because of China’s limitation of social, legal and fund’s condition. The limitation of social conditions refers to the Chinese people’s undeveloped voluntary spirit and too low ration of those active in voluntary to the total population. The limitation of legal condition refers to the current laws and regulations’ too much restriction and less supports of NPOs. The limitation of fund’s condition refers to most NPOs’ being confronted with serious fiscal crisis. The development of China’s NPOs will accomplish nothing unless the three limitations can be got over. Moreover, we are well founded to believe that the three ones can be resolved. The following part will give analysis to the three problems and put forward the ways to resolve them.

## 2. The Framework of Laws & Policies on Promoting and Regulating China’s NPOs

Since China is in its transition period, the Government has promulgated and gradually strengthened the building of relevant laws, regulations and corresponding policies ( hereafter laws & policies ) with a purpose of developing and supervising the NPOs. To some extent, such laws & policies reflect some important features of the reforming China’s society, economics and culture. Nevertheless, they have some historical limitation, such as restricting citizens’ freedom of association and obstructing

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development of civil society. In order to make the NPOs have a better role and, based on the rule of law, help them to win a good development, it is necessary for us to re-examine, amend and perfect the reasonableness and effectiveness of current laws & policies as well as build a framework of laws & policies covering the whole nonprofit sector for the purpose of promoting all NPOs' fine development and ensuring the Government's effective supervision over China's NPOs.

### Current China's Laws & Regulations Concerning NPOs and Their Limitation

China's NPOs have achieved quite great progress since the Reform and Opening to the outside. Chinese Government has paid great attention to development of NPOs through methods of laws & policies according to the principle of supervision and fostering. Up till now, the Chinese Government has promulgated following main laws and regulations concerning NPOs,

*Management Measures on Foundations* ( Issured in Sep. 1988 )

*Regulations on the Registration and Administration of Social Organizations* ( also is called as "former regulation", issued in Oct. 1989 and abolished in Oct. 1998 )

*Interim Procedures on Foreign Chambers of Commerce* ( Issued in 1989 )

*Regulations on the Registration and Administration of Social Organizations* ( also is called as "current regulation", issued in Oct. 1998 )

*Interim Procedures on the Registration and Administration of Private Non-profit organizations* ( issued in Oct. 1998 )

*Law of Donation on Public Welfare* ( issued in Oct. 1998 )

Besides, relevant departments of the Government have issued a series of concrete sectional rules, local regulations and policies on a series of NPOs' matters, including appointment of leaders, construction of grassroots organization of CCP, management of funds for specific programs, scope of paying taxes, system of financial management, standard of registration fee, management of seals, etc.

Since Chinese Government attaches importance to both supervision and fostering of China's NPOs, it has promulgated and carried out a series of laws & policies to regulate them for ensuring their fine development. As to the fostering of NPOs, the most representative ones are those laws & policies concerning preferential tax system and financial aid of NPOs ( which will be discussed in the next section in detail ) As to the supervision of NPOs, it includes a lot of system limitation and regulation with the characteristics of "dual management system" ( shuangchong guanli ) It strengthens the "entrance" management of NPOs through strict condition and complicated procedures. The dual management system was bought forward in 1996 and sufficiently developed in the two regulations issued in Oct. 1998. The characteristic of the system is there are two departments being responsible of management of NPOs. That is to say, as to the registration & administration and operational management of NPOs, the registration & administration department and the operational management unit will, based on the principle of dual examine, taking charge and supervision, form a strict system

of registration ( micrographic perspective ) and operational ( microcosmic perspective ) management for regulating and administering China's NPOs. The concurrent systems of the dual management system include principle of centralized registration management by specialized departments, level-based management and non-competition.

From decentralized to centralized, scattered to close, loose to strict, Chinese Government's supervision over NPOs has undergone a way of becoming rule by law. It is the result brought by the deep changes of Chinese society, NPOs and Government's management function of the society. In 1980s, along with the general adoption of market principle, the amount of NPOs increased rapidly, which forced the Government to change from scattered executive management to specified and centralized legal management as well as promulgate and perfect laws & regulations on NPOs' supervision. It enhanced the legality and normalization of NPOs' management. Throughout the 1990s, the macro-management of NPOs was under control though once their scale was over expanded. The dual management system formally brought in 1996, combining the macro-registration & management and the micro-operational administration, is a relatively full-grown system of current Chinese Government. Before the building up of the framework of laws & regulations concerning China's NPOs, the dual management system has played an important role in current China. Along with the development of China's market economy and China's NPOs itself and jointing with the international society, its limitation has gradually become obvious. The current laws and policies with the color of dual management reflect the character of intergrades, management and inequity. When we are making a comprehensive survey of Government of different countries, a common trend of their attitudes and relevant systems towards NGO is gradually changing from "registration" management to "process" supervision, which is, enhancing the supervision, evaluation and control of the dynamic process of NGO's activities and operation while simplifying and loosening the necessary procedures of NGO's registration. On the one hand, Chinese Government has simplified and weakened the organizational system and limits of authority of administrative organs during the course of current institutional change. On the other hand, it is faced of the burden of strengthen the supervision of NPOs. Although the dual management system had effectively decreased the pressure and risk of chain of command, balance all forces inside the chain of command under current system and realize the supervision of NPOs, it has brought lots of disadvantages, such as non liquet, uncertain jurisdiction and buckpassing with each other. Moreover, the system is carried out by costs of boarding up lawful entrance of NPOs' registration while spending the limited resources and forces of the Government on the limitation of NPOs' entrance. Its result is that, more and more NPOs cannot register through lawful way but turn to choose other expedient measures while the Government finds it become more and more difficult to have effective supervision over operation of NPOs as well. China's Reform and Opening to the outside and its market economy system is on its way of high development. Then, the dual management system will be faced of severe challenge under such circumstances of the inevitable

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development of the public's demand of self-organizing and self-managing bottom-top associations.

