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### List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CANGO</td>
<td>China Association for NGO Cooperation</td>
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<tr>
<td>CCASY</td>
<td>China Civil Affairs Statistical Yearbook</td>
</tr>
<tr>
<td>CCDIC</td>
<td>China Charity Donation Information Center</td>
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<td>CDB</td>
<td>China Development Brief</td>
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<td>CECP</td>
<td>Committee Encouraging Corporate Philanthropy</td>
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<td>CFC</td>
<td>China Foundation Center</td>
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<td>CSY</td>
<td>China Statistical Yearbook</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>EDIR</td>
<td>Equivalency Determination Information Repository</td>
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<tr>
<td>FCPA</td>
<td>Foreign Corrupt Practices Act</td>
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<tr>
<td>FIE</td>
<td>Foreign-Invested Enterprise</td>
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<tr>
<td>FYP</td>
<td>Five-Year Plan</td>
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<tr>
<td>GPCL</td>
<td>General Principles of the Civil Law of the PRC</td>
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<td>IRS</td>
<td>Internal Revenue Service</td>
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<tr>
<td>MCA</td>
<td>Ministry of Civil Affairs</td>
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<td>NBS</td>
<td>National Bureau of Statistics</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<td>PWDL</td>
<td>Public Welfare Donations Law</td>
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<td>CASS</td>
<td>Chinese Academy of Social Sciences</td>
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Executive Summary

“Business cannot succeed in societies that fail. Likewise, where and whenever business is stifled, societies fail to thrive.”

—Björn Stigson, Former President
World Business Council for Sustainable Development

China’s nonprofit sector is growing—and it is growing fast. Nonprofit organizations (NPOs) have come a long way since nascent reforms began in the late 1980s of what was previously a sector entirely incorporated within the state apparatus. Despite persisting regulatory and political hurdles, the number of NPOs in China has more than doubled over the past decade, and charitable giving levels have risen in lockstep. Corporations are the key driver of this growth in giving, and going forward will certainly play a critical role in further advancing civil society engagement in China. Given China’s mounting socioeconomic disparities, which manifest themselves in a pronounced and widening wealth gap as well as in unequal access to social services of all types, philanthropy has become not only a social imperative, but an opportunity for business to engage, shape the debate, and drive social change in China.

Philanthropic activity is emerging as a strategic tool and source of differentiation for businesses in China. Opportunities now exist for genuine philanthropic engagement. Moreover, lack of engagement increasingly risks public penalization. Discontent is not only growing among those at the short end of China’s economic success. Overall, expectations among all Chinese citizens regarding quality of life and entitlements for a safe and clean living environment have changed much over the last two decades in tandem with changing material conditions—especially in urban areas. China’s rapidly growing internet user community and micro-blogging sphere has substantially altered the ability of Chinese citizens to engage in public debate. Because of this, public perception and opinion has also become more volatile, diverse, and unpredictable. The speed and scale with which public discontent can now spread across “online China” has significantly changed the way companies need to engage with and respond to public opinion. With the right understanding and strategy, opportunities for impactful corporate citizenship are numerous. In the worst case, given the expansion of online China, bad or inadequate corporate conduct—perceived or real—can inflict serious damage upon a company’s public image, brand value, government relations, and employee trust.

For multinational corporations (MNCs), one of the lesser known “hard lessons” is how best to spend money on citizenship activities in a meaningful way. Foreign donors are often baffled by the complexity and opacity of the nonprofit sector in China. The structure and regulatory environment governing the sector is also vastly different from the West, making it more difficult for foreign companies to navigate it and gain comfort. Consequently, many MNCs run philanthropy programs that don’t effectively support strategic objectives or exploit the full benefits of myriad, emergent local resources.

This publication aims to inform, educate, and provide practical guidance for effective decision making on corporate philanthropy in China. It examines current trends and key issues in civil society in the Chinese context, and outlines the implications for effective corporate philanthropy engagement in China therein. Part 1 of this publication details what is currently known about the size, scale, and composition of the nonprofit sector and philanthropic giving in China, and provides an overview of the unique features, key stakeholders, and major challenges the Chinese nonprofit sector faces. It also outlines key regulations shaping civil society engagement today, and
explains the particular political context from which they emanated. Part 2 focuses on providing practical guidance to corporate donors on how to address China-specific challenges about how to give, whom to work with, and what causes to support. Key findings of the report are summarized as follows.

- **The rapid growth of China’s nonprofit sector opens up new opportunities for cross-sector engagement, assuming that regulatory and market norms continue to develop favorably.** Over the past 10 years, the number of legally registered NPOs has more than doubled, with nearly half a million organizations operating in China as of 2011. Charitable giving has also increased rapidly over the past five years, from USD 1.6 billion to USD 15.2 billion between 2006 and 2010. For comparison, in 2010, total charitable giving in China was roughly 5 percent of that in the United States. Clearly, assuming an enabling environment, the sector has substantial headroom for continued fast growth. Going forward, and notwithstanding current regulatory and political restrictions, the continued increase and maturation of domestic NPOs should provide easier and better opportunities for companies to forge successful partnerships for their CSR engagement in China.

- **China’s nonprofit sector lacks experienced talent ready and willing to work for NPOs.** This is a—if not the—major obstacle to capacity building. Unlike the United States and many other developed countries, where employment at a reputable nonprofit is often seen as a prestigious career path, nonprofit employment in China does not enjoy the same reputation and career benefits—monetary or otherwise. Current regulations for NPOs effectively stipulate caps for payroll expenses, thereby further aggravating the problem. As companies engage with domestic NPOs, or even contemplate establishing their own corporate foundation in China, it is important to keep in mind that the level of experience, professionalism, and efficiency of local operations may differ significantly from established international organizations.

- **The political context of civil society development in China is vastly different from the West.** This manifests in hugely different structures, practices, and regulatory norms. Understanding the local realities, and the unique challenges they entail, is crucial to effective engagement in China’s nonprofit sector. The sector is governed by its own unique set of rules, largely born out of China’s autocratic, “socialist market” political system. The biggest difference is that the government plays a tripartite role in the civil society sector as stakeholder, regulator, and participant (via government-owned and connected agencies). As such, large parts of the nonprofit sector are effectively under direct government control—and all of the large agencies are government owned and connected. Navigating this environment requires patience and commitment to understanding how things work and being constantly attuned to local circumstances.

- **The current regulatory environment governing the nonprofit sector is highly restrictive and poorly managed.** Despite continuous, incremental regulatory progress, there remain high entry barriers to setting up a NPO in China. These barriers include: an arduous registration process, the necessity for a public sponsoring organization, high minimum membership levels, and high capital and endowment thresholds. There are also numerous restrictions for public fundraising, establishing branch offices, and tax exemption eligibility. Current rules and regulations are restrictive, while lacking clarity and detail in many important areas. A good understanding of China’s regulatory system (both at the national and local level)—and the constraints regulations (or lack thereof) may impose on operations and management of nonprofits—is hugely important for making good decisions on appropriate giving channels and partner organizations and for building and maintaining effective and impactful corporate-NPO partnerships.

- **Public perception and engagement in civil society is an important new driver shaping China’s nonprofit sector—but public opinion can be highly volatile.** Rising living standards have not only focused citizens’ attention on satisfying material needs (such as housing, transportation, quality goods, education, or social security) but have also increased public debate about “immaterial needs” like values, rights, morality, and codetermination. China’s rapidly growing Internet user community and micro-blogging sphere has substantially enhanced the ability of Chinese citizens to engage in public debate over these issues. This development is significantly changing how companies in China need to respond to public opinion and how they need to engage on issues that are perceived as important by the public. For many companies, this will require a stronger focus on engaging and communicating with civil society stakeholders in China.

- **The domestic nonprofit sector increasingly depends on corporate donations and engagement.** There are now numerous opportunities for companies to engage in effective and meaningful philanthropy programs for the mutual benefit of business and civil society. The major change agents in China’s charitable sector are a rapidly growing middle class and, especially, the growing number of successful private entrepreneurs. For this first generation of self-made millionaires and billionaires, the personal motivation to actively engage in philanthropy has been a key driver of growth in both charitable giving and the number of private foundations. The growth in private foundations and overall awareness of philanthropy created by private wealth accumulation in China has led to a continually expanding opportunity set for corporate philanthropy.
• It is important to select giving channels that match a company’s presence, experience, and capability level in China. Given China’s unique operating environment, companies must carefully decide how to best channel their donations, and how actively engaged they want to be with steering those philanthropic contributions. Direct, in-country engagement channels like corporate foundations or direct partnerships with nonprofit organizations require skilled, on-the-ground resources for diligence, oversight, and control. Companies with little to no experience in China may be better advised, at least initially, to make their contributions through international NPOs or intermediaries like Give2Asia, United Way, or GlobalGiving, all of whom have been in China for many years.

• Local engagement requires extensive research and information gathering, as publicly available information is very limited. There is as yet no formal, consistent reporting and data collection system in place for NPOs in China, and therefore limited readily available data for corporate grant makers. There is also no centralized repository like Guidestar for NPOs operating in China on which potential donors can draw for systematic information and/or to identify partners. Significant progress is being made within the foundation sector, for example grant makers now have access to financial and operational data of Chinese foundations through the China Foundation Center’s online database. Some progress has also been made to establish informal online NPO directories. However, readily available data for corporate grant makers is not complete. Significant time will be required to assess and vet domestic organizations prior to engagement.

• There are strong political boundaries that control topics, scale, and amplitude of public debate and nonprofit activity. The independence of China’s civil society sector engagement is still very limited. Generally speaking, the government is supportive of NPOs collaborating on issues that support its own public welfare objectives (e.g., environment, health care, or education issues) but not of NPOs whose activities appear to, or could potentially yield outcomes that, challenge the legitimacy of the government (e.g., NPOs focusing on human rights, legal aid issues, or government transparency). Focus areas will have to be adjusted to conform with this political reality.

• GONGOs or Grassroots? Partner organizations should be selected on the basis of capability to execute on a company’s strategic goals, irrespective of size or affiliation. Although by no means a general rule, many companies choose to donate to or partner with well-known and established large-scale government-backed organizations (i.e., GONGOs), or government affiliates, for their philanthropy initiatives in China. There are a number of reasons for this prevailing practice, including the provision of official receipts for tax deductions to donors, organization stability, stronger legalities, perceived government relations benefits (e.g., with the GONGO stakeholders), and the ability to leverage the size and reach of GONGOs to undertake cross-regional or nationwide programs. Whether this trend will persist, and whether organizations with vested government interests can indeed foster genuine civil society development, remains to be seen. In the meantime, unless companies opt not to engage in China at all, partner or beneficiary selections will have to be made within the current realities. Organizations should be selected that are best suited to successfully implement a company’s philanthropy programs, whether they be government affiliated or not.

• Project planning and management needs to factor in the governance, transparency, and accountability issues of domestic NPOs. Good governance, accountability, and transparency remain huge challenges for NPOs in China. Nonprofit organizations, large and small alike, typically lack appropriate internal controls, recordkeeping, and financial management systems. This situation underscores the essential need for appropriate due diligence in selecting partners or beneficiaries in China, and for persistent oversight and engagement thereafter. More extensive due diligence may also be necessary based on home country regulatory requirements. For U.S. corporate donors, a sufficient level of professional financial accountability and transparency is necessary for equivalence determination and for exercising expenditure responsibility. Many grassroots organizations or small NPOs in China would currently fail to meet the necessary requirements.
Charitable Giving at a Glance—China’s activity as a Percent Share of the United States
(Green circle represents the United States at a value of 100. China values measured in proportion to U.S. giving activity. All numbers for 2010, unless otherwise stated)

The Charities Aid Foundation (CAF) World Giving Index is an average of three measures: the proportion of the public in each of the 153 countries who had, in the previous month, given money to charity; given time to those in need; and helped a stranger.

