

Non-profit Organizations in China and Their Future Prospects

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Abstract

China's Non-profit Organizations (NPO) were integrated into the government after the establishment of the People's Republic of China in 1949. Civilian organizations literally disappeared. After 1978, China's landmark reform date, non-profit organizations started to re-emerge. In more recent years, with rapid economic development and multiplication of social demands, particularly the push of the Olympic Games and the Sichuan Earthquake, non-profit organizations have grown exponentially. They start to play more and more important roles in fulfilling the social services gaps left by the government and the businesses. However, the current NPO registration system and dual management system have constrained the development of NPOs and many newly emerged grassroots NPOs do not have legal personality. Up to date, the government has passed relevant laws and regulations relaxing its traditionally tight control over civilian organizations, and the NPOs are also joining hands to promote the change of governmental regulations in favor of NPO development. Presumably, the ever increasing NPOs will lead to the change of China's NPO governance rules and regulations, help with China's NPO growth, and eventually, strengthen China's civil society.

1. Introduction

In western countries, NPOs are defined as organizations that have five characteristics: "formal", "nongovernmental", "nonprofit," "self-governing" and "voluntary" (L.M. Salamon 1994). However, these five characteristics can hardly be fully applied to the description of the Chinese NPOs since they do have their own characteristics. After the founding of the P.R. China in 1949, the government took over the social functions of the society. As a result, the number of social organizations with the self-governing features gradually decreased and disappeared. It was not until the 1978 when the Chinese NPOs started to revitalize with its launching of "the open door reform."

Similar to their Western counterparts, China's NPOs grew to fill a function that is left blank by the government as well as the businesses (H. Hansmann 1987; B.A. Weisbrod 1986). The driving force was the economic

reform and social transformation. Externally, global administrative reform for market based government is also a big push (L.M. Salamon, 1999). Unsimilar to their western counterparts, China's NPOs hardly reached a status known as "the third government" (L.M. Salamon 1995), nor did they in a position to promotion activities of their free choice (Gidron, Kramer and Salamon, 1992). For a long time, China's NPOs struggled to expand their activity domain in spite of the lack of legal status. The relaxed governmental control in certain areas coupled with the bottom up efforts drove the progress of China's NPO development. Since public service delivery has been a weakness

The bottom-up force contributed to social progress, nursed new ideas, and influenced public policies. A large number of NPOs get involved with public service delivery such as volunteering for the Beijing Olympics and reconstruction after Earthquake in Sichuan.

They are now becoming an active social force playing an important role in China's social progress.

Most China's NPOs play in fields where public service is lacking, i.e. anti-poverty, environmental protection, education, culture preservation, and social security issues.

There is still no agreed-upon definition of NPOs in China. The NPOs generally refer to non-governmental, not-for-profit social organizations. NPOs, NGOs, civil organizations, grassroots NGOs are widely used. Due to the regulations on the development of NPOs, NPS takes on diverse forms in China. Overall, Chinese NPOs can be categorized into two types, NPOs with corporate capacity and those without corporate capacity. Among the NPOs with corporate capacity, there are social organizations, private non-enterprises, private foundations which register at the civil administration department, and foreign business associations. In addition, there are numerous grassroots NPOs that are excluded from the institutions. These grassroots NPOs survive as for-profit corporations, branch organizations, or unregistered organizations. In order to distinguish from the nonprofit organizations, the NPOs with corporate capacity are called NPOs, while the others are called Grassroots NPOs. The ensuing section will describe the characteristics of China's NPOs through examining its development history.

2. History of China's NPOs

China's NPOs have gone through 6 periods in their development since 1949: the restricted development period, the waning period, the revitalization period, the development period, the downturn period, and the booming period.