### Suggestions concerning Promulgating Basic Law on NPOs as Early as Possible and Perfecting Specific Laws & Regulations

According to recent materials provided by the Ministry of Social Affairs , there are 136,000 social organizations of all levels and categories existing in current China. In addition, there are 700,000 private non-profit units under re-examination and registration. The investigation of relevant academic organs shows that, besides the two kind of NPOs, there are a large number of organizations never registered or registered through other methods, including, 1 ) those organizations in no need of registration prescribed by the New Regulation,<sup>5</sup> 2 ) private nonprofit units outside the scope of re-examination and re-registration,<sup>6</sup> 3 ) NPOs registered in administration for industry and commerce at different levels, and 4 ) others have not registered. Such organizations never registered or registered through other methods form a part of NPOs' being difficult for current laws and policies to regulate and supervise. Along with the development of China's society, the number of NPOs in China will continually increase as well as their components and forms will be more complicated. Then, being restricted by the dual management system, there will be more and more NPOs have to squeeze into this section and as a result, a expanding space of NPOs yet untouched by the Chinese Government will come into existence. In order to resolve this problem and other relevant ones, we suggest that Chinese Government is in need of promulgating a basic law for united regulating NPOs as early as possible. This basic law shall covering all NPOs except the Government and enterprises, including social organizations, private non-enterprise units and other NPOs never registered or registered through other methods. It shall have following main contents,

Restating the citizens' freedom of association prescribed by the Constitution of PRC;

Stipulating that registration is the legal form for citizens' to realize their freedom of association;

Giving NPOs qualification of being an legal entity or other legal status through registration;

Providing lawful NPOs with preferential policies in fiscal levy;

Classifying all NPOs in law and defining and distinguishing laws and regulations for different categories of NPOs;

Understanding and admitting the primary living space of those NPOs unregistered yet or being difficult to register according to current policies for regulating and restricting their activities in law and policies.

After that, we shall amend and try to perfect the specific system of laws and regulations concerning the registration management of NPOs. Based on the current laws and regulations, we suggest that specific regulations concerning the registration of economic organizations such as foundations and guilds as well as foreign NPOs shall be promulgated as soon as possible. Moreover, the promulgation of regulations concerning registration of organizations as charitable societies and



fundraising organs for public welfare shall be scheduled when it is well timed. As an organization for commonweal without system of membership, it is essentially differ from the social organizations and thus shall be separated from the current social organizations. A specific regulation is in urgent need of promulgation to carry out the supervision of foundations. Economic organizations such as guilds is playing key and media role of the market in market economy. In this sense, they are also distinguished from average social organizations and shall be specifically supervised. More and more foreign NPOs have entered China and active in various aspects. The management of their registration shall be ruled by specific regulations. The positive role of charitable societies for commonweal will be more and more significant. As an important resource of funds, fundraising will gradually become independent. Accordingly, the specific regulations shall be promulgated to regulate such kind of NPOs when it is necessary.

#### Definition of Fields for Preferential Development and Policy Suggestion of Simplifying Registration Procedure

NPOs as a whole are called as nonprofit sector. In relation to the enterprises and Government, all organizations in this sector have commonness of being nonprofit and nongovernmental. Even so, it is still numerous and jumbled. As to the reforming China, the fostering and supervision cannot impose uniformity on all NPOs, but emphasize particularly on some NPOs. We shall make selective definition of aspects and areas for prior development and carry out the corresponding policies in accordance with the actual demand of today's Chinese politics, society, economics and culture.

When defining the prior fields, we shall emphasize following three elements, 1 ) standard of commonweal, that is to say, whether development of NPOs in the fields can promote or bring along increase of total welfare of the society and form a comprehensive group of beneficial owner; 2 ) standard of social demands, that is to say, whether the activities and services of NPOs in such fields are urgently needed by the society and capable of making up deficiency of the Government and enterprises; and 3 ) standard of nonpolitical and nonreligious, that is to say, whether the development of NPOs in such fields is away from tender political subjects and out of specific religious intention.

Considering of the above three elements, the following six fields will be the ones where China shall first develop NPOs, including poverty alleviation, environment protection, legal aid, social welfare, community development and business union. Moreover, as a whole, these six fields have become the most active and important ones with a large number of NPOs, especially the former four ones. Although the latter two ones, having no strong color of commonweal, they have non-replaceable role in enhancing the self-stability of society and promoting the trade union in market economy since they are social organizations developing by the link of mutual aid. In particular, these six fields are, in most cases, far from impressive political matters.