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Giving</th>
<th>Total Giving as % share of GDP</th>
<th>Number of nonprofit organizations</th>
<th>Number of foundations</th>
<th>Total foundation total assets</th>
<th>Total corporate giving</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>5.2</td>
<td>13</td>
<td>28</td>
<td>3.3</td>
<td>1.5</td>
<td>65%</td>
</tr>
<tr>
<td>China</td>
<td>1.2</td>
<td></td>
<td></td>
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</tbody>
</table>

1 U.S. 2009, China as of November 2011
2 U.S. November 2010 (assets reported on Form 990), China 2010
3 U.S. corporate giving includes corporate foundation giving. It is unclear whether or not corporate giving is included in Chinese corporate giving data.
4 Note that 2010 was a very slow year for donations in the United States due to the ongoing financial crisis. In 2011 the top 50 U.S. philanthropists gave 10.4 billion USD.
5 U.S. 2009, China 2010 data
Corporate giving as a percent share of total giving

5% 60%
U.S China

Chinese corporate giving data includes domestic and international corporate giving.

NPO sector employment as a share of total employment

10% .8%
U.S China

China official statistics are based on employment in legally registered NPOs.


Giving from the top 50 philanthropists in China
36

Corporate foundations average assets
35

Corporate foundations total assets
3

Number of corporate foundations
8
Part I
PHILANTHROPY IN THE CHINESE CONTEXT

Key Trends and Challenges

This section outlines what is currently known about the size, scale, and composition of the nonprofit sector and about philanthropic giving in China, and provides an overview of the unique features, key stakeholders, and major challenges the Chinese nonprofit sector faces. This section also summarizes the key regulations, and explains the unique political context in which they were formed.
The Chinese Nonprofit Sector: Size, Scale, and Capacity

Growing numbers of NPOs

China’s nonprofit sector has grown significantly over the years, both in terms of the number of NPOs operating in China and in terms of total amount of charitable giving. Since 2000, the number of legally registered NPOs has more than doubled, with nearly half a million organizations operating in China as of 2011. Since the 2004 release of the revised regulations on foundation management, the number of foundations has grown at an even faster pace. By the end of 2011, 2,614 foundations were registered in China, more than twice as many as only five years prior (Chart 1). The legal restrictions for nonprofit registration in China (see section on Regulatory Boundaries for more details, page 16) have resulted in a large number of NPOs operating either under commercial business licenses or without any legal registration. Estimates of unregistered or business registered NPOs in China range from 200,000 to up to 1.4 million and even 2.7 million. Despite considerable growth in the sector, for a country the size of China, the number of NPOs is still relatively small compared to nearly 1.6 million IRS-registered NPOs in the United States, among them nearly 100,000 private foundations. Roughly speaking, China has one legal NPO for every 2,900 citizens, while the United States has one for every 200 citizens.

Because of the lack of rigor in the gathering of statistics, the officially reported specific numbers of NPOs provide notional guidance at best. Imperfect as they are, the numbers are useful for observing high-level changes and do provide some understanding of the scale of growth. But while the number the number of NPOs may have grown rapidly, there are large gaps in information about the actual organizational structure, financial situation, and mission of many of these organizations, and about their true engagement in or impact on civil society development. Systematic organization and financial information even for legally registered NPOs is mostly absent, as is any reliable data on China’s large, informal nonprofit sector. In reality, only a small fraction of the legally registered NPOs can be considered suitable partners for MNCs, in terms of organization and operational maturity, entity legitimacy, and/or professionalism. Similarly, the relevance of many small, informal grassroots NPOs for the purpose of corporate philanthropy is also limited, as many still lack the capacity and capabilities needed to effectively execute larger scale projects.

Charitable donations are increasing but volatile

Charitable giving has increased rapidly over the past five years, albeit from a very low base compared to the United States. From 2006 to 2010, total cash and in-kind contributions grew from USD 1.6 billion to USD 15.2 billion, a seven-fold increase in less than five years (Chart 2, page 12). Recent natural disasters, especially the two large earthquakes that shook China in 2008 and 2010, have significantly impacted charitable spending. In both years, charitable giving to disaster relief efforts soared. The two earthquakes also significantly raised general public awareness of charitable giving.

As a reference, the majority of 2010 donations were made in cash, with in-kind contributions accounting for roughly one-sixth of total donations. The majority of in-kind contributions (more than 80 percent) were clothing and food for disaster relief, computers and software for education, and medicine for impoverished areas. Most charitable donations are still channeled through large government-led NPOs, like the Chinese Red Cross and the China Charity Federation, and through organizations with strong state supervision, like university-affiliated research centers. Only a very small fraction goes directly to operating NPOs.
Charitable giving in China is irregular and volatile, and easily swayed by public opinion. In the wake of a series of massive scandals involving fund misappropriations among several large, domestic, government-vested NPOs, giving in 2011 appears to have dropped significantly, highlighting the increasing, deeply rooted mistrust among the public toward government-managed organizations. Preliminary estimations by the China Charity Donation Information Center (CCDIC), a government-affiliated NPO, put total charitable giving in 2011 at RMB 84.5 billion (approximately USD 13.1 billion), which constitutes an 18 percent drop compared to 2010, a year that had seen a double digit rise in donations. Some of this decline is clearly associated with cutbacks in disaster relief. However, if excluding giving to disaster relief efforts, other giving still increased significantly in 2010, but stagnated in 2011.

By international comparison, China’s charitable giving is still low. In 2010, total charitable giving in China was roughly 5 percent of giving in the United States, and on a per capita basis the gap is even more pronounced. Per capita giving was USD 944 in the United States, compared to USD 11 in China. The still-modest scale of China’s nonprofit sector is also clearly reflected in total assets held by foundations. In 2010, private U.S. foundations listed in the Urban Institute’s National Center for Charitable Statistics online database held total assets worth USD 580 billion,9 compared to USD 8.6 billion in total assets held by Chinese foundations (roughly 1.5 percent of their U.S. counterparts). To further put this into perspective, in 2010, total assets held by Chinese foundations were about one-fourth of the total assets held by the Bill & Melinda Gates Foundation.10

Human capital is a key constraint to capacity building

The U.S. nonprofit sector employs a significant share of the U.S. workforce, roughly 10.8 million people in 2010 (roughly 8 percent of total employment).12 China’s nonprofit workforce is still relatively small in comparison. At the end of 2010, around 6.2 million people were working in legally registered NPOs, accounting for less than 1 percent of China’s total employment.13 It is however impossible to estimate the number of people employed in China’s informal or unregistered nonprofit sector.

A major obstacle to capacity building in the Chinese nonprofit sector is the lack of ready, willing, and experienced talent. Unlike the United States, where employment at a reputable nonprofit is seen as a good career path, NPO employment in China does not yet enjoy the same reputation and career benefits. For young workforce entrants, working for a NPO in China usually means a significant compromise in salary and career progression compared to working in the commercial sector.

Based on a survey of 451 NPOs in China conducted by the Narada Foundation and other partner organizations in 2010, less than 20 percent of those working at NPOs in China received monthly gross salaries above 5,000 RMB (approximately 740 USD); while by far the largest share of workers (26 percent) made between 2,000 and 3,000 RMB per month (300-440 USD)—this despite the fact that the vast majority of NPO employees are highly educated (nearly 90 percent of employees aged 25-40 at surveyed NPOs received college or above education).14 Based on official data from the National Bureau of Statistics of China, average monthly wages in urban China in 2010 were 3,045 RMB (approximately 450 USD), but only 20 percent of China’s urban workforce currently has college or above education.15 In addition, the survey results showed that nearly 40 percent of NPO employees were not covered under standard social insurance schemes like pension, health care, work injury, maternity, unemployment, or housing funds.

To be eligible for tax exemption status, current regulations stipulate a limit to staff wage expenditure for NPOs (this...
applies to all legal types of nonprofit organizations, discussed later in the report). Average wage levels within an NPO, including salaries for executive and management positions, cannot exceed twice the amount of average wage levels of the province in which the foundation is registered. Non-wage benefits, on the other hand, are not subject to these strict measures. Instead, the regulation simply notes that benefits should be paid “in accordance with relevant state regulations” without further specification, as is so often the case with Chinese regulations. Current management regulations for foundations further aggravate the problem, as they effectively stipulate a cap on payroll expenses. Under current law, Chinese foundations may not allocate more than 10 percent of total annual expenditure to staff wages and benefits and other overheads. Both rules severely limit the ability of NPOs to recruit and cultivate a qualified workforce, especially for experienced talent. The rules also encourage “gray” HR practices (such as paying off the books) in the nonprofit sector, which are widespread.

State-Civil Society Relationship

Historically, since the first regulations on “social organizations” came out in 1950 and until the late 1980s, organizations working for public benefit were effectively extensions of the state and party apparatus. In fact, during the early period of Chinese communist rule, many previously independent organizations were dismantled or absorbed by the state, with the understanding that organizations providing social services should be part of the government. The nonprofit sector started to reemerge under Deng Xiaoping’s era of socio-economic reforms, and in the late 1980s regulations were enacted to deal with registration and management procedures for “foundations” and “social organizations.” In the wake of these regulations, many public institutions started to set up social organizations and foundations, creating what are usually referred to as GONGOs—government-organized non-governmental organizations. This somewhat misleading name emanates from Western thinking, which tends to equate nonprofit with non-governmental. A less oxymoronic term to describe these types of organizations would be “government-organized nonprofit organizations.” These organizations’ ties to government are typically strong; most have little or no independence from their government sponsor, but that is beginning to change. Some GONGOs today are gaining a degree of independence in both funding and project management. GONGOs play a crucial role in China’s nonprofit sector and to this day, a large share of organizations comprising China’s nonprofit sector are GONGOs. Private individuals and commercial entities were not allowed to establish NPOs until the late 1990s.

Although the reemergence of China’s civil society sector comes in the wake of extensive state sector and social security reforms, it would be wrong to assume that the state is retreating from social services, or that there is any substantive civil movement in opposition to the state. In recognition of mounting social and environmental challenges, recent national policy initiatives have shifted toward more balanced, sustainable economic growth by increasing political focus on social and environmental issues and reforms in “social management.” The government is also encouraging more private sector engagement in solving social and environmental issues, for example through increased scrutiny of CSR-related activities in the business sector. Arguably, both the 11th and 12th Five-Year Plans (FYP) convey serious concerns, presumably on the part of China’s leadership, regarding growing social imbalances. Many objectives of the 12th Five-Year Plan, the most recent, relate to expanding and improving various public social security programs.

Indeed, a whole section of the 12th FYP is dedicated to social management. Within the section, one chapter is focused on reforms relating to NPOs. In December 2011, The Ministry of Civil Affairs (MoCA), the ministry chiefly responsible for civil society issues, released its subsidiary 12th Five-Year Plan, reiterating and detailing key social development objectives. In July 2011, MoCA also released a Five-Year Plan for charity development. Despite the seeming progress, critics caution that many recent documents released by MoCA lack specificity and clarity. Five-Year Plans are typically high-level policy documents, littered with rhetoric and multitudinous objectives. It remains to be seen what objectives, if any, ultimately distill out as being “real,” and how they are actually implemented.

Generally speaking, the activities of NPOs are seen as complementing government efforts (for example, through government outsourcing), not as opposing or replacing them. Overall, the government’s approach to civil society remains ambivalent, at least on the surface. Improving public services and the nonprofit sector, and enabling more non-state engagement in providing much-needed social services, requires significant reform. But vested government interests in the nonprofit sector impede this path. Many recent reform announcements by MoCA and its local agencies reflect the government’s struggle to, on one hand, encourage reform, standardization, and transparency; and on the other, maintain tight control over the sector.
Overview: Terminology and Typology

Civil society development in China does not necessarily follow the models established by Western scholars. Indeed, even in the West, the term “civil society” has no legal or even commonly accepted definition. It is telling that one of the most widely used English language dictionaries, the Merriam-Webster Unabridged Dictionary (online version), does not include the term “civil society” at all, while The International Encyclopedia of Civil Society devotes 1,600+ pages to providing a comprehensive reference work for concepts, theories, definition of terms, biographical entries, and organizational profiles relating to civil society.a

A strong and clear working definition of civil society is provided by the former Centre for Civil Society (CCS) at the London School of Economics and Political Science (LSE):

“Civil society refers to the arena of uncoerced collective action around shared interests, purposes, and values. In theory, its institutional forms are distinct from those of the state, civil society, family, and market are often complex, blurred, and negotiated. Civil society commonly embraces a diversity of spaces, actors, and institutional forms, varying in their degree of formality, autonomy, and power. Civil societies are often populated by organisations such as registered charities, development non-governmental organisations, community groups, women’s organisations, faith-based organisations, professional associations, trades unions, self-help groups, social movements, business associations, coalitions, and advocacy groups.”b

While definitions tend to stress civil society’s independence from the state, many acknowledge the blurred boundaries that—in reality—exist between the spheres of civil society, private sector, state, and family.