Restricted Developed Period (1949-1966)

After the regime change in 1949, under the highly centralized state power, state and the society merged. The government investigated thoroughly the civil organizations, and got rid of the majority of charity organizations, asso-

ciations, and religion organizations. A small number of social organizations remained that supported the Chinese Communist Party (such as Democratic League of China, Jiu San Society). These organizations were established under the guidance of the Chinese Communist Party, and followed the regulations set by the government. Due to the active roles of the NPOs, NPOs brought in the new ideas and thoughts, and engaged actively in political, cultural, and academic domains. Therefore, these NPOs were the targets of every large-scale social movement. They constantly experienced investigations and reorganizations, which slowed down the development of Chinese NPOs, and made these NPOs lose autonomy gradually.

After 1949, Chinese NPOs only had two types left, social groups and neighborhood councils. The regulation code on social groups was drafted by Chinese Administrative Council in 1950, called *Temporary Registration and Management Rules for the Social Organizations*. It requires social organizations to be categorized into five types: population benefits social organizations, social welfare organizations, literature and art organizations, academic organizations, and religious organizations. All of these organizations have to follow the guidance by the Chinese Communist Party. The activity domain was restricted by government. These early NPOs developed very slowly. The statistics shows that between 1950 and 1965, as the figure 2 shows, there were only 100 nationwide social units, and 6000 local social organizations (Zhongz Wu & Jinluo Chen, 1996). The neighborhood council developed according to "the management rules for the city neighborhood councils", which was passed in 1954 with a goal of cultivating the grassroots neighborhood organizations. Although the neighborhood councils were defined as autonomous neighborhood organizations, in fact, the activities of these neighborhood councils have to follow the directions set by the Chinese Communist Party.

Due to government regulations, adminis-

trative guidance, the Chinese social organizations gradually developed into organizations that resembled the administrative organizations in government. The eight big social organizations, such as the labor union, the women association, and the youth league became one department of the governmental administration system. The leaders of these social organizations were de facto government officials, and the staff members are treated as civil servants. The functions of the neighborhood councils also changed, most of which were to accomplish the assigned tasks given by the government. The staff members were paid by the government. The neighborhood councils gradually lost their autonomy. As a result, the civil organizations shrank dramatically and became inactive.

Waning period (1966-1978)

During the Chinese Culture Revolution started in 1966, the culture and art had to serve the politics. There was no freedom of independent research and artisan creation. As the figure 1 shows, during 1966-1978, the number of civil organizations did not increase at all. Many social organizations were terminated. All activities of the social organizations were forbidden. The neighborhood councils, which used to be autonomous organizations, became the street-level government organizations. They received directions from government, delivered and communicated the directions from government, and almost become the administrative organizations in the government.

Reinvigoration Period (1978-1988)

Social organization revived after 1978 when China started to reform. New perceptions emerged. The social organizations reinvigorated one after

another in the fields of science, technology, art, history, philosophy, and literature, followed by the revitalizations of religion organizations, such as Buddha organizations, the Taoism organizations, the Muslims organizations, the Christian organizations. Moreover, new types of social organizations emerged. Professional organizations in the industry increased as the economy developed.

Tab. 1: the number of China's NPOs

Year	Social organizations	Private Non-enterprise	Fundations	Total number
1950	44			44
1955	80			80
1960	5,000			5,000
1965	6,100			6,100
1970	0			0
1978	0			0
1980	10,000			10,000
1985	10,000			10,000
1988	4,446			4,446
1989	4,544			4,544
1990	10,855			10,855
1991	82,814			82,814
1992	154,502			154,502
1993	167,506			167,506
1994	174,060			174,060
1995	180,583			180,583
1996	184,821			184,821
1997	181,318			181,318
1998	165,600			165,600
1999	136,764	5,901		142,665
2000	130,668	22,654		153,322
2001	128,805	82,134		210,930
2002	133,297	111,212		244,509
2003	141,167	124,491	954	266,612
2004	153,359	135,181	892	289,432
2005	171,150	147,637	975	319,762
2006	191,946	161,303	1,144	354,393
2007	211,661	173,915	1,340	386,916
2008	229,681	182,382	1,597	413,660

Source: *China Statistics Yearbook*, 2007.