In order to promote the development of NPOs in the above six key fields, it is necessary for us to

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make relevant adjustment to current laws & policies of registration management and reduce limitation on NPOs in such fields through gradually simplifying procedures of registration. A feasible policy suggestion is that, we can decrease difficulty of NPOs' seeking units in charge by appointing corresponding charging units according to relevant laws and regulations. In addition, we shall normalize and institutionalize the limits of authority, obligation and duty of relevant units in charge for the purpose of ensuring their becoming competent units of all NPOs in the fields. Meanwhile, together with the establishment of systems of evaluation and supervision that will be discussed in following parts, we shall disclose the management function of the units in charge and enhance the supervision of NPOs with the aid of relevant social intermediaries.

### Suggestion on Introducing Evaluation Mechanism and Realizing Socialized Supervision of NPOs

Strengthening of supervision over NPOs is the basic policy of Chinese Government. Through using experiences of foreign countries for references, we suggest that a scientific and normative evaluation mechanism and their system shall be introduced to gradually form an indirect management mechanism for socialized supervision.

Evaluation of NPOs has not attracted attention of the public until late ten years. In the United States, Great Britain, Japan, Philippines, India and other countries, lots of semiofficial and civil intermediary & academic evaluating organs have been established to make all kinds of regularly or irregularly evaluation on NPOs' performance, projects, organizational management and complex capacity through adopting quantificational and qualitative indicator system. Such evaluation forms a mechanism for NPOs to have scientific evaluating, analysis and publicizing as well as an important aid for the Government to strengthen supervision.

NPOs in China have won high development and caught up with many developed countries. During the process of perfecting the laws, regulations and policies, Chinese Government has laid importance on supervision over NPOs through legal means. Several Chinese scholars have done research on evaluation of NPOs and carried out some case studies.<sup>7</sup> Therefore, it is easy for Chinese Government to introduce evaluation mechanism into its supervision system of NPOs. When the relevant departments of the Chinese Government can give support or even make participation, we can establish relatively independent evaluating organ with academic authority and retain domestic and foreign scholars to be its advisor or directors. Based on the existing foreign theory and models, we can establish a system of NPOs evaluating indicators appropriate to situation of China and the framework of corresponding laws, regulations and policies. Then, with the cooperation of the Government, we can gradually develop the comprehensive evaluation of NPOs in China.

The introduction of evaluation mechanism will change the direct management of the Government towards operation of NPOs and then, the Government will change from supervisor to arbitrator. In this sense, the supervision efficiency of the Government and the public credit of NPOs will be

increased and the public image of the Government will be improved as well. In the meanwhile, we shall gradually change the supervision of NPOs from a part of the Government's function to mechanism of the society---we can develop some NPOs having the condition and capacity to shoulder part of the supervision function under direction of the Government. Then, the NPOs' supervising over NPOs can be realized and thus it may advance the transition of today's dual management system.

### Suggestions on Enhancing the Mechanism of NPOs' Self-discipline & Trade Mutual Rule

It has been proved that fine development of NPOs is in need of not only a favorable environment of laws, regulations and policies, but also good mechanism of self-discipline and trade mutual rule, which forms the essential internal condition of the organizations and trades for development of NPOs.

As to capacity construction, NPOs in China are confronted with great difficulties. Both the top-bottom and bottom-top NPOs generally have problems as lack of funds and talents, imperfect systems and low management efficiency, which hinder them from better development. In order to strengthen the self-discipline mechanism of NPOs, the Government shall promulgate a series of regulations and policies to develop and enhance the autonomous capacity of NPOs. Moreover, the Government may help them to establish and perfect their personnel and financing systems and comprehensive and sustainable fundraising systems as well. The NPOs shall also build up competitive operating idea and strategy for establishing positive cycle based on self-determination and self-support.

The mutual connection, restriction and collaborative development of NPOs will form a network of mutual rule system to regulate activities of NPOs, form their common sense, standard and ethics and promote their fine development through inter-restriction. Chinese Government is conservative in this aspect. We suggest that the Government will lay high importance on establishment of NPOs' mutual rule mechanism, advocate efforts for building up inter-restriction mechanism of NPOs, and encourage NPOs to enhance their mutual exchange, cooperation and supervision through necessary guild regulations and public morality for NPOs to realize their self-discipline and development.

### 3. Helping NPOs in China to Resolve the Bottleneck Problem of Being Lack of Funds

Funds are the vital element of an organization. Just like any organizations, the existence and development of NPOs depend on sufficient funds. However, being lack of funds has become the most important obstacle for China to develop its NPOs. In order to resolve this problem, first of all, we shall abandon a wrong idea, that is to say, civil organizations can exist relying on private charitable contribution. As a matter of fact, wherever the NPO will be, it cannot only depend on such donations---there will sometimes be voluntary failure just like the market and Government. The most typical expression of the voluntary failure is the huge gap between the expenditure needed and the resources can be collected by NPOs.<sup>8</sup> Although we have not known the actual financial condition of

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China's NPOs, it is clear that their financial condition shall be and can be improved. We make following analysis and suggestions on how to improve their financial conditions.

### *Government Subsidy*

Experiences of other countries show that NPOs are indispensable to financial support from the Government because the Government can provide what the NPOs lacked of. Donation can only be voluntary while the tax paying is compulsory duty. As the single lawful organization of all violence, the Government can carry out its will through its monopoly of violence. The Government's distinction with NPOs makes it have great superiority in mobilizing resources.