The translation of the term civil society into Chinese is controversial. Among the terms more commonly used in current literature are shimin shehui (市民社会, literal translation: “townspeople society”), minjian shehui (民间社会, literal translation: “popular society”), and probably the most widely used term, gongmin shehui (公民社会, literal translation: “citizen society”)—all carrying somewhat different meaning and emphasis of the term in Chinese.c It is widely debated whether the term civil society applies at all in the Chinese context, or whether corporatism more adequately describes most current state-society relations.d Concepts such as “uncoerced collective action” and “institutional forms distinct from those of the state” as stated in CCS’s definition are undoubtedly highly problematic in China.

The regulatory environment and structure of the civil society sector in China is vastly different from the West, as is the terminology and typology used to describe the sector and its constituents. The organizational structures and orientations of NPOs in China are deeply connected to China’s political system and the assumed role of government in overseeing and managing civil society development.

The common Western understanding of civil society organizations as being disengaged from and sometimes even opposing the state rarely applies in the Chinese context; and, it may be argued, does not apply to many other countries with less participatory political systems.e Most legally registered, government-led organizations as well as the many “commercially registered” grassroots organizations in China would not be considered NPOs in the Western sense. But these organizations do in fact play the role of NPOs.f

In China, the government plays the tripartite role of regulator, stakeholder, and direct participant of civil society.g As a consequence, the institutional boundaries between the state and civil society sector are blurred. As two experts in this field put it, “entities range in their distance from the state, from those that were initially established by and continue to receive guidance and funding from the government to those ‘bottom[s]-up’ organizations initiated by ordinary citizens and receiving no state assistance.”h

While it may well be argued that the term “civil society” should be avoided altogether in the context of Chinese GONGOs, for the sake of simplicity and ease of reading, this report adopts a broad definition of civil society that acknowledges the blurred boundaries between civil society and the state in China.i

Nevertheless, despite much bottoms-up activity, the majority of NPOs in China today was either setup by or is affiliated with the government. Broadly speaking, there are six types of organizations engaged in public benefit activities in China.
Public institutions (PIs), shiye danwei (事业单位): quasi-government public service agencies providing services in areas such as education, social welfare, or health care (for example public hospitals, universities, and research institutes).

Social organizations (SOs), shehui tuanti (社会团体): non-profit membership associations (often GONGOs because registration is hard to obtain without some form of government affiliation).\(^k\)

Civil non-business institutions (CNIs), minban feiqiye danwei (民办非企业单位): similar to nonprofit service providers, such as private schools for migrant children or the disabled.

Public fundraising foundations, gongmu jijinhui (公募基金会): largely GONGOs or otherwise government affiliated, allowed to publicly raise funds.

Non-public fundraising foundations, feigongmu jijinhui (非公募基金会): mostly private, although some are not.

Unregistered or business-registered NPOs: mostly grassroots organizations that are not registered at all with authorities or are registered as commercial businesses, but that in fact operate as NPOs.

It is helpful to differentiate the universe of NPOs in China based on their independence (whether a NPO is government-led/affiliated or not) as well as based on their legal status (whether a NPO is formally registered under relevant Chinese laws or not). However, even these demarcations are not entirely determinate.

As of yet, there is no standardized terminology to refer to NPOs in Chinese. Various terms, such as minjian zuzhi (民间组织, which literally translated means “popular organization”), feijingli zuzhi (非营利组织, “nonprofit organization”), shehui zuzhi (社会组织, “social organization”), and gongyi zuzhi (公益组织, “public welfare organization”) are all used more or less interchangeably in current literature. Various other terms exist to distinguish between organization types and affiliations, for example caogen (草根) for grassroots organizations. The official term for non-governmental organizations—feizhengfu zuzhi (非政府组织)—is somewhat awkward in the Chinese language, as the term may easily be translated to imply an “anti-government organization,” and is therefore less frequently used.\(^a\)

For the sake of clarity and consistency, this report employs the term nonprofit organization (NPO) throughout, and refrains from using the term non-governmental organization (NGO). NPOs include public and non-public fundraising foundations, social organizations, civil non-business institutions, and unregistered or business registered NPOs working in the public interest. They exclude public institutions, such as public hospitals, universities, and research institutes (although some Chinese statistics on charitable giving include giving to public institutions).

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\(^b\) Archived webpages of the Centre for Civil Society, (http://www.webarchive.org.uk/wayback/archive/20100820110531/http://www.lse.ac.uk/collections/CCS/introduction/what_is_civil_society.htm)


\(^h\) Jilian S. Ashley and Pengyu He, “Opening One Eye and Closing the Other: The Legal and Regulatory Environment for ‘Grassroots’ NGOs in China Today,” Boston University International Law Journal 26, No.29 (2008), p.34.


\(^j\) In fact, much recent scholarly work has adopted this position toward civil society engagement in China, see for example Karla W. Simon’s work cited previously in this section.


Narrow but Vague Regulatory Boundaries

Despite some regulatory progress, high entry barriers remain to setting up a NPO in China. The challenges include an arduous registration process; finding and co-opting a public sponsorship organization; and high minimum membership, capital, and endowment thresholds. Guiding laws and regulations are also complicated and duplicitous. In addition to the administration and management regulations governing NPOs, other laws affecting civil society engagement are the previously mentioned Public Welfare Donation Law (PWDL), relevant tax laws (which outline tax benefits for charitable contributions of individual and commercial entities), and the Trust Law, which includes rules for charitable or public welfare trusts. The following section outlines the key features of these relevant laws and regulations.

Legal boundaries to focus areas

China’s current Public Welfare Donation Law (PWDL) defines permissible public welfare activities to include:

1. Disaster relief, poverty alleviation, and assistance to the disabled, etc.
2. Education, scientific, cultural, public health, and athletic activities
3. Environmental protection and construction of public facilities
4. Other public welfare undertakings promoting social development and progress

This necessarily means that NPO aspirants seeking to undertake activities outside of areas (1) to (3) would find it very hard to get licensed, for example those involved in public advocacy, activism, family affairs, marginalized communities, worker rights, human rights, legal affairs, religious affairs, etc.

The independence of China’s civil society sector is thus very limited. Strong political boundaries control the topics of public debate and nonprofit activity. Generally speaking, the government is supportive of NPOs that contribute to its stated public welfare agenda (e.g., the environment, health care, and education). But the government is not at all supportive of NPOs that contend with or challenge the legitimacy of the government or the party (e.g., NPOs focusing on human rights or legal aid issues). What is more, local governments tend to follow their own agendas in terms of what organizations and focus areas are looked upon favorably.

Dual management

In order to legally operate, NPOs must register with the Ministry of Civil Affairs and at the same time place themselves under the sponsorship of a relevant government department or unit. These are usually central and local government agencies responsible for the applying organizations’ focus area. This constitutes the so-called
“dual management system.” Many NPOs are unable to legally register, despite being otherwise eligible under the law, because they can’t find a government agency willing to take on sponsorship. Thus, the independence of legal NPOs is significantly impaired as they have to go through a political approval process in order to operate in China. Notably, provincial level requirements in several provinces—most notably in Guangdong—are now set significantly below these national requirements. In response, there is considerable new, NPO registration activity happening at the provincial level.

Minimum capital, endowment, and membership thresholds
High membership and capital thresholds and minimum spending requirements are imposed upon registration. For example, registering a social organization requires more than 50 individual members, or more than 30 institutional members. National public fundraising foundations have minimum capital requirements of RMB 8 million (4 million if registered at the local levels); non-public fundraising foundations need a minimum of RMB 2 million in capital to legally register, and the original funds must be retained in their current accounts. These requirements favor large-scale NPOs and hinder smaller, private NPOs from being able to legally register.

Fundraising limitations
With the exception of public foundations, most NPOs in China are prohibited from directly engaging in public fundraising activities—i.e., any “public” request for donations (online, posted, advertised, event-based, etc.). The ability to raise public funds thus remains pretty much limited to the GONGOs. Recently, a small number of large private foundations were able to gain public fundraising status (among them Jet Li’s One Foundation); and recent regulations in Guangzhou appear aimed at easing current fundraising restrictions. But because of high initial endowment requirements for public foundation registration, the ability of small, grassroots NPOs to engage in public fundraising is basically nil. Most smaller NPOs thus run on a shoestring budget and rely on foreign donors and foundation grants in a very hand-to-mouth way.

No competition rules
Regulations for social organizations and CNIs contain provisions that can be used to limit the number of organizations registered in one jurisdiction from working in the same field (e.g., helping migrant children). This is a strong control mechanism that basically allows the MoCA to arbitrarily control the number of NPOs in any given jurisdiction or service area.

Rules against branching out
Social organizations are not allowed to branch out beyond the registered region of their sponsor, while CNIs are not allowed to set up branch offices, even within their registered region. These regulations severely limit the ability of NPOs to scale up, and constrain regionally registered NPOs from operating pan-regionally or nationwide.

Tax exemption and tax deductibility
Current tax regulations allow for a maximum of 12 percent of a company’s annual profit to be tax deductible for charitable purposes, while the maximum threshold for individual income is 30 percent. However, legal registration is a precondition for NPOs to apply for a tax exemption certificate, which in turn enables them to provide official receipts for tax deductions to donors. In practice, even many legally registered NPOs are not able to issue a tax-deductible receipt. Therefore, the ability to register and successfully apply for a tax exemption certificate plays a hugely important role in attracting donors. At present there are only 120 NPOs registered at the national level that qualify for this status, though many more qualify at the provincial or local level.

Internal governance, financial standards, and transparency
Good governance, accountability, and transparency are huge challenges for NPOs in China. Foundation regulations contain much detail on organization and structure, management and use of assets, and monitoring and reporting requirements. However, such details don’t exist for either social organizations or CNIs. Accordingly, huge progress has been made in making the basic annual financial data of foundations publicly available, while fund management and financial information for other NPO types is mostly absent. Several recent regulations on accounting, disclosure, and fundraising measures for different types of NPOs have been issued, but overall the progress in promoting better governance and transparency remains limited. The government recently issued “Guidelines for Information Disclosure for Public Welfare Charitable Donations,” covering issues like disclosure, fundraising, funds distribution timeliness, and accuracy of disclosed data. However, it is unclear to what extent these guidelines will have legal effect.
Exempted organizations

Several large-scale organizations like the Chinese Red Cross are governed by their own set of rules and exempted from current nonprofit regulations. This not only creates numerous problems of supervision and accountability for these types of NPOs, but it also fosters quasi rent-seeking practices whereby exempted organizations take advantage of small organizations unable to otherwise register by offering semi-official registration status in exchange for membership fees.\(^{32}\)

Outlook: progress at the local levels, stalled national level legislation

In addition to a long, complicated registration process, regulatory barriers also hinder diversity in the sector overall as aspirants necessarily apply a significant amount of self-censorship and avoid controversial roles and missions in their applications.\(^ {33}\)

Regulatory reform experiments at the local levels continue to progress (i.e., experiments that may ultimately serve to inform national reform). For example, recent reform announcements were made to remove or partially remove the dual management requirement for nonprofit registration in Guangdong, Shanghai, Beijing, Jiangsu, and Yunnan.\(^ {34}\)

Further local reforms regarding nonprofit management have been announced in Jiangsu, Yunnan, Ningbo, Hunan, Ningxia, Henan, and the Guangzhou municipality. National level legislation, however, appears to remain stalled. Despite rumor machines running full steam since last year, long-awaited revisions to the current regulations governing social organizations, foundations, and CNIs as well as the long-awaited charity law have not yet been released (although, finally, a new draft version of the charity law was submitted to the State Council on June 4, 2012\(^ {25}\)).\(^ {36}\)

Given the number of widely publicized scandals in relation to nonprofit mismanagement among large GONGOs like the Chinese Red Cross Society and the Henan Soong Ching Ling Foundation, pressure has increased to release clearer and stricter regulations for the management of NPOs in China.\(^ {37}\) Clearly, a critical success factor for China’s nonprofit sector is to sufficiently increase the transparency in the sector such that public trust can be established, for government-affiliated and private NPOs alike. However, long-nurtured mistrust between the government and the nonprofit sector and a deep mistrust by the public toward NPOs that are run with government backing make reform of the sector hugely difficult. To quote from an article published by China Policy, “...[the] recent loss of trust in the philanthropic sector has been traced back to ‘social organizations’ [...] being by and large seen as remote arms of government agencies, with the same scope for rent-seeking and outright corruption.”\(^ {38}\)

As of now, NPOs in China operate in a murky regulatory environment, often without a clear understanding of what is unequivocally allowed or prohibited under the law, or what is acceptable or tolerated irrespective of the law.