Development period (1988-1998)

Between 1988-1998, the global democratization movement and socialization movement influenced the management of social organizations in China. It was proposed that the government should loosen the restrict regulations, and pass laws to facilitate the autonomous development of the social organizations. Historically, after 1956, the affairs of social organizations were not managed by one single government agency. Instead, almost all administrative agencies (such as the Ministry of Culture, National Sports Committee, National Science and Technology Council, China Science Academy, and public relationship department) got involved in managing the social organizations. Each department managed the social organizations that are related to their own domain. Since social organizations did not need to register with one government agency, the number of social organization dramatically increased. Yet, on the management side, it was very messy. In 1988, to end the messy registration system, the civil administration department took over the management role and is in charge of the registration job. "Management rules for the foundations" were passed in 1988. 12 foundations were established. In short, it was during this period that Chinese NPOs laid their foundations for the later development.

After the 1989 Tian'anmen square event, the government passed the "registration and management rules for social organizations," set up a dual-management system which required that the registration agency and the management agency to collaboratively manage and monitor the social organizations. Only one social organization was permitted to register in one administrative district or domain. However, the number of social organizations did not decrease. Instead, more social organizations developed, as the figure 2 indicated. Especially after the Xiaoping Talk in 1992, China is determined to go through the market economy reform, which contributed to the rapid growth of social organizations. The number of social

organizations more than doubled during this period.

The downturn period (1998-2001)

After the Fanglun Event, the government conducted a thorough investigation into social organizations and asked all the social organizations to register again. It took 3 years to finish the entire process. The number of nationwide social organizations decreased from 181,318 in 1997 to 153,322 in 2001.

In order to govern the NPOs, the government also passed and revised a series of regulations and laws. In 1998, "the registration and management rules for social organizations" were revised. In the same year, "the registration and management rules for non-profit organizations" was passed. In 1990, "the organization law for the Chinese Neighborhood Councils" was revised. In 2004, "management rules for the foundations" were passed in 2004. All of these made the NPOs gain more support and become more formalized within the legal system, and also prepare for the following fast development.

Rapid development period (2001-current)

Recently, as the market economy plays a more important role in the economy system, the economic actors became diversified. The diverse needs call for the various social organizations. Consequently, all kinds of grassroots social organizations appeared. The public actively participated in various grassroots NPOs with diverse foci, such as environment protection, anti-poverty, charity, culture, education, care for disability, health care for the senior, neighborhood service, etc.

According to statistics from the national civil administration department¹, by the end of 2008, there are approximately 41,3000 civil organizations, including 22,9000 social organizations, 18,2000 private non-for-profit enterprises, and 1597 foundations. The domains

¹ *Statistical yearbook for the civil administration department in China*, China statistics press, 2007

cover education, science and technology, culture, health care, welfare, physical education, neighborhood service, environment protection, charity, anti-poverty, and almost every aspect of the social life. In addition, there are some NPOs that did not register at the social welfare agency, which made the statistics impossible. But according to the scholarly analysis, the number is more than ten times the number of registered NPOs, and is approximately 4 millions².

3. Regulations on NPOs in China

The government set up high entrance standards for the NPOs. The establishment of foundations is even more strictly regulated, which make it difficult for the NPO to have adequate financial support and talented staff.

The regulations for legitimacy

Within the legal framework for the Chinese NPOs, the government establishes very high entrance standards. It is very difficult for the grassroots NPOs to achieve the corporate capacity. The “graded registration” refers to that the NPOs need to register at the national social welfare agency and the local social welfare agency respectively. NPOs registered as the nationwide NPOs can develop across the provinces, autonomous districts, and municipalities. These nationwide NPOs need to register at the national civil administration department, and are managed by the national department and the agencies authorized by the central government. Local NPOs can register at the government where the NPOs are located and are managed by these local government agencies or the agencies authorized by the local government.