The Government can support the NPOs through two methods. The one is outright grants (i.e. direct government subsidies given to nonprofit organizations in support of their activities and programs) The other is indirect way (i.e. tax concession enjoyed by contributed individuals and companies and give tax-free treatment of NPOs) which essentially uses the tax originally shall be received by the Government to aid NPOs. The two methods have their own advantages and disadvantages. The advantage of the former one is avoiding tax dodging by name of supporting or undertaking nonprofit activities. Its disadvantage is leaving the power to government bureaucrats, which may result the low efficiency. The latter is able to achieve a higher level of allocating efficiency since the decision power of supporting is held by individuals and companies. However, it also gives opportunity to tax dodging. Among developed countries, no one adopts only one solution. All of them mix both. Meanwhile, the U.S.A and U.K emphasize particularly on the latter while the European countries pay much attention to the former.

China shall make use of both the two methods. Undoubtedly, the Government shall give treatment of tax concession to actual NPOs to encourage more people to devote themselves to nonprofit undertaking. Nevertheless, the tax dodging is very serious while the account system is full of inconsistencies in today's China. Once the NPOs can enjoy the tax concession, it can be imagined that a great number of false NPOs will come into being. Accordingly, we shall be very deliberative when promulgating the laws and regulations concerning tax concession. The more important sector is the enforcement of such laws and regulations. Chinese Government shall enhance its capacity in information collecting; authenticating, supervising and enforcing with the purpose of radically contain the tax lodging. It is in the need of promoting both nonprofit enterprise and other undertakings. It is certain that, even in the West, which has strong administrating capacity, there are still phenomena of tax lodging by name of nonprofit or charitable undertakings. Then, China cannot be hopeful of introduce the system of giving tax concession to nonprofit undertaking after totally eliminating the tax lodging.

The fiscal levying capacity of Chinese Government has been improved in recent years ( See Graph 3) Chinese Government shall increase the grant of NPOs ( especially charitable organization

supporting the poor and private non-enterprise units providing basic social services ) when it further strengthens its fiscal levying capacity. Such organizations are engaged with affairs shall be undertaken by the Government but it has no fiscal capacity to do so. As distinguished from Government officials, staffs of NPOs will be more eager to their undertakings and do not take it as the cost of profit earning. Therefore, NPOs will have a higher allocating efficiency.

The other advantage of the Government's supporting NPOs is the introduction of competition mechanism. When the Government give support to them through purchasing their services, the NPOs will have competition to win such opportunity and then the whole efficiency of funds using will be further increased.

### *Operating income*

Operating income is the main resources of private non-enterprise units and important resource of social organizations. In theory, those membership organizations promoting social intercourse can and shall charge membership dues. At the same time, those social organizations and private non-enterprise units ( such as private hospitals, schools, home for the aged, museum and schools for special education, etc. ) providing private matters of asymmetrical distribution of information can and shall accept service charge. To the contrary, those organs helping or supporting the poor and organizations providing public goods ( or service ) shall not and be difficult to charge.

In order to help the due fees have a better role in promoting the nonprofit sector, we shall make following three kinds of efforts. Firstly, enhancing the construction of NPOs' mechanism of self-discipline and mutual discipline ( including evaluation system, network of NPOs and supervision system of the Government ) to urge NPOs to establish their strict inner financial system and block up the operating income's being abused. Secondly, definitely prescribe the operating scope of all kinds of NPOs and strictly prohibit the for-profit activities beyond the scope. Finally, require or encourage NPOs to carry out the classified charging standard to ensure that the families of low income can preferentially benefit from their services.

### *Private Giving*

The civil donations include those come from the individuals, companies and foundations.

#### A . Individual Contribution

Although Chinese do not have strong religious ideas, they love to do philanthropic giving. A large number of rich people have come into being since the Reform and Opening to the outside. Among them, there are lots willing to contribute to social welfare. The living level of average people is better than the period of dress warmly and ear one's fill. Thus, they are capable of helping others to the best of their ability. Whenever there is a report concerning misfortune of someone, the unlucky one will receive donation from people he ( or she ) never acquainted with each other before. It is a good

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example of Chinese people's generous.

Increase of individual donation rely on the NPOs' strengthening their public relations and improve their popularity and credit. Meanwhile, it is necessary for us to learn from Hong Kong and foreign countries to establish professional solicits contributions organs linking up with service NPOs. Being nonprofit, such organs are in charge of popularizing, encouraging and collecting donation, but never undertake direct services. In this way, we can not only increase the donating efficiency and decrease the costs, but also avoid waste of donations.

### B. Enterprises' Contribution

In order to resolve problems existing current enterprises' donation, we think the following aspects shall be improved to rouse the enterprises' enthusiasm for donation.

a) Strictly prohibiting apportionment of commonweal contribution. Such kind of apportionment can increase the amount of donation for a time but fundamentally freeze the enterprises' enthusiasm for donation.

b) Requiring the organizations and groups accepting the contribution to disclose the use of the donations by law. The current Law of Donation stipulates that donor is entitled to inquiry the use of their contribution while the donee shall reply according to the facts. However, donee is inconvenient to inquiry when some donor has authority.

c) Using the limited enterprises' contribution for urgent commonweal projects, such as helping and supporting the poor, for improving the contributing will of companies.

d) Unifying tax system of domestic and foreign enterprises to strengthen the motivation of domestic enterprises' contribution since most of the enterprises in China, after all, are domestic ones.