Increased Engagement: The Public, Media, and the Internet

Public perception and engagement in civil society is an important driver shaping China’s nonprofit sector. Fueled by enormous economic growth over the past two decades, China has seen an unparalleled decline in poverty levels, and people’s average living standards have improved significantly. But these dramatic gains have come at a high cost. Decades of industry-driven growth have caused massive environmental destruction and degradation. Rapid development has also brought about increased social inequalities and a widening gap in living standards between the affluent and the poor, as certain population groups and regions have benefited disproportionally from economic development. In today’s China, socioeconomic disparities manifest themselves in a widening wealth gap as well as in unequal access to education, social security, and health care services.

Discontent is not only growing among those at the short end of China’s economic success. Overall, expectations in Chinese society regarding quality of life and entitlements for a safe and clean living environment have changed much over the last two decades in China in tandem with changing material conditions—especially in urban areas. Rising living standards have not only brought demands of satisfying material needs such as housing, transportation, quality goods, education, or social security, but have also increased public debate about immaterial demands like values, rights, and codetermination.

China’s rapidly growing internet user community and micro-blogging sphere has substantially altered the ability of Chinese citizens to engage in public debate. Because of this, public perception, opinion, and engagement has also become more volatile, diverse, and unpredictable. The speed and scale with which public discontent can now spread across online China has significantly changed the way companies need to engage with and respond to public opinion. In the worst case, bad corporate conduct, perceived or real, can inflict serious damage upon a company’s public image, brand value, government relations, and employee trust in China.
Although the media sector remains tightly controlled by the government, increased public debate has also been enabled by changing permissiveness in media coverage. Wider berth is now given for coverage of environmental pollution cases, social security issues, and corporate (mis)conduct. That said, genuinely open debate remains significantly constrained by the political boundaries that essentially control the topics, scale, and amplitude of public debate.

Entrepreneurs and Corporate Philanthropy

Major change agents in the charitable sector are China’s growing middle class and especially the growing number of nouveau riche. The personal motivation of these first-generation self-made millionaires and billionaires to actively engage in philanthropy has been a key driver of growth in charitable giving and the number of private foundations. Based on the latest Hurun Wealth Report, published by Hurun Report, a publishing group well known for tracking changes amongst China’s high net worth individuals, China counted roughly 1 million individuals with personal wealth of RMB 10 million or more in 2010. The report further estimated that within that group there are around 4,000 billionaires. According to Hurun Report’s 2010 Philanthropy List, China’s top 50 philanthropists donated nearly USD 1.2 billion in 2010, already one-third of what the top 50 philanthropists in the United States donated in 2010. The money donated by these 50 Chinese philanthropists alone accounted for 8 percent of total charitable giving in China (compared to 1 percent in the United States).

Unlike the United States, where by far the largest share of charitable giving comes from individual donors, corporate giving is the major driver behind charitable giving in China. In 2010, corporate donations in and to China totaled USD 10 billion, accounting for 66 percent of total giving, compared to just 5 percent in the United States. While the total level of corporate donations is significant, and is fast approaching U.S. corporate giving levels, it is still relatively small compared to the overall size of the Chinese economy. Total charitable giving as a percent share of GDP in 2010 was 2 percent in the United States, compared to only 0.26 percent in China.

Chinese taxonomy defines two broad types of corporate donors, and a variety of ownership types:

1. international corporate donations to China from companies outside of China, which would presumably include (at least a certain share of) grants from corporate foundations based in the United States; and

2. domestic corporate donations from state-owned enterprises (SOEs), private companies, foreign-invested enterprises (FIEs), and companies from Hong Kong, Taiwan, and Macao. State-owned enterprises and private companies are further divided into publicly listed and un-listed companies.

Foreign companies contribute a significant share of total corporate donations in China. Donations from foreign companies based in China (including companies from Hong Kong, Taiwan, and Macao) totaled USD 1.1 billion in 2010, while donations from international corporations (based outside of China) totaled USD 1.2 billion. Together, they account for 22 percent of total corporate donations.

The largest group of Chinese corporate donors is made up of domestic private companies, which accounted for 57 percent of total corporate donations in 2010. Due to the discretionary influence the government can exert on SOEs, the state-owned sector is an important contributor as well. State-owned enterprises accounted for 19 percent of total corporate donations in 2010. Preliminary data for 2011 shows a significant decline in giving from private companies, and a slight increase in giving from foreign companies operating in China.

![Chart 3](chart3.png)

**Corporate giving in China, by company type**

(Values in billions, not adjusted for inflation)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>International corporate donations</td>
<td>RMB 8.1 (USD 1.2)</td>
<td>RMB 7.13 (USD 1.1)</td>
</tr>
<tr>
<td>Domestic state-owned enterprises</td>
<td>RMB 13.1 (USD 1.9)</td>
<td>RMB 11.6 (USD 1.7)</td>
</tr>
<tr>
<td>Domestic private companies</td>
<td>RMB 28.6 (USD 4.4)</td>
<td>RMB 28.1 (USD 4.4)</td>
</tr>
<tr>
<td>Domestic foreign-invested companies</td>
<td>RMB 8.9 (USD 1.4)</td>
<td>RMB 8.9 (USD 1.4)</td>
</tr>
</tbody>
</table>

1. International corporate donations are defined as donations from companies outside China with full or partial foreign ownership, operating in China. Domestic corporate donations refer to companies from China, including state-owned, private, and foreign-invested companies.

Note: Donations from “domestic foreign-invested companies” are defined as coming from companies with full or partial foreign ownership, operating in China. "International corporate donations" are defined as donations from companies outside Mainland China.

Sources: China Charity Donation Information Center, The Conference Board
The continued rises in average living standards in China are being naturally accompanied by the withdrawal of official development assistance (ODA) and grant money from other large donors like international NGOs. As of October 2011, China is classified under the “upper middle income country” class in the Development Assistance Committee (DAC) List of ODA recipients, the highest income category on the DAC list (among other countries on this list: Argentina, Brazil, Turkey, Malaysia, South Africa).48 Official aid to China has thus declined significantly; down from nearly USD 2.2 billion in 2001 to USD 670 million in ODA disbursements in 2010 (Chart 4).49 This changing aid landscape is forcing domestic NPOs to look increasingly toward new donors, such as the government (e.g., through outsourcing of social services), foundations, and corporations. Going forward, China’s private sector will no doubt play a big and increasing role in funding NPO activities. Increased private sector involvement will inevitably increase and expand the debate about the role of civil society overall in China’s development, but also the roles, links, and requirements for the sector’s expanding set of non-government participants.

Conclusions

- The rapid growth of China’s nonprofit sector opens up new opportunities for cross-sector engagement, assuming that regulatory and market norms continue to develop favorably. By international comparison, China’s nonprofit sector is underdeveloped and charitable giving is still low. But as the past 10 years have shown, along with the sector’s growth, giving patterns among wealthy individuals and corporations are changing quickly. Clearly, assuming an enabling environment, the sector has substantial headroom for continued fast growth. Going forward, and notwithstanding current regulatory and political restrictions, the continued increase and maturation of domestic nonprofit organizations should provide easier and better opportunities for companies to successfully partner with domestic NPOs for their CSR engagement in China.

- China’s nonprofit sector lacks experienced talent ready and willing to work for NPOs, creating a huge obstacle to building capacity. Current nonprofit regulations severely hinder NPOs’ ability to offer professional organizational structures, legal employment conditions, or competitive compensation to their employees. Without the ability to grow a qualified workforce, China’s nonprofit sector will continue to face severe challenges to advancing and professionalizing their operations. As companies engage with domestic NPOs, or even contemplate establishing their own corporate foundation in China, it is important to keep in mind that the level of experience, professionalism, and efficiency of local operations may differ significantly from established, international organizations.

- The political context of civil society development in China is vastly different from the West. This manifests in hugely different structures, practices, and regulatory norms for the nonprofit sector. Understanding the local realities, and the unique challenges they entail, is crucial to effective engagement in China’s nonprofit sector. The Chinese nonprofit sector is governed by its own unique set of rules, largely born out of China’s autocratic, “socialist market” political system. As such, large parts of the nonprofit sector are effectively under direct government control. There are currently very few truly independent NPOs in China, and most of them are small and/or informal, and there is typically very little information about the organizational structure, governance framework, financial situation, or even the mandate of most Chinese NPOs—much less information on their allocation of funds. The situation is improving, but
these features will necessarily take time to normalize. The good news is that it is possible to identify and perform due diligence on partners, and navigate the various domain risks affiliated with political intervention in the system. However, doing so requires a commitment to understanding how things work, and being constantly attuned to local circumstances. It is possible to deeply understand the local domain, even though it is very different.

• The current regulatory environment governing the nonprofit sector is highly restrictive and poorly managed. NPOs in China have to navigate an often unclear regulatory environment where ambiguously written rules and regulations make it difficult to operate. Generally speaking, current regulations favor large-scale, government-backed organizations, and constrain small NPOs by making it hugely difficult for them to both enter the market and scale up thereafter. This leads to the unusual outcome of government-run or affiliated NPOs being the dominant recipients of philanthropic monies. A good understanding of China’s current regulatory system (both at the national and local level)—and the constraints regulations (or lack thereof) may impose on operations and management of nonprofits—is hugely important for making good decisions on appropriate giving channels and partner organizations and for building and maintaining effective and impactful corporate-NPO partnerships. Much can be learned by studying historical precedent, learning from other companies’ experiences, and sharing information and insight via association networks.

• Public perception and engagement in civil society is an important new driver shaping China’s nonprofit sector—but public opinion can be highly volatile. With rising living standards, awareness and expectations of material and immaterial needs are changing fast in China. At the same time, social media has fundamentally altered the ability of Chinese citizens to engage in public debate. A growing number of incidents of bad corporate conduct are being exposed through online citizen journalism. This development is significantly changing how companies in China need to respond to public opinion, and how they need to engage on issues that are perceived as important by the public. Constant vigilance is required to track the pulse of public opinion—and where possible, harness positive trends and/or prevent direct or collateral damage from unfavorable sentiment swings. For many companies, this will require developing new ways of engaging and communicating with civil society stakeholders.