The “dual management” refers to that every NPO are managed by both the registration agency and the administrative agency that has jurisdiction over it. The registration agency is the civil administration agency, mainly in

charge of managing the establishment, updates, and terminations of NPOs, and yearly check and monitoring affairs. The other management agency is the administrative agency, which reviews the applications of the NPOs, supervise the entire process for the registration, changes, and termination registration, monitor the functions of the NPOs before the yearly check and watch for the illegal cases³. The “graded registration, dual management” not only apply to the management of social organizations, but also apply to civil non-profit enterprises and civil foundations that were established between 1989 and 2004.

Additionally, the non-competition rule is set up for the Chinese NPOs. In the “registration and management rules for social organizations”, the registration agency does not allow the social organization to register with the same or similar functions in the same administrative district. By “the same functions,” it means that the name, mission, and functions of the NPOs are the same or very close. By “the similar functions,” it means that although the two NPOs have different names and different composition of staff members, the functions cover the same domain⁴. This way, the competition among the same type of NPOs can be avoided.

Regulation on Management

The “dual management” requires that the main duties of the corresponding administrative agency include: (1) reviewing the applications for the establishment of NPOs, reviewing for the changes to the registration and the termination registration; (2) providing guidance for all kinds of activities for the NPOs, such as the finance management and personnel management, the international communications, receiving donations from abroad, etc; (3) monitoring the functions of the NPOs to

² *Critical Points in Dealing with Six Difficult Problems in public welfare enterprise-Solutions from 200 scholars*, Public Welfare Times, July 20, 2005.

³ *Notice on re-identifying the authority for the social organizations by the civil administration department*, 2000, No. 41

⁴ *Notice on registration rules for the social organizations and related issues*, No. 59, Dec. 31, 1989.

assure that the NPOs function well and obey the rules, regulations, and laws; (4) conducting the preliminary reviewing for the annual check; (5) assisting with the registration agency and other agencies to deal with the illegal cases; (6) providing guidance for the liquidation⁵. These regulations not only add restrictions and burdens onto the NPOs.

Regulations on the Funding

Theoretically, any individuals or organizations should be able to establish the public or non-public foundations. The public foundations can be local or nationwide. The minimum registered capital for the nationwide public foundations is 8 million RMBs, and the minimum registered capital for the local public foundations is 400 million RMBs. The minimum registered capital for the non-public foundations is 2 million RMBs. In fact, most of the existing foundations are public. The foundations that are established using the private capital are mostly defined as non-public foundations. As of now, the civil administration department has not approved the establishment of one public foundation that is funded by private capital.

As the social organizations face the issue of “dual management”, the foundations need to find a responsible government agency in order to register. Therefore, the foundations are also constrained by regulations on legitimacy and management. Due to the restrict approval procedure, it is even more difficult to establish the foundations than to establish the social organizations and the private non-profit enterprises.

Due to the abovementioned reasons, it is quite difficult for the grassroots NPOs to attract funding. First, for lack of the legal status, NPOs cannot gain governmental funding, neither can these NPOs get private donations due to lack of trust from the private sector. Second, there are not enough private foundations,

⁵ Notice on re-identifying the authority for the social organizations by the civil administration department, 2000, No. 41.

which make the financial support from the private sector limited. Hence, many Chinese grassroots NPOs gain funding from abroad or support from the NGOs in other countries. In recent years the grassroots NPOs have developed quickly, which makes the competition for funding harsher. On the one hand, these NPOs compete with each other. On the other hand, they are learning how to manage effectively, and how to utilize the profits to make up for the lack of funding. In response to these issues, the social enterprises come into being right in time.

3. Innovations in the Chinese Grassroots NPOs

Undoubtedly, the “dual management” system sets the restrict regulations for the development of NPOs, and excluded many civil organizations from the protection of legal systems. Hence, those grassroots NPOs, without any affiliations with government agencies, have great difficulty finding the responsible administrative agency so as to register. This is because government agencies usually hesitate to take risks to manage the organizations. As for the grassroots NPOs, if the government agency takes over the management responsibility, they will have to take additional workload and the corresponding political responsibilities.