### C. Foundation

The resources of funds of China's foundations come from the contribution of the Government, groups, and individuals, fellow countrymen of Hong Kong, Macao and Taiwan and foreign organs. In order to enhance the capability of foundations in collecting contribution, the key element is to improve the credit of the potential donor to the foundations, which shall based on their perfect and open inner system. All NPOs are faced with the problem of improving the inner mechanism. Moreover, the foundations dealing with a large sum of funds is the most urgent one in the mechanism construction. Therefore, the evaluation of kinds of foundations shall take priority when developing the evaluation system of NPOs.

Secondly, we shall ascertain the objects for collecting contribution. When collecting contribution from the public, we shall increase the force towards the new-rich stratum. Now, China has formed a stratum of nabobism. It is composed of few people but then it has huge financial capacity to contribute more to nonprofit sector, especially charitable undertakings. As to this stratum, we can encourage them donate to current foundations or establish new one in name of themselves or their family. Thirdly, when developing large ones, we shall courage the establishment of small-scale

foundations close to ultimate beneficiary, such as community foundations and foundations concerning special people. Just like any other organizations, NPOs will have the color of Bureaucratization when it has developed very complex organizational structures, and thus lead to the increase of operating costs and decrease of service efficiency of the grant-making. The small ones have definite service objects and easy to be supervised by the ultimate beneficiary and evaluated. In this sense, they are very attractive to potential donor.

### *Foreign Funds*

Foreign funds refer to those coming from Hong Kong, Macao, Taiwan and foreign countries, including donation of foreign foundations, NGOs, international organizations and organs of foreign Government to China's nonprofit sector, and direct participation of foreign NGOs in China. The funds used by the foreign NGOs in China can be collected by themselves and get their money from individual and corporate donors as well as from their governments and international organizations.

As to foreign funds, we shall make it clear that, firstly, it is an abundant resource, which has not been fully used by China; secondly, the development of nonprofit sector of a country shall mainly depend on its own force. It is wrong to wait, depend and ask for foreign aid. In addition, excessively rely on foreign aids will not be the symbol of flourishing of the nonprofit sector.

The key of trying for foreign donation is that, NPOs shall acquainted with the resources of foreign funds and let foreign potential donor know their existence and demands, which is in need of good communication. Now, some idealistic and policy blocks hinder the communication between domestic and foreign organizations. It is undoubtedly necessary to prohibit foreign hostile forces from threatening safety of China. Nevertheless, we cannot forbid communication for fear of a slight risk. We shall adopt the strategy of "green light", but not "red light" concerning foreign NPOs. The strategy of "green light" refers to, except those having been found out evidences endangering the national safety; we shall permit and encourage the normal communication between domestic and foreign NPOs. To the contrary, the strategy of "red light" refers to the giving no permission to such communication, except special circumstances. Perhaps the latter one can maintain the safety of the country with high expenses. However, the former one can both maintain the safety and promote development of all undertaking, including nonprofit sector.

Even though the blocks of ideas and policies have been eliminated, such kind of communication still needs the talents being able to freely communicate with foreign organs and organizations. But nevertheless, most of China's NPOs are lack of capability of direct communicate with foreign organizations up till now, especially those ones in inland and remote areas.

Under such kind of circumstances, it is necessary to establish some funding intermediaries linking up China and other countries. First of all, such intermediaries shall be private and nonprofit; otherwise, potential foreign donators will shrink back at the sight of their being profit ones. Secondly,

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they shall be in possession of talents knowing the need of China's nonprofit sector and potential foreign donors as well as being good at communication. Thirdly, such intermediaries shall have their own specialty ( such as emphasize particularly on supporting the poor, environmental protection, special education and minority ) Only in this way can they acquainted with the demand of some aspect of China's nonprofit sector and potential foreign donors, and thus be efficient in link up the two. What is more important is that, in this way, can such intermediaries prove their purpose is to promote the development of China's NPOs in some aspect, but not maximize the amount of contribution, for the purpose of helping domestic NPOs and foreign donors to give up their doubt on them. Such kind of intermediaries now exist in China, for example, China Association for NGO Cooperation. However, there is too few such organizations up till now. People from China and foreign countries enthusiasm for development of China's nonprofit sector shall make more efforts in this aspect. Moreover, the Chinese Government shall also provide a freer system environment for prosperous of such kind of intermediaries.

### 4. Summary

To be conclusion, this article shows that there's a huge demand for NPOs in China. However, The supply provided by China's NPOs is far less than the demand because of China's limitation of social, legal and fund's condition. So there's great necessity for promoting NPOs in China.

Based on the limitation of current China's laws & regulations on NPOs, this article give a suggested framework of laws & policies on promoting and regulating China's NPOs. It suggested, There should be a basic law on NPOs, and the specific laws & regulations should be perfected as early as possible.

Registration procedure for NPOs should be simplified, and there should be some fields for preferential development in NPOs.

Evaluation mechanism must be enhanced, and it's important to realize the social supervision for NPOs.

Mechanism of NPOs' self-discipline & trade mutual rule should be enhanced.