• The domestic nonprofit sector increasingly depends on corporate donations and engagement. There are now numerous opportunities for companies to engage in effective and meaningful philanthropy programs, for the mutual benefit of business and civil society. The growth in private foundations and overall awareness of philanthropy created by private wealth accumulation in China has led to a continually expanding opportunity set for corporate philanthropy. Not only is charitable giving from private and corporate donors increasing, but domestic NPOs increasingly depend on contributions from donors outside the sphere of traditional donors. Corporations, and the privately wealthy, are thus poised to play a major role in shaping the development of civil society in China. This role will require not only increased funding, but also good thinking about optimal alignment strategies between the private sector and the government in relation to civil society development.
Part 2
CORPORATE PHILANTHROPY ENGAGEMENT

Key Challenges, Practical Responses

This section provides practical guidance on how to address China-specific challenges about how to give, whom to work with, and what causes to support.
The Current Practice of International Corporate Giving

It stands to reason that a company’s community engagement should roughly align with its global business footprint. However, this is apparently rarely the case in practice. Moreover, most companies do not have a concrete formula or policy regarding what percent of their total giving should be international or country specific. Nonetheless, most do give internationally:

- Based on The Conference Board Annual Contributions Survey, 50 percent of surveyed U.S. companies reported making international contributions in 2010. The larger the international giving program, the more giving tended to go to China as a share of total giving. For U.S. companies with international giving programs of USD 20 million or more, 15 percent of giving on average went to China.50

- Based on the annual contributions survey conducted by the Committee Encouraging Corporate Philanthropy (CECP), the typical U.S.-based company provided 12 percent of its total giving to international end recipients in 2010.51

- Based on an annual survey conducted by The Conference Board China Center among 120 foreign companies operating in China, the vast majority surveyed engage in some form of philanthropy in China. In 2010, 78 percent of foreign companies surveyed claimed to provide cash contributions, while 66 percent claimed to also provide in-kind contributions.52

The average charitable giving of foreign companies in China varies widely, depending largely—but not solely—on company size. According to data from the China Charity Donation Information Center (CCDIC), Bayer Healthcare was China’s largest foreign (and in fact largest overall) corporate donor, donating the equivalent of USD 193 million in 2010. Bayer was followed by Cisco, Amway, Eland, HSBC, Coca-Cola, Samsung, Daimler, Yum! Brands, and Toyota (Table 1, page 24). There are no distinct patterns as to how much corporations generally tend to give relative to the size of their presence in China. For China’s largest foreign donors, giving in China as a share of their China revenues ranged between 0.04 and 1.15 percent.53

Overall, a large share of corporate donations in China comes from a relatively small group of donors. For foreign companies in China, nearly one-third of total donations made in China in 2010 were made by the 10 largest donors.

Corporate Giving Benchmarks: China versus the United States

Generally speaking, Chinese companies’ average annual spending on philanthropy is significantly below that of U.S. companies. Based on data extracted from Bloomberg’s ESG database, which tracks environmental, social, and governance data of publicly listed companies globally, median charitable spending in 2011 was USD 13 million for U.S. companies, but only USD 300,000 for Chinese companies (or 2.3 percent of U.S. median spending) (Chart A). Similarly, for Chinese companies listed on stock exchanges in Shanghai or Shenzhen, and for which data is publicly available, median charitable spending was USD 250,000 per year. Accordingly, Chinese companies also spend a much smaller share of their annual revenues on charitable giving, while Chinese companies spent 0.2 percent of their annual FY11 revenues on charitable giving, while Chinese companies spent 0.02 percent on average.8

![Chart A: Median corporate giving, selected indexes](chart.png)

<table>
<thead>
<tr>
<th></th>
<th>Median giving, selected indexes</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500¹</td>
<td>19</td>
</tr>
<tr>
<td>Russell 1000¹</td>
<td>14</td>
</tr>
<tr>
<td>Bloomberg ESG 3000: U.S. companies²</td>
<td>13</td>
</tr>
<tr>
<td>Bloomberg ESG 3000: Chinese companies²</td>
<td>30</td>
</tr>
<tr>
<td>Securities listed on Chinese stock exchanges²</td>
<td>25</td>
</tr>
</tbody>
</table>

¹FY10 or latest data available  
²FY11 or latest data available

Note: Benchmarking comparisons are made across the S&P 500 index, composed of large-capitalization U.S. companies only; the Russell 1000 index, also a market cap-weighted index of U.S. equities only; and a selection of 3,000 U.S. and non-U.S. companies for which Bloomberg tracks ESG data (i.e., the “Bloomberg ESG 3000”). Data from companies in the Bloomberg ESG 3000 index are compared between U.S. constituents and Chinese constituents of the index. In addition, data was analyzed from securities listed on Chinese stock exchanges in Shanghai and Shenzhen. “Median giving” is used instead of “average giving” to avoid upward bias due to outliers.

Sources: Bloomberg, The Conference Board
Table 1  Top 10 corporate donors in China, by company ownership type, 2010

<table>
<thead>
<tr>
<th>English name</th>
<th>Chinese name</th>
<th>Total donations (in millions, USD)</th>
<th>Donations as a percent share of China's revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Listed companies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>China Shenhua Energy Company Limited</td>
<td>中国神华能源股份有限公司</td>
<td>$71.8</td>
</tr>
<tr>
<td>2</td>
<td>China National Petroleum Corporation</td>
<td>中国石油天然气集团公司</td>
<td>55.1</td>
</tr>
<tr>
<td>3</td>
<td>Zijin Mining Group Company Limited</td>
<td>紫金矿业集团股份有限公司</td>
<td>46.0</td>
</tr>
<tr>
<td>4</td>
<td>Sinopec</td>
<td>中国石油化工股份有限公司</td>
<td>26.1</td>
</tr>
<tr>
<td>5</td>
<td>China Minsheng Banking Corp. Ltd.</td>
<td>中国民生银行股份有限公司</td>
<td>22.0</td>
</tr>
<tr>
<td>6</td>
<td>Guangdong Midea</td>
<td>广东美的电器股份有限公司</td>
<td>16.1</td>
</tr>
<tr>
<td>7</td>
<td>Inner Mongolia Yitai Coal Co. Ltd.</td>
<td>内蒙古伊泰煤炭股份有限公司</td>
<td>15.0</td>
</tr>
<tr>
<td>8</td>
<td>Bank of China</td>
<td>中国银行股份有限公司</td>
<td>12.1</td>
</tr>
<tr>
<td>9</td>
<td>Wuliangye Group</td>
<td>宜宾五粮液股份有限公司</td>
<td>10.8</td>
</tr>
<tr>
<td>10</td>
<td>Shanxi Coal International Energy Group Co. Ltd.</td>
<td>山煤国际能源集团股份有限公司</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>State-owned enterprises</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Shenhua Group Corporation Limited</td>
<td>神华集团</td>
<td>153.4</td>
</tr>
<tr>
<td>2</td>
<td>China National Petroleum Corporation</td>
<td>中国石油</td>
<td>71.0</td>
</tr>
<tr>
<td>3</td>
<td>China Telecom</td>
<td>中国电信</td>
<td>49.1</td>
</tr>
<tr>
<td>4</td>
<td>China Southern Power Grid</td>
<td>南方电网</td>
<td>36.2</td>
</tr>
<tr>
<td>5</td>
<td>China National Offshore Oil Corp.</td>
<td>中国海油</td>
<td>34.3</td>
</tr>
<tr>
<td>6</td>
<td>Sinopec Group</td>
<td>中国石化</td>
<td>27.5</td>
</tr>
<tr>
<td>7</td>
<td>China Huaneng Group</td>
<td>中国华能</td>
<td>17.8</td>
</tr>
<tr>
<td>8</td>
<td>China Three Gorges Corp.</td>
<td>三峡集团</td>
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</tr>
<tr>
<td>9</td>
<td>China Mobile</td>
<td>中国移动</td>
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<td>China Huadian Corporation</td>
<td>中国华电</td>
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<td>思科系统 (中国) 网络技术有限公司</td>
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<tr>
<td>4</td>
<td>Eland China</td>
<td>中国衣恋集团</td>
<td>9.7</td>
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<td>5</td>
<td>HSBC China</td>
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<td>Coca-Cola China</td>
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<td>7.4</td>
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<td>7</td>
<td>Samsung China</td>
<td>中国三星</td>
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<tr>
<td>8</td>
<td>Daimler</td>
<td>戴姆勒东北亚及梅塞德斯-奔驰</td>
<td>4.4</td>
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<tr>
<td>9</td>
<td>Yum! Brands Inc.</td>
<td>百盛餐饮集团中国事业部</td>
<td>3.9</td>
</tr>
<tr>
<td>10</td>
<td>Toyota China</td>
<td>丰田汽车 (中国) 投资有限公司</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Sources: China Charity Donation Information Center, publicly available revenue data; The Conference Board
A confluence of reasons typically contributes to determining the level of giving to a specific territory or country. Companies tend to consider:

- Local business presence (e.g., by revenue or employee size)
- The number of years involved in the country or region
- The strategic significance of the country or region (e.g., based on business growth or long-term strategic importance)
- The need for specific strategic projects (e.g., if HIV-AIDS is a strategic focus of a pharmaceutical company’s global philanthropy program, then funding shares may be based on need considerations of China in regards to HIV-AIDS versus other regions)

**International Giving Mechanisms**

Generally speaking, foreign companies tend to use one (or a combination of) the following giving mechanisms to donate money to Chinese NPOs:

- Give through a foreign-based charity that runs international programs (e.g., give to a U.S. organization with IRS-recognized public charity status that runs China programs)
- Donor-advised funds through intermediaries like Give2Asia or United Way
- Direct cross-border grants to eligible NPOs in China (i.e., direct from corporate or through their own foreign-based foundation)
- Direct domestic grants/donations to eligible NPOs in China through corporate subsidiary(ies) in China
- Grants/donations through their own China corporate foundation
- Grants/donations through a “special fund” set up under an existing Chinese foundation

Giving through foreign headquarters, foundations, or intermediaries is more common among companies with little or no direct presence in China or for companies with no resources on the ground dedicated to CSR or philanthropy. Companies with subsidiaries and a significant presence in China tend to choose more direct, in-country approaches. Notably, the last option in the list (i.e., grants/donations through a “special fund” under an existing Chinese foundation) provides a good opportunity for companies to pursue their charitable goals without having to set up their own foundation. As some legal experts describe, under a formal arrangement with a registered Chinese public foundation (for example the China Red Cross or the China Soong Ching Ling Foundation) a foreign corporate donor can set up a discrete donor sub-account within the foundation, which, for a maximum fee of 10 percent, receives funds for a specific project from the corporate donor. The relative advantage of such an arrangement is that it does away with the burden-some registration process of setting up a corporate foundation, while offering certain privileges (for example public fundraising, if the account is set up under a national public fundraising foundation) that a non-public foundation setup would not be able to provide. Corporate foundations are mostly set up as non-public foundations, and are therefore not allowed to conduct public fundraising activities.

The decision as to what giving channel is most appropriate largely depends on the specific circumstances and strategic goals of the company. The following key considerations should be taken into account:

- **Appropriate level of giving** Consider if current giving patterns and resources devoted to domestic philanthropy efforts accurately reflect the current and/or future strategic significance of China to the business. Conducting an internal benchmarking exercise can be helpful in assessing strategic importance versus current spending, and in gaining internal alignment. External benchmarking can also be helpful to assess what and how peers (and competitors) are spending on philanthropy in China.

- **Presence in and familiarity with China** Does the company have local China staff and resources dedicated to CSR or philanthropy? If not, leaders should carefully consider how familiar global staff is with the Chinese environment, and how much time they have to oversee China activities. As a rule, China always requires more managerial oversight than warranted by the size of the business, project, program, etc. Giving through trusted foreign-based charities that run programs in China, or through an intermediary, can reduce complexities in China (but may not entirely do away with oversight requirements); for example: murky due diligence exercises, finessing confusing tax/legal requirements, equivalency determination, and expenditure responsibility.

- **Desired level of involvement and feasible time commitment to project/program** Companies should consider whether they prefer a close project relationship with the partner organization or not, and whether or not the necessary internal resources (financial and otherwise) are in place to support and sustain such a partnership domestically. Companies should weigh the costs and available resources against potential benefits and impact, short and long term. Long-term strategic partnerships tend to yield higher long-term impact. However, they necessarily require a clearly formulated philanthropy strategy (globally and/or locally) with clear goals as to desired impact of the investment, a properly resourced team, and a good understanding of the Chinese nonprofit environment (or at least a commitment to developing a good understanding).
• Costs and benefits of corporate foundations

As of now, only a handful of foreign companies have set up fully fledged corporate foundations under Chinese law. A few more have established representative offices to undertake planning and development efforts, a typical precursor step to establishing an on-the-ground operational presence. Companies should carefully weigh the anticipated operational costs versus the benefits of a domestic foundation. Cost estimates should factor in the aforementioned regulatory hurdles for registration, myriad operational restrictions, and human resource challenges—all of these tend to make China an expensive place and a time-consuming one in which to operate a foundation. If timing and direct oversight is not of the essence, then it may be sensible to wait for prevailing foundation regulations to mature somewhat before entering.