Hence, in order to achieve the legitimate status, the grassroots NPOs have to seek alternatives and choose to live with the following choices: (1) getting affiliated with the existing NPOs and becoming part of these organizations; (2) registering as the for-profit corporations, and becoming the social enterprises; (3) choosing not to register and organizing within the organizations; or (4) giving up the corporate capacity and living as unregistered organizations.

Affiliated NPOs do not need to register as a legal entity, and only get affiliated with one legitimate social organization or foundation, and survive as part of those organizations. Let us take the well-known “Friends of Nature

(FON)” as an example. The FON is affiliated with the Chinese Culture Academy and becomes one school of the academy. The FON is founded by Prof. Congjie Liang, the current associate dean for the Chinese Culture Academy. He is the grandchild of Qichao Liang, a famous political activist in Chinese recent history. The FON has been growing as the affiliated unit with the Chinese Culture Academy. Let us take the “One foundation” as another example. It was initiated by a famous movie star, Jet Li. Strictly speaking, it is not a foundation, and is affiliated as a program of the Red Cross in China. The One Foundation not only absorbed a large amount of funding, but also carried out many charity activities. Since the regulations on the foundation are much stricter, Jet Li had to choose the affiliation format for the One Foundation. The One Foundation is supervised by the Red Cross. Therefore, it does not have autonomous personnel administration, and lack autonomy in many aspects of daily operations.

College student associations have the largest number of affiliation-type NPOs. These associations are led by the Youth League Committees. According to the one survey conducted by the National Communist Youth League Committee and China Youth & Children Research Center, by 2005, 59.7% of the college students joined the college associations. On average, each student participated in 1.8 student associations. According to the most up-to-date statistics, by January 2008, there are 3506 student associations in universities located in Beijing and 27900 registered student members⁶. College students participated actively in the voluntary service.

The industry associations for entrepreneurs have developed rapidly. According to the no competition rule stated in “the registration and management rules for the social organizations”, only one association can be established in one district and one field, which makes impossible for many industry associations to register at the civil service department. Therefore,

a large number of industry associations are affiliated with the industry and commerce association which registers as the peoples’ organization. There are 8611 affiliation-type industry associations, 782,000 business members. The industry associations not only serve the business members, conduct research on the industry trend, setting up the industry standard, propose policy recommendations, and engage in public service activities⁷.

Due to the restricted regulations on the foundations, many entrepreneurs seek alternative opportunities. In 2004, a hundred of reputed entrepreneurs initiated and funded the environment protection organization, the Alxa SEE Ecological Association (SEE). They avoided the difficulty of absorbing public funding and chose to establish the local environment protection association because it is relatively easy to establish the local social organizations. They charged 100,000 RMBs membership fees for the funding purpose. The association not only contributes to the local economic development, but also improves the local business environment.

Registered for-profit corporate, as the social enterprise. For those NPOs that cannot register as the not-for-profit corporate and nor find the affiliated organizations, the other choice is to become the registered for-profit corporate and become the social enterprise. However, in fact, many grassroots NPOs do not qualify as the social enterprises because social enterprises functions to make profit to serve the society. The key difference between the social enterprise and the private enterprise is that the social enterprise not only functions to maximize the profits for the stakeholders or the owners, but more importantly, to solve social problems. Some proportion of profits can be distributed as dividends cautiously, while the majority of profits are used for social service. Most Chinese grassroots NPOs attained funding from the international foundations or

⁶ *China Youth Studies*, 2005, Iss. 7.

⁷ Mengfu Huang, report from the 10th representative conferences of China National Industry and Commerce Association, 2010.

the NGOs abroad. Yet, in order to be eligible for receiving funding from abroad, NPOs first need to achieve the corporate status. Therefore, some NPOs decide to switch to the for-profit enterprises in order to achieve legitimacy and autonomy.

In recent years, social enterprises spring up. Many Chinese entrepreneurs pay close attention to society, devote to the social enterprise, and contribute to the development of the social enterprises.