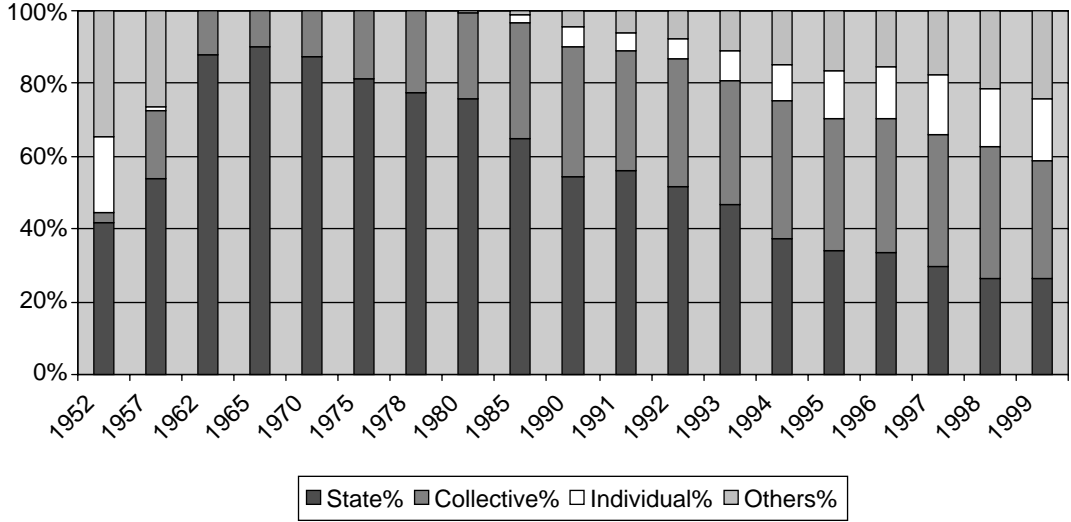
At last, to help NPOs in China to resolve the bottleneck problem of financial problems, multiform financial resources must be realized, that include the government subsidy, the operating income, the private giving, and the foreign funds.



Graphs and Tables

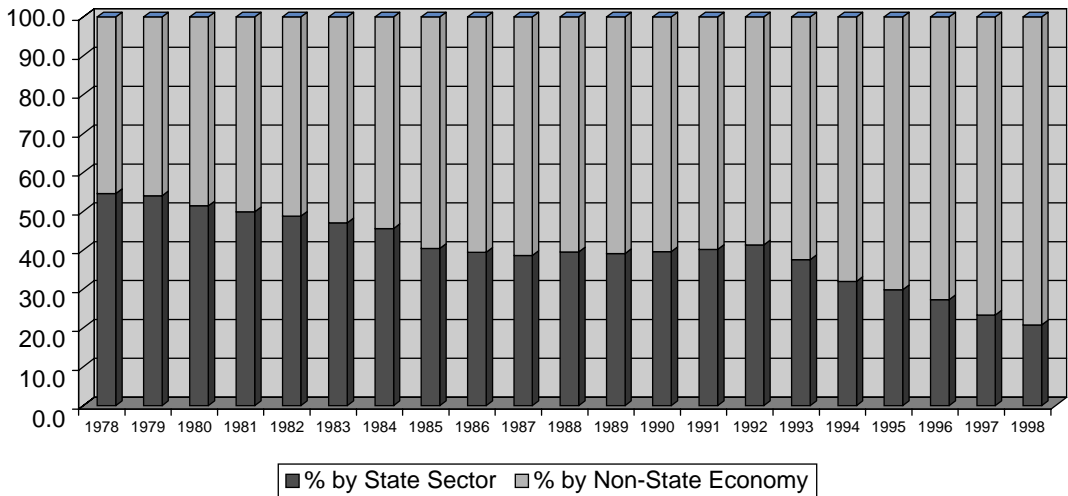
Graph 1 Ratio of State-owned Economy to China's Gross Industrial Output Value

Gross Value of Industrial Output by Ownership



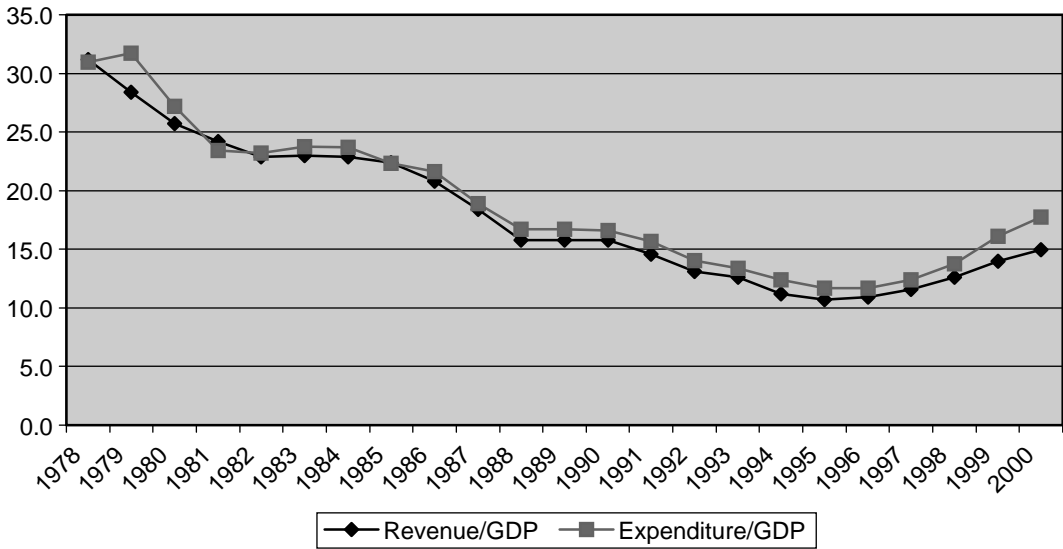
Graph 2 The Shares of State-owned Economy in Retail Sales of Consumer Goods