Information Gathering and Partner Search

The general lack of transparency, oversight, and good governance in the Chinese nonprofit sector, and the large number of unregistered NPOs, severely limits the availability of accurate organizational and financial information on NPOs. Even the official aggregate data on legally registered NPOs published by MoCA are riddled with gaps and inconsistencies. This paucity of data makes detailed sector analysis extremely difficult, if not impossible, and in consequence impedes efficient (and comfortable) decision making on the donor side.

There is currently no centralized repository like Guidestar for NPOs operating in China that potential donors can use to gather systematic information and conduct partner searches. Indeed, most of the NPOs operating in China do not even have an online presence. This obviously complicates partner identification and due diligence. Information in English, targeted at international private donors, is even more limited. While Guidestar International has launched in India, and is under development in South Korea, it is currently not available in China. Several independent and government-affiliated sources attempt to provide data and information on the nonprofit sector (however data

Corporate Foundations in China

Corporate foundations only started to emerge in China in 2004, after the government passed regulations specifically addressing the right to set up foundations by commercial entities. Since then, their numbers have grown rapidly, and several large Chinese companies, for example Vantone and Tencent, have set up corporate foundations.

At last count (as of 2010), there were 231 corporate foundations in China, compared to over 2,700 corporate foundations in the United States (as of 2009). Total assets managed by Chinese corporate foundations are still very small compared to the United States—USD 600 million in total assets for Chinese corporate foundations compared to USD 19.3 billion for U.S. corporate foundations as of 2009/2010.\(^a\)

As mentioned in the first chapter, there are still many regulatory challenges involved in setting up a corporate foundation in China, so very few foreign companies currently consider this option. There are also many operational restrictions such as payroll expenses and funding that make execution annoyingly difficult. Furthermore, only a foundation registered as a public foundation is able to publicly raise funds. This means that corporate foundations set up as non-public foundations must rely entirely on their corporate sponsor for funding. Only a handful of independent foundations have been able to gain public foundation status.

As of May 2012, only 6 multinational companies are known to have set up foundations under local Chinese law. The most prominent is Amway, which officially launched the Amway Charity Foundation in May 2011. The others are SMC, Anheuser-Busch InBev, APP, Yokogawa Electric Corporation, and Ushio.\(^b\) In addition, a small number of foreign foundations have set up representative offices in China (14 as of 2009).\(^c\) For a thorough overview of current challenges and guidance on setting up and running corporate foundations, see the report “Corporate Foundations in China,” published by CSR Asia in March 2012.

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\(^b\) China Foundation Center, direct data request by The Conference Board.

\(^c\) Ministry of Civil Affairs of China, China Civil Affairs’ Statistical Yearbook 2010 [中国民政统计年鉴] (China Statistics Press, 2010).
published among these sources is often not consistent, even for government sources), and some maintain directories of NPOs operating in China.

Chief among them:

- Official government websites, such as China NPO, whose website includes registration information (including annual renewal updates), and the annual working reports (if they exist) of foundations, social organizations, CNIs, and representative offices of foreign foundations. However, the publicly provided information is incomplete at best. All information is provided in Chinese only.

- The government-affiliated China Charity Donation Information Center (CCDIC) aims to systematically collect and analyze information on the charitable sector, and to make donation data on donors and recipient organizations publicly available. For example, CCDIC tracks charitable giving on a daily, monthly, quarterly, and annual basis, and publishes weekly and monthly lists with names and values of large donors and the recipients of donations. The Center also provides annual transparency rankings for various types of NPOs (although the selection criteria for the rankings are, ironically, somewhat unclear). All information is provided in Chinese only.

Major progress is underway to make foundation data systematically available with the China Foundation Center (CFC). The China Foundation Center was officially launched in 2010 and works to bring transparency to the sector by providing financial and operational data on Chinese foundations on a publicly available, non-governmental information disclosure platform. Its database covers all legally registered foundations in China, and is continuously updated. The China Foundation Center works in partnership with the Foundation Center in the United States, and other partners. Its database is available in both Chinese and English. Other organizations like the China Charity Navigator and MoCA’s own China Foundation Network also maintain similar online information platforms on domestic foundations.

Several informal directories are produced by domestic organizations that also cover independent NPOs and are targeted at practitioners. These directories usually only provide basic information like the name and contact information of the organizations; most do not include any further details. One example is China Development Brief (CDB), which maintains an online directory covering nearly a thousand Chinese and international NPOs. The database can be searched by issue area or region. China Development Brief also provides a separate English language directory of international NGOs (called DINGO). China Development Brief is currently in the process of revamping its database.

A new, bilingual directory of domestic NPOs was slated to be up and running by end of summer 2012, to provide up-to-date information on approximately 300 Chinese and 300 international, credible, grassroots NPOs operating in China. NGOMap, an initiative run by NGO 2.0, currently lists 586 self-registered organizations in their online directory. The directory is in Chinese only and can be searched by region and focus area. It also provides examples of successful corporate-NGO partnerships. A large number of NPOs are also featured in China CSR Map (CCM), run by the domestic CSR consulting firm SynTao. China CSR Map is an online platform that aims to promote exchange and partner search amongst NPOs and other organizations actively engaged in the CSR space. It is available in both English and Chinese.

While these data developments are promising, there is still a long way to go in improving information on the nonprofit sector in China.

Corporate donors who want to directly engage with local NPOs should plan to spend a significant amount of time researching and performing due diligence on partner organizations in China, including conducting primary meetings and interviews to gain comfort—both with the prospects and with the trade to vet claims, obtain third party opinions, etc. Companies should expect to encounter the following challenges when trying to collect information in China, and should calibrate internal expectations appropriately:

- No or very little systematic sector information
- Incomplete information on large, legally registered NPOs (with the notable exception of foundations); specifically, lack of systematic, complete, and timely financial data
- Limited systematic information on independent and foreign NPOs in China
- Little to no information on small, unregistered grassroots NPOs
- General lack of detailed information on location of operation, contact details, level and scope of activities, organizational structure, or financial and human resources of NPOs
- Unclear and inconsistent usage of generally accepted financial/accounting terms

For companies relatively unfamiliar with China’s nonprofit sector, approved China projects from NPOs vetted by third parties can serve as a good starting point in the search of trustworthy domestic partner organizations. An obvious choice would be to engage with intermediaries like Give2Asia, United Way, or GlobalGiving. Other
organizations in China may also provide assistance. For example, the American Chamber of Commerce in Shanghai (AmCham Shanghai) provides a list of AmCham-reviewed NPOs operating in China. AmCham Shanghai provides general information on each organization and their contact details online, and on request, documents of the organization’s legal status. The list currently contains 70 NPOs. It may also be worthwhile for companies operating under U.S. tax law to follow the progress of equivalency determination information repository (EDIR) projects currently under development aimed at global grant makers, such as NGOsource, which, once up and running, may serve as a good source for information on pre-vetted partner organizations in China.

An effective way to understand how other foreign companies engage in corporate philanthropy in China is to join local industry networks, such as the CSR committees of chambers of commerce. Both the European and the American Chamber of Commerce in Beijing and Shanghai run CSR committees. Aside from the directory mentioned previously, the American Chamber of Commerce in Shanghai has a growing online resource section devoted to CSR and is active in helping its members improve CSR and philanthropy programs. Since most large foreign companies operating in China are members of at least one foreign chamber of commerce, this can be an easy, cost-effective way to gain basic domain knowledge as well as vet assumptions and problem solve with peers.

**Identifying Focus Areas**

Generally speaking, the common international practices used to determine philanthropic activities can and should be used in China. These may include, but are not limited to:

- alignment with the company’s business and philanthropy strategy globally and locally;
- the company’s industry, its specific issues, and its stakeholders’ interests;
- the impact of business on local communities in which the company operates and the specific needs and problems of those communities;
- broader societal needs of a specific country or region; and
- to what extent others are already addressing specific areas of interest.

As outlined earlier in this report, the independence of China’s nonprofit sector engagement is still limited and there are strong political boundaries that control the topics, scale, and amplitude of nonprofit activity. Generally speaking, the government is supportive of NPOs that contribute in areas that are aligned with its own public welfare agenda (e.g., environmental, health care, or education issues); while the government is, not surprisingly, unsupportive of NPOs whose activities appear to challenge the legitimacy of the government (e.g., organizations focusing on human rights, legal aid issues, or government transparency). Companies operating in China tend to constrain their activities within “perceived” political boundaries; often the parameters are not explicitly defined in writing. Government relations considerations can play an important role in selecting charity focus areas.

The two dominant giving causes in China in 2011 (using preliminary data) were education and poverty alleviation and development, together accounting for over 60 percent of donations, followed by social services (e.g., for disadvantaged population groups) and health care (Chart 5, page 29). In years when there were significant natural disasters, a large share of donations flowed to disaster relief efforts, as can be seen from 2010 donation spending for disaster relief efforts, which accounted for nearly a quarter of total donations for that year (largely due to the Yushu earthquake). Overall, most donation money goes to support broad development issues like education, health care, or poverty reduction, issues that are largely aligned with the central government’s overall development agenda. Narrowing social inequity—such as promoting equal access to education and health care for disadvantaged population groups—will likely remain a key focus area of charitable giving in the foreseeable future.

Despite the massive environmental challenges China faces, and despite the active role environmental grassroots NPOs and their founders are taking to address them, only a very small share of donation money is currently spent on supporting environmental causes (Chart 5). Results from a recent study conducted by Ogilvy Earth and Millward Brown, which looked into the relationship between NPOs and companies in China, indicate that there may be a serious mismatch of supply and demand in the environmental space. While nearly all companies (95 percent) covered in the study were looking to partner with NPOs on environmental protection issues, only 40 percent of NPOs sought partnerships in this area. Heightened government and public scrutiny of corporate environmental performance in China, and the increased central government commitment to addressing environmental problems, will likely see corporate philanthropy interest increase in areas such as environmental restoration, conservation, water treatment, waste management, and renewable energy.
Partner/Beneficiary Selection

Although not a general rule, many foreign companies choose to donate to or partner with well-known, large-scale GONGOs or government agencies for their philanthropy initiatives in China. Official data on charitable giving end recipients provides supporting evidence of this prevalent giving pattern. Based on CCDIC data, government bodies and large GONGOs are still by far the major recipients of donation money in China. In 2010, MoCA and other government departments alone received nearly one-third of all charitable giving, while another 31 percent went to the Chinese Red Cross and the China Charity Federation, the two largest domestic GONGOs. Another third went to foundations, many of which, as previously mentioned, are also GONGOs (Chart 6). Preliminary data for 2011 shows a significant decline in giving (both in terms of real value as well as percentage share of total giving) to the Chinese Red Cross and government agencies, while foundation giving has remained relatively stable at around RMB 34 billion (albeit no growth). Nevertheless, despite these changes, government agencies and GONGOs continue to be dominant recipients of donations.

The same pattern is also apparent in U.S.-China grant making. A 2011 analysis found that a significant share of U.S.-to-China direct cross-border grants between 2002 and 2009 went to government departments and large GONGOs. Public academic institutions are also major recipients of U.S. grants (Table 2, page 30). For example, the largest recipient of U.S.-China grant dollars is the Chinese Ministry of Health, which has received funds totaling over USD 55 million since 2003.

There are a number of reasons for this prevailing practice. Some companies may simply choose to work with GONGOs because they lack the necessary knowledge to do otherwise. However, the decision is usually more strategic than that. Most importantly, legal registration is a precondition for NPOs to apply for a tax exemption certificate, which in turn enables them to provide official receipts for tax deductions to donors. In practice, even many legally registered NPOs are not able to issue tax-deductible receipts. At present there are only 120 organizations registered at the national level that qualify for this status though many more qualify at the provincial or local level. Most of the qualifying organizations are GONGOs. If and when tax considerations factor considerably into the decision, then GONGOs enjoy an important advantage.
“All partnerships are highly context-specific and will invariably be a reflection of the surrounding circumstances. Sometimes it is necessary to settle for a ‘good enough’ partnership until the local conditions change.”