Unregistered NPOs. There are a large number of unregistered NPOs. This type of NPOs (such as the neighborhood entertainment community, the senior citizen university, the senior citizen associations, the homeowner association, the religion association) raise funding on their own and live in a very flexible format. Moreover, due to the fast development of the Internet, there are many virtual communities, providing the public forum for people to discuss the common concerns. Over 102,750,000 Internet users are using Bulletin Board System or other social media to develop reciprocal communities in order to help each other, such as repairing the computers, home electronics, pipes, toilets, or offering homework tutoring. Some virtual communities develop into the physically based NPOs, such as one supporting education organization, called "1kg.org". The large number of developing unregistered NPOs also contributes to the cohesion of bottom-up forces, call more attention from the public to the public domain, enhance communication, and lay the important foundation for the future development of Chinese NPOs.

5. Blocking or dredging? The cooperative road of grassroots NPOs and government

The Year of 2008 was called Grand Volunteerism Year. Two events happened: the Sichuan Earthquake and Beijing Olympics. In dealing with these events, all kinds of China's grass-root organizations floated on the surface. They organized volunteers to conduct

voluntary services. By June 3 2008, 5.61 million volunteers got involved in providing post-Earthquake assistance through various levels of Communist Youth Organizations. 4.91 million people volunteered in the Earthquake events from other channels⁸. There were 1.70 million volunteers serving Beijing Olympic⁹.

The Sichuan Earthquake in 2008 pushed the development of China's charity donation to a higher level. This event gathered largest amount of donation in China's history. By the end of May of 2008, the total amount reached 40 billion Yuan¹⁰ and it reflects the love and dedication of Chinese citizens.

Volunteers, NPOs' activities, and charitable donation attract governmental attention. In the database of CNKI, there was only one paper talking about NPO in year of 1999. The number increased to 67 in 2002 and 954 in 2008. These academic articles analyzed the development of China's NPO from various perspectives and called for a institutional reform by the government. Now more and more words relating to NPO, NGO, charity, volunteers appear in all kinds of media and these words are widely accepted by the public. The proposal for reforming the current administrative mechanism for NPO and for NPO's organizational law are proposed. The public support to establish a legal platform upon which NPOs may organize their activities.

The government's release to NPOs' regulation can be witnessed from two perspectives. First, since 2002, the government's attitudes toward NPO changed from tradition administration, which was vertical rigid management, to complete the institutional development aiming at assisting NPOs' internal governance, augmenting their capabilities, and further promoting the overall growth of China's

⁸ 1.70 volunteers attended post-Earthquake activities, www.youth.cn, access on June 10 2008.

⁹ Registered volunteers in China, China Youth Daily, July 18 2008.

¹⁰ Review of China's NPOs. Volume III, Earthquake, Social Organizations are on action, June 2008.

NPOs. Second, since 2008, the government started to purchase service from NPOs. The first example was that the China Red Cross Association, which is a quasi-governmental sector, bought services from grass-root level NPOs. This started cooperation between government and grass-root NPOs and this trend will keep growing in the future.

Even so, the government has not released the regulation toward NPOs, which is still facing institutional constraints. Legal NPOs (which registered legally) may lose autonomy, while illegal NPOs face difficulties in fundraising, unclear responsibilities, and staff lacking. However, it is inevitable that containment policy becomes useless and the trend of NPO's development is unstoppable. Therefore, it is important for government to legalize the new developed grass-root level NPOs, to consummate NPO's self-discipline mechanism and supervision institutions to them.

Conclusion

China's strict regulation, for a long term, is no longer suitable to China's economic and social development. The limited public service provided by government could not match society's needs. The gap between the rich and the poor enlarged quickly, the education inequality increased. China's NPOs are facing a dual-regulation which constrains their development. They circumvent and seek to grow as fast as possible. In some areas where both government and market fail, NPOs play critical roles. The volunteering activities in the 2008 Beijing Olympics and Sichuan Earthquake not only become a turning point for NPO's development, but also are regarded as catalyst for the change of regulation policy. It can be predicted that the increasing number of China's NPO will promote the development of China's civil society.

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