The Shares of Retail Sales of Consumer Goods by Ownership (%), 1978-98



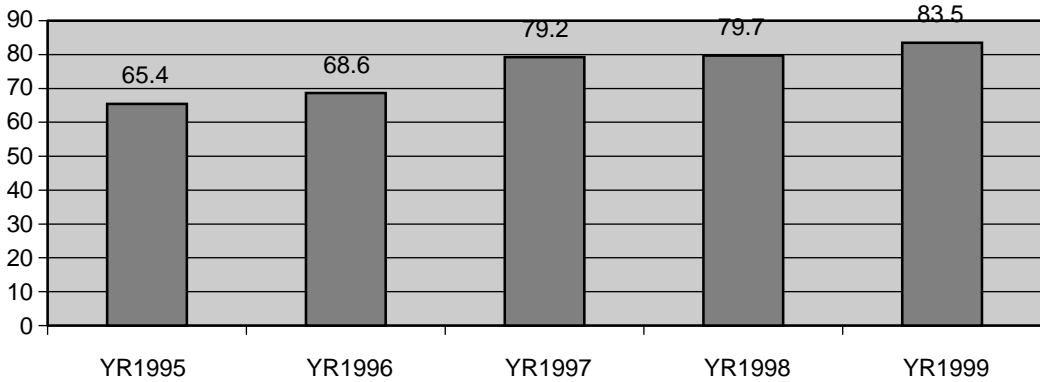
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Graph 3 Changes of the Ratio of Financial Revenue and Expenditure of Chinese Government to GDP



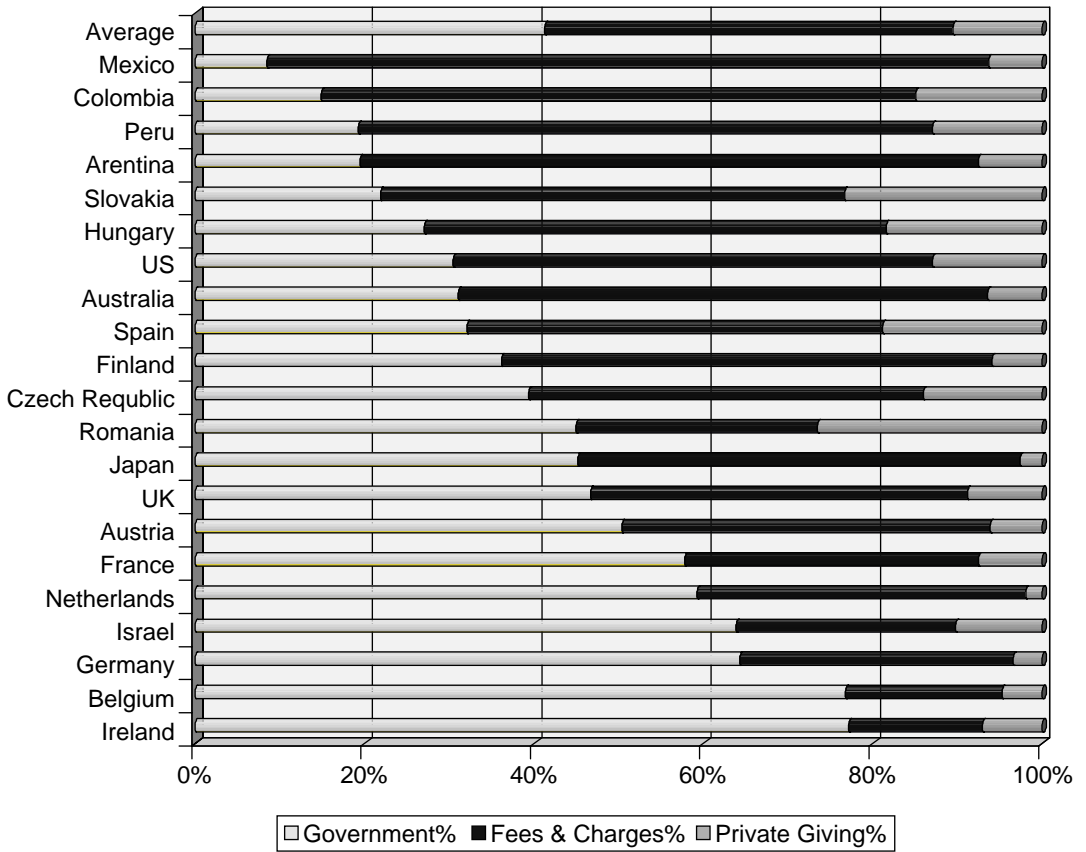
Graph 4 Percentages of Urban Residents Who Feel Great Pressure in Life

Percentage of Urban Residents Who Feel Great Pressure in Life



Source material: Ru Xin, "Blue Book of the Society: Analysis and Prediction of China's social situation", Publishing House of Social Science Documents, 2000, p. 77.