—The Partnering Initiative
Partnering 101 materials

Supporting GONGOs is also often seen as a means to build and maintain favorable government relations. With their broad, national reach, GONGOs can also serve as strong vehicles to support public relations goals of philanthropy engagement. GONGOs can also offer implementation of larger scale projects. Since most NPOs are restricted from branching out across the region in which they are registered, national GONGOs are often the only choice for cross-regional or countrywide programs. Because of China’s volatile regulatory environment, the number of years an organization has been in operation plays a more important role than it may in other countries. NPOs are required to renew their registration on an annual basis, leaving them vulnerable to the recurring risk of de-registration, especially organizations without strong government ties or those involved in sensitive areas. Past years have also seen recurring clampdowns on independent NPOs and several rounds of large-scale nonprofit re-registration requests by MoCA (usually preceding or in the wake of important political events). Therefore, companies usually prefer to work with larger NPOs with a well-established track record and a high likelihood to “stay in business,” which GONGOs have. GONGOs also tend to have significantly more resources at their disposal (i.e., are better staffed and have better access to funding for overhead costs), whereas independent grassroots NPOs often struggle to secure funding and build capacity.

Opinions differ greatly as to whether supporting government-affiliated organizations like GONGOs will ultimately foster or hinder civil society development in China. Critics argue that funding GONGOs only serves to strengthen the government’s grip over civil society and undermines the development of an independent sector. More optimistic voices reject the notion that all top-down engagement is necessarily bad or inefficient as overly simplistic, and tend to point toward progress made to date in increasing private sector and bottom-up engagement in China. It is certainly true that the spectrum of GONGOs today is fairly wide, and that GONGOs range discernibly in terms of their proximity to the state and their level of independence in funding and project management. It can also be argued that some GONGOs are undergoing a significant transformation and are now increasingly engaged in re-granting to grassroots NPOs.

Irrespective of this debate, practitioners usually have to make decisions based on a pragmatic assessment of what is sensible and feasible in the current Chinese operating environment. Simply put, companies have to work with what they are given. This is not to say that companies should not aspire to be change agents. However, successful engagement requires a thorough understanding and acknowledgement of the realities and boundaries of the current political and regulatory environment. If standard due diligence requirements are met, then partner organizations should be selected on the basis of capability to meet the desired objectives, regardless of size or affiliation. Companies should begin their selection process by critically assessing the answers to the following questions:

1. How familiar are we really with the domestic nonprofit environment, its key players, and its explicit and implicit rules?

If the answer to this question is “not too familiar,” then the notion of working directly with grassroots NPOs is probably not well guided. There are many different ways to support and engage with grassroots NPOs, but

<table>
<thead>
<tr>
<th>Grantee type</th>
<th>Grant count</th>
<th>Grant dollars (USD)</th>
<th>Percent of total grant dollars</th>
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<td>Government</td>
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<td>112,430,506</td>
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<td>(e.g., UN)</td>
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<td></td>
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<tr>
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<tr>
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<td>17,000</td>
<td>0.01</td>
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<tr>
<td><strong>Total</strong></td>
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<td><strong>$442,925,349</strong></td>
<td><strong>100.00%</strong></td>
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</table>

they often require a fairly good understanding of how the system works as well as considerable management overhead of a very "local" nature on the execution side. As discussed earlier, setting up "special funds" under existing Chinese foundations [i.e., GONGOs] provides one formal way to directly fund smaller charitable projects in China. Some companies also work through more informal channels, for example by setting up a specific project such that the main partner organization is a large, tax registered GONGO, with the selected grassroots partner organization[s] serving as informal sub-contractor per se on execution. This setup can be an effective funding vehicle for small NPOs that can’t directly raise funds, and it provides the corporate donor with full tax deduction benefits.

2 What is the size and scope of our project/program and what organization is best positioned (i.e., in terms of capacity, subject matter expertise, or knowledge of local communities) to execute the project for maximum impact?

The answer to this question has major implications for partner selection. Any broad, cross-regional or national program will likely need the involvement of a large, national organization, as most grassroots NPOs are very small and lack the capacity, funding, and project management skills needed to execute larger scale projects. On the other hand, local community engagement is often more effectively done by small local grassroots NPOs that have deep knowledge of community needs, customs, and circumstances of the localities in which they operate. Also, because many grassroots NPOs rely on only one or several donors, they tend to be very enthusiastic partners, and very committed. This is both a positive and a negative. On the positive side, it avails the possibility for deep and lasting partnerships. On the negative side, it is essential to consider the impact of strong dependencies beforehand, and how they might impact your options (and potentially your reputation) if and when you need or decide to exit the project.

3 What issue areas do we want to focus on, and what type of organization provides the best subject matter expertise and delivery options for those specific issue areas?

Does the company intend to support a broad development issue, a narrower niche issue, or an issue closely linked to a specific community related to its business interests? Large GONGOs tend to focus on broad development issues like education, health care, disaster relief, or poverty alleviation, while grassroots NPOs often focus on specific topics within those areas (e.g., education for a certain disadvantaged ethnic minority), or niche issues largely neglected by the government. Grassroots NPOs can be powerful partners as their level of understanding and practical experience about their focus issue necessarily runs deep. It is also important to consider the novelty of the company’s focus issue, and whether it will require out-of-the-box, innovative thinking, and a creative approach. GONGOs tend to be more inflexible and sedate, while independent NPOs are more versatile and innovative.

Last but not least, who is the most enthusiastic and committed? Are NPO incentives aligned with company interests? Are corporate cultures aligned?

Governance, Transparency, Accountability

Good governance, transparency, and accountability are huge challenges for NPOs in China. Most NPOs in China, even the large ones, lack appropriate internal controls, recordkeeping, and financial management practices. Foundation regulations require details on organization and structure, management, and use of assets as well as monitoring and reporting requirements. For NPOs other than foundations, the regulatory requirements related to governance and management are basically nonexistent. Consequently, even though significant progress has been made in making basic annual financial data of Chinese foundations publicly available (e.g., through the CFC), the public financial and management information for other NPO types is mostly absent.

Although annual work reports are theoretically mandatory for all legal nonprofit types, the financial content requirements for the reports are only defined, in some detail, for foundations. According to the 2004 Regulations on Management of Foundations (Art. 36), an annual work report should include: a financial report, an audit report by a certified accountant, and reports on fundraising activities as well as donations received and grants made. Article 38 of the same set of regulations further stipulates that foundations and representative bodies of overseas foundations should make their annual work reports public through media channels to allow public query and monitoring of their work. The Regulation on the Registration and Administration of Social Organizations on the other hand simply state in Article 31 that annual work reports should contain an organization’s “financial situation”; for CNIs this is referred to as an organization’s “financial management” in the Interim Regulation on the Registration and Administration of Civil Non-Enterprise Institutions, Art. 23.
Philanthropy at L’Oreal China

L’Oreal has been active in China since 1996, and has grown into one of the largest beauty companies in China. In 2009, L’Oreal China had around 3,000 full-time employees. In 2009, the company donated a total of RMB 7.7 million (USD 1.2 million) to charitable causes, roughly 0.094 percent of annual revenues.

L’Oreal provides a good example of how many large companies structure and target their corporate giving programs in China. Their program focuses on key stakeholder engagement and outreach across both government and academia, while also including other stakeholders material to the company, such as customers, employees, and local communities. The partners for most of their projects/programs are either large-scale GONGOs or government bodies.

For example, their “China Young Women in Science Fellowships” program is undertaken in partnership with the All-China Women’s Federation (one of China’s largest mass organizations and the principal of many local GONGOs), the China Association of Science and Technology, and the Chinese National Commission of UNESCO. Launched in 2004, it is part of the L’Oreal UNESCO “For Women in Science Program” (launched in 1998), an international award dedicated to recognizing women in science. It has now developed into a broad program to promote scientific achievement by women—basically a fellowship program that seeks to support leading women scientists.

Other examples of successful programs include L’Oreal’s “On-Campus Charity Sale,” a program launched in 2003 with the China Youth Development Foundation (yet another large-scale GONGO). For this program, product donations are made to top universities, and students develop creative ways to sell the products in their communities. Products are sold at reduced rates, and all proceeds support low-income university students from Western China. L’Oreal employees provide professional training to students on sales, logistics, and product promotion.

The “Hairdressers against AIDS Program” was launched in 2006 (in China). This program is implemented in partnership with UNESCO and the Chinese Centre for Disease Control and Prevention (an agency under the Chinese Ministry of Health). It is a public education program to raise awareness of AIDS. Since its launch, it has trained 40,000 hairdressers on HIV prevention and how to share their knowledge with the general public. Fifty hair salons in China are “hairdressers against AIDS” ambassadors.

L’Oreal China is also the exclusive sponsor of the “China’s National Mother River Award,” which recognizes outstanding contributions by individuals, organizations, and projects focused on environmental protection. The program is conducted in conjunction with China’s Ministry of Environmental Protection and other government bodies.

Source: L’Oreal China Sustainable Development Report 2009; The Conference Board interview with L’Oreal China
Despite pledges by MoCA and leading charities to improve transparency and accountability in the sector, tangible efforts to increase transparency have been minimal to date. For example, China NPO’s website now provides a section where annual working reports of individual NPOs can be downloaded. At the time of this writing it contained 37 reports for CNIs, 133 reports for foundations, and 16 reports for representative offices of foreign foundations for 2010, negligible numbers considering that there are around 450,000 registered NPOs.

This situation underscores the need for rigorous due diligence in China. Due diligence should include, at a minimum, careful review of the following documents:

- Mission statement
- Current organizational chart
- Vitae of key staff
- Overview of internal governance structure
- Registration documentation
- Accounting records
- Historical income and expenditure details
- History of previous grants and partnerships
- Documentation of previous project evaluations
- Previous annual work reports

Formal interviews should be conducted with staff, management, and project liaison personnel (on the recipient side)—as well as with former or current collaborators—to validate the documented information, vet facts, and obtain reputational and operational insights. Chinese contacts should be utilized, when possible and appropriate, to make separate, informal inquiries on reputational and performance issues through local channels.

Specific due diligence exercises may also be necessary based on home country regulatory requirements. For U.S. corporate donors, a sufficient level of professional financial accountability and transparency are necessary requirements for equivalence determination and exercising expenditure responsibility. For equivalency determination, the domestic NPO must also be legally registered as a charity. Due to the severe registration constraints under current regulations, many small NPOs in China would fail to meet this requirement.

For both assurance and efficacy, projects conducted with domestic NPOs also require, with rare exception, substantial donor involvement in planning, management, oversight, and evaluation on the allocation side. Once a partnership agreement is reached, clear and measurable goals and milestones should be defined for the corporate donor, the partner organization, and civil society at large. Projects should clearly specify roles, responsibilities—with specific accountable persons if possible—and how progress and achievement will be measured. Projects should be rigorously and regularly reviewed, according to agreed audit or review standards, and supervised as necessary. Donor decision rights should be agreed upon upfront.

GONGO and the FCPA

Multinational corporations have voiced concerns as to how existing anti-bribery laws may affect corporate donations to NPOs with close (or direct) government ties in China. It is becoming increasingly apparent (publicly) that “structural corruption,” i.e., the use of political relationships to avail economic opportunity and extract supra-normal profits, is widespread in China. The government connection to many NPOs, combined with highly opaque fund management practices, certainly make corruption a valid concern. The string of recent scandals among large-scale Chinese GONGO has exacerbated concerns about the extent of misappropriation amongst government-affiliated NPOs.

GONGOs are often staffed with retired civil servants (with remuneration paid by the government). Many GONGOs also receive government fiscal appropriations or are otherwise funded by their parent government agencies. “Because of these characteristics, quasi-governmental [civil] society organizations may very well be regarded as ‘instrumentalities’ under the FCPA, and their employees might be considered ‘foreign government officials,’” according to a recent report published by Bloomberg BNA (The Bureau of National Affairs, Inc.).

In the absence of clear guidance, companies need to apply heightened scrutiny to the activities of their philanthropic partners in China, and carefully vet partners upfront to identify potential conflicts of interest. Generally speaking, experienced MNCs in China all have extensive, company-wide ethics and compliance policies and standards in place. Nevertheless, special caution should be taken to ensure that appropriate due diligence procedures are conducted for charitable donations to Chinese NPOs, and anti-corruption standards and procedures regarding charitable donations are in line with current FCPA compliance requirements and can actually be tested in China if necessary.
Conclusions

- Select giving channels that match the company’s presence, experience, and capability level in China. Given China’s unique operating environment, companies have to carefully decide how to best channel their donations, and how actively engaged they want to be with steering those philanthropic contributions. The budgeted level of giving, the company’s presence in and familiarity with China, and the desired level of engagement and commitment (both in terms of resources and time span) all play an important role in this decision. Direct, in-country engagement channels like corporate foundations or direct partnerships with nonprofit organizations require skilled, on-the-ground resources for diligence, oversight, and control. Companies with little to no experience in China may be better advised, at least initially, to make their contributions through international NPOs or intermediaries like Give2Asia, United Way, or GlobalGiving, all of whom have been in China for many years.

- Active local engagement requires extensive research and information gathering as publicly available information is very limited. There is as yet no formal, consistent reporting and data collection system in place for NPOs in China. There is also no centralized repository like Guidestar for NPOs operating in China on which potential donors can draw for systematic information or to identify potential beneficiaries or partners. Significant progress is being made within the foundation sector, where grant makers now have access to financial and operational data of Chinese foundations through the China Foundation Center’s online database as well as other, mostly government-run, online information platforms. Some progress has also been made to establish informal online NPO directories. However, readily available data for corporate grant makers is not complete. A relatively easy but effective way to gain first insights is to join local industry networks, for example through the chambers of commerce’s CSR committees. Ultimately, however, significant time will be required to assess and vet domestic organizations prior to engagement.

Nonprofit Capacity Building through Skills-Based Volunteering

Based on a survey conducted in 2010 by The Conference Board among 120 foreign enterprises in China, 63 percent of companies said they currently run employee volunteering programs in China. Volunteerism, in the Western sense, is relatively nascent in China. However, there is quite a lot of “prescribed” volunteerism around government campaigns. Multinational corporation volunteer programs today thus tend to be oriented around HR skill development and employee branding, and secondarily on civil society impact. Civil society goals from volunteerism will certainly elevate as the practice evolves and matures.

Skills-based volunteering programs are a way for companies in China to leverage their internal resources and know-how to improve the professionalism of grassroots NPOs in China. Basic corporate skills—for example, project management, marketing, communications, bookkeeping, reporting, and financial control—are critical, underdeveloped skills in the NPO sector that severely constrain its capacity.

A growing number of NPOs facilitate volunteering services in China. These include, for example, Horizon Corporate Volunteer Consultancy (HCVC), Hands on China, Huizeren Volunteering Development Center, Fuping Development Institute, Junior Achievement China, and Corporate Citizenship in Action (CCiA). An extensive list of volunteering organizations can also be found in CDB’s online directory.

More and more MNCs are engaging in volunteering programs. It benefits morale and competency development internally, and provides much needed capability conveyance to the NPO sector.

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• There are strong political boundaries that control topics, scale, and amplitude of public debate and nonprofit activity. Focus areas will have to be adjusted to conform with this political reality. Companies operating in China—especially MNCs—voluntarily or involuntarily, tend to align themselves and their philanthropic activities with the “implicit” political boundaries set for public debate. While many worthy issues such as environmental protection, health care, poverty reduction, and gender equality can be supported (and the government encourages companies to do so), issues that are deemed to challenge the legitimacy of the state, especially concerning human rights, civil rights, or legal aid, are very hard—if not impossible—to officially support in China. In many cases, government relations activities are leveraged in support of philanthropic and other CSR initiatives. In some cases, for example in industries with close state supervision, government relations even leads the way to assure that companies get the maximum benefit from their philanthropy and avoid potential pitfalls associated with political influences.

• In choosing between GONGOs and grassroots organizations as partners, rather than size or affiliation companies should assess the capability to execute on its strategic goals. Because of China’s current political and regulatory environment, the majority of charitable giving in China goes to government-affiliated organizations. The provision of official receipts for tax deductions to donors, organization stability, stronger legalities, perceived government relations benefits (e.g., with the GONGO stakeholders), and the ability to leverage a GONGO’s scale to undertake cross-regional or nationwide programs are all reasons why many companies choose to engage with GONGOs. As well, the lack of formal registration often deters MNCs, which may have to satisfy regulatory requirements or international company guidelines, from engaging with small domestic NPOs. Whether this trend will persist, and whether organizations with vested government interests can indeed foster genuine civil society development remains to be seen. In the meantime, unless companies opt not to engage in China at all, partner or beneficiary selections will have to be made within the current realities. Organizations should be selected that are best suited to successfully implement a company’s philanthropy programs, whether they be government affiliated or not. “Hard” factors such as subject matter expertise, capacity, and reach of organizations should be considered alongside “soft” factors like enthusiasm, alignment with corporate culture, and true commitment to the cause.

• Project planning and management need to factor in the governance, transparency, and accountability issues of domestic NPOs. The need for substantial due diligence in selecting partners or beneficiaries in China, and for persistent oversight and engagement thereafter, is strong. Many NPOs in China lack internal controls, recordkeeping, financial management systems, or formal governance structures. As a general rule, projects conducted with domestic NPOs tend to require increased involvement in planning, management, oversight, and evaluation on the donor side; although the additional time and resources required to deal with this may vary significantly depending on organization type (for example, GONGOs and grassroots organizations are set up and operate very differently and will therefore require a different approach). Companies should be prepared to assertively engage in oversight, even for small projects that wouldn’t require similar vigilance in other markets.
Endnotes


5 Throughout the report, the terms “philanthropy,” “charitable giving,” “philanthropic giving,” and “charitable donations” are used interchangeably and refer to cash and/or in-kind contributions. “Corporate philanthropy” refers to corporations donating funds, time, and talent to charitable causes.


9 Online database of IRS Business Master Files, Urban Institute, National Center for Charitable Statistics, (files accessed are for November 2010 data).

10 China Foundation Center, direct data request by The Conference Board.

11 Consolidated financial statements (December 31, 2010 and 2009), Bill & Melinda Gates Foundation.


21 flipboard.com/s/96f6de072e379162).


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This includes donations from corporations within China and from corporations outside of China.


The Center of Philanthropy at Indiana University, “Giving USA 2011”; The Conference Board Total Economy Database, (http://www. conference-board.org/data/economydatabase/).


AidFlows, online database, (http://www.aidflows.org/).


Foundation Center, Map of International Grants, (http://fconline. foundationcenter.org/maps/) (data as of May 2012). Note on data methodology: while the sample includes only a portion of direct cross-border grants made during any given period, it provides a general picture of giving to non-U.S. recipients. Only grants over USD 10,000 are included.


Simon, “How are the new policies for China’s CSOs developing?” May 21, 2012.

Lists of organizations qualified to issue tax deduction receipts at the national level are made publicly available on China NPO’s website.

Ashley and He, “Opening One Eye and Closing the Other: The Legal and Regulatory Environment for ‘Grassroots’ NGOs in China Today,” 2008.

Appendix 1

Reference List of Relevant Laws and Regulations

Main governmental organs in charge of these regulations are: the Ministry of Finance (MoF), the Ministry of Civil Affairs (Department of Social Organizations) (MoCA), State Administration of Taxation (SAT), Ministry of Public Security (MPS), and State Administration of Industry and Commerce (SAIC).

1950 Provisional Measures on the Registration of Social Organizations (October 19)
1986 General Principles of the Civil Law of the PRC (April 12; came into effect on January 1, 1987)
1988 Rules on Management of Foundations (September 27; replaced in 2004 by Regulation on the Management of Foundations)
1989 Registration and Management of Social Organizations (October 12; came into effect on October 25, 1989)
1989 Law of the PRC on the Red Cross Society (October 31)
1989 Law of the PRC on Assemblies, Processions and Demonstrations (October 31)
1993 Provisional Regulation of the PRC on Enterprises Income Tax (November 26; came into effect on January 1, 1994)
1994 Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Enterprise Income Tax (January 28; came into effect on February 4, 1994; revised on December 19, 2005)
1997 Regulation on Private Educational Institutions
1998 Regulation on the Registration and Administration of Social Organizations (October 25)
1998 Interim Regulation on the Registration and Administration of Civil Non-Enterprise Institutions (October 25)
1998 Interim Regulation on the Registration and Administration of Public Institutions (October 25)
1999 Public Welfare (Benefit) Donations Law (June 28)
2001 Trust Laws of the PRC (April 28)
2002 Non-State Education Promotion Law of the PRC (December 28)
2002 Law on Private Educational Institutions
2004 Regulations on the Management of Foundations (March 8)
2004 Provision on the Administration of Names of Foundations (June 23)
2004 Accounting Regulations for Civil Not-for-Profit Organizations (August 18; came into effect on January 1, 2005)
2005 Regulations of the Shenzhen Municipality on the Services of Volunteering (March 30)
2005 Measures of Annual Inspection of Private Non-Enterprise Entities (April 7)
2006 Measures for Annual Inspection of Foundations (January 12)
2007 Notice of the Ministry of Finance and the State Administration of Taxation on the Policies and Relevant Management Issues Concerning the Pre-Tax Deduction of Public Welfare Relief Donations (January 18)
2007 Enterprise Income Tax Law of the PRC (March 16; came into effect on January 1, 2008)
2007 Select Opinions of the General Office of the State Council on Accelerating and Promoting the Reform and Development of Trade Associations and Chambers of Commerce (September 24)
2007 Jiangsu Province Interim Regulations on the Supervision and Management of Local Foundations (October)
2008 Notice of the General Office of the Ministry of Health on the Provision on the Administration of the Representative Agencies of Overseas Foundations whose Businesses are under the Charge of the Ministry of Health (March 27)

2008 Measures for the Administration of Donations for Disaster Relief (April 28)

2008 Circular on the Issues Concerning Pre-Tax Deduction of Donations to Community Services

2008 Direct Registration of Industrial Associations at the Civil Affairs Bureau

2009 Cooperative Agreement on Advising Integrated Reforms in Civil Affairs with the Municipal Government of Shenzhen (July)

2009 Circular on Management Issues Concerning NPO’s Eligibility of Tax Deduction (November 11)

2009 Circular on the Issues Concerning Tax-Exempt Income in Enterprise Income Tax of Non-Profit Organizations (November 11)

2009 Circular on the Issues Concerning Tax-Exempt Qualifications on Non-Profit Organizations (November 11)

2009 Yunnan Province Interim Regulation Standardizing International NGO Activities (December)

2010 Jiangsu Provincial Regulations on the Advancement of Charitable Activities (January)

2010 Beijing amends its regulations to allow social organizations in the Zhongguancun Science part to register directly with the local Bureau of Civil Affairs (February; extended to the entire city in 2011; made permanent in 2012)

2010 Notice of the State Administration of Foreign Exchange on Issues Concerning the Administration of Foreign Exchange Donate to or by Domestic Institutions (March 1)

2010 Regulation on Promotion of the Public Welfare Cause in Jiangsu Province (May 1)

2010 Regulations on Promotion of the Public Cause Ningbo (draft) (May 10)

2010 Hunan Draft Regulation on Donation Solicitation (September 2010)

2011 Guidelines for Information Disclosure for Public Welfare Charitable Donations (August; finalized in December 2011)

2011 Regulation on Promoting Charity Causes in Ningxia (September 18)

2011 Interim Measures for Donation Information Openness in Henan (October 25)

2011 Regulation on Fundraising in Guangzhou Municipality (October 27, came into effect on May 1, 2012)

2011 Guangdong Province Program to Further Develop and Standardize Management of Social Organizations (November; came into effect July 1, 2012)

2011 Information Disclosure Guidelines for Public Welfare and Charitable Donations (December 16; came into effect on January 1, 2012)

2011 Five Year Guidelines for Charity Development, 2011–2015 (July 15)

2012 New Audit Guidelines for Foundations (January)

2012 Opinions on the Charitable Activities of Religious Organizations (February)

2012 “Normative Rules” on Foundations (April 25)

2012 Charity Law (draft; submitted to China’s State Council for approval) (June 4)
## Appendix 2

### List of Organizations Mentioned in the Report

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