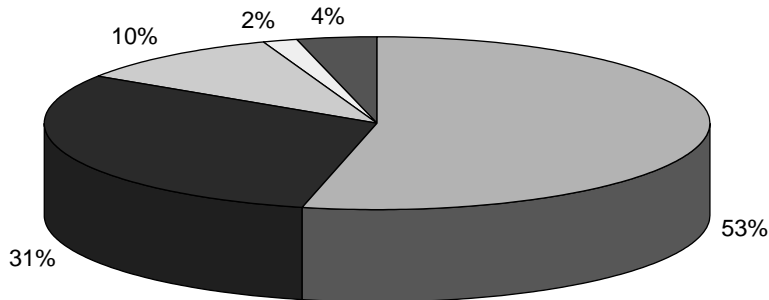
Graph 5 Structure of Nonprofit Revenue ( 1995 )



Source material: Lester M. Salamon, Helmut K. Anheier, and Associates, "The Emerging Sector Revisited: A Summary", The Johns Hopkins Comparative Nonprofit Sector Project, Phase II, 1999.

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Graph 6 Structure of China's Social Organizations' Revenue ( 2000 )



■ government subsidy ■ fees and taking ■ national donation □ international donation ■ others

Source Material: Deng Guosheng, "Primary Analysis of Questionnaire Investigation for China's NGOs".

Table 1 Main Problems be Confronted By China's Social Organizations

Category	Proportion (%)	Order
Lack of Funds	41.4	1
Lack of Places and office facilities	11.7	2
Lack of Talents	9.9	3
Insufficient Support from the Government	8.5	4
Defects in Inner Management of Organization	7.5	5
Lack of Opportunities of Information Exchange and Training	5.2	6
Activities' Being Unable of Return form the Society	3.6	7
Imperfect Relevant Laws & Regulations	3.4	8
Lack of Projects	3.0	9
No Problem	1.8	10
Too Much Intervals from the Government	1.1	11
Others	9.3	12

Note: Open questionnaire. The total proportion is above 100%.

Table 2 Scale of Expenditure of China's NPOs ( 1998 )

Unit: RMB

Scale of Expenditure	Proportion (%)	Accumulated Proportion (%)
Below 1,000	5.0	5.0
1,000-5,000	9.5	14.5
5,000-10,000	10.7	25.2
10,000-50,000	20.8	46.0
50,000-100,000	16.6	62.6
100,000-500,000	23.7	86.3
500,000-1,000,000	4.2	90.5
1,000,000-5,000,000	1.3	91.8
5,000,000-10,000,000	0.2	92.0
above 10,000,000	0.1	92.1
No Answer	7.8	100.0

Source: Deng Guosheng, "Primary Analysis of Questionnaire Investigation for China's NGOs".

## Annotations

- 1 . Burton Weisbrod, "Toward a Theory of the Voluntary Nonprofit Sector in a Three-Sector Economy," in E Phelps, ed., *Altruism Morality and Economic Theory*. New York: Russel Sage, 1974; *The Voluntary Nonprofit Sector: An Economic Analysis*. Lexington, MA: Heath, 1977; "Toward a Theory of the Voluntary Nonprofit Sector in a Three-Sector Economy," in S Rose-Ackerman, ed., *The Economics of Nonprofit Institutions*. New York: Oxford University Press, 1986; *The Nonprofit Economy*. Cambridge, MA: Harvard University Press, 1988.
- 2 . Moral hazard refers to the possibility of people purchasing some insurance's reducing avoidance of the risk. Reversal Choice refers to people with potential or actual risk's being most likely to purchase insurance. The two kinds of phenomena are relative to the asymmetrical distribution of information Joseph E. Stiglitz, *Economics* ( New York: Norton, 1993 ) pp. 153-158.
- 3 . The history of the U.K is a typical example. See Ding Jianding, "From Helping the Poor to Social Insurance: Establishment of Modern System of Social Security in the U.K, 1870-1914", Publishing House of China's Social Science, Beijing, 2000.
- 4 . For the special role of NPOs in China's undertaking of supporting the poor, see Kang Xiaoguang, "Research on NGOs' Activities for Supporting the Poor", Foundation for underdeveloped regions in china, Sep. 2001.
- 5 . Article 3 of the Regulations on the Registration and Administration of Social Organizations, "Following organizations are not referred to the scope of registration stipulated by these Regulations: 1 ) people's organizations participating the Chinese People's Political Consultative Conference; 2 ) organizations appraised and decided by the organization Administrative Office of the State Council and permitted to be free of registration by the State Council; and 3 ) The internal organizations permitted by the organs, groups, enterprises, institutional units and undertake activities within their units."
- 6 . Relevant documents of the Ministry of Social Affaires stipulate that, the private non-enterprise units established by themselves without permission or registration of any departments do not belong to the scope of reexamination of registration.
- 7 . The main researches of this aspect include, Deng Guosheng, "Evaluation Handbook of Family Planning Association", China's Population Press, June 2001; Deng Guosheng, "Evaluation of Performance of Project for Happiness", *Population and Family Planning*, No.2 2000; Yang Tuan, "Evaluation of NPOs: Case Study of Tainjin Hetong Home for the Aged", Huaxia Press, 1998; Yangtuan, "Evaluation of NPOs: Case Study of Luoshan Provincial Guild in Shanghai", Huaxia Press, May 2001.
- 8 . For the analysis of the voluntary spirit's being out of order, see Wang, Shaoguang, "Money and Autonomy: Dilemma Faced by Civil Soceity," unpublished paper, the Chinese University of Hong Kong, 2000, [www.cuhk.edu.hk/gpa/wang\\_files](http://www.cuhk.edu.hk/gpa/wang_files)

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