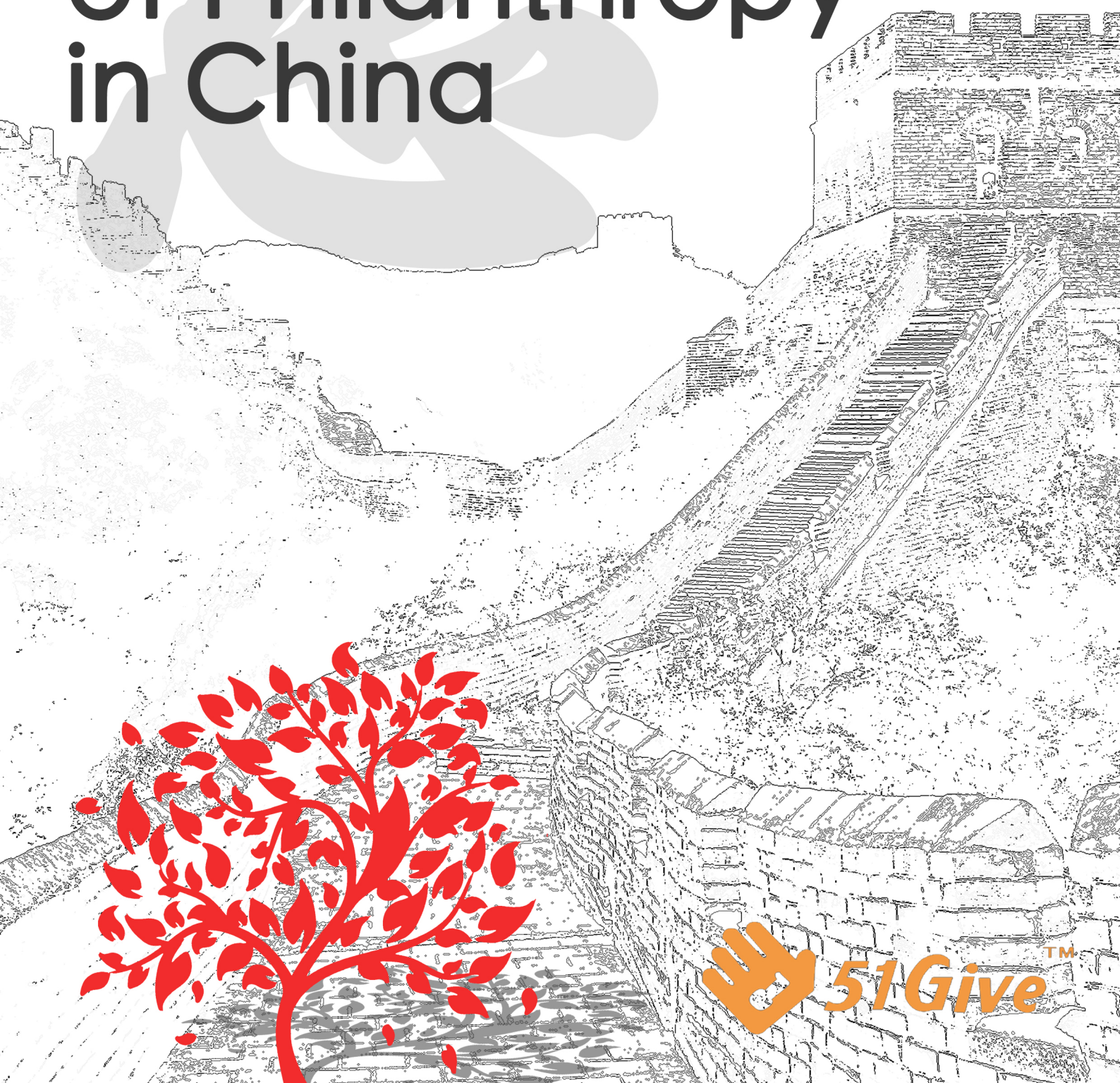




*Empowered lives.
Resilient nations.*

Unleashing the Potential of Philanthropy in China



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FOREWORD

2015 was a crucial year for global development cooperation. The international community endorsed a new, bold development agenda and committed to achieve the Sustainable Development Goals (SDGs); The Third Conference on Financing for Development in Addis Ababa agreed on more diverse and sustainable resources to finance this new agenda; finally, the UN Climate Change agreement in Paris created momentum for governments and the private sector to invest in a green, low-carbon future.

All these agreements call for a drastic change in the way that development takes place. It is clear that neither governments, nor the UN alone have the resources or capacities required to achieve this paradigm shift. Their successful implementation will rely on developing effective partnerships that bring together the UN, governments and civil society with the private sector and the world of philanthropy.

The active engagement of philanthropists, both globally and in each country, will be critical. In addition to offering new pools of funding, philanthropic organizations bring private sector expertise and new perspectives to development. This represents an enormous opportunity, since a broader range of philanthropists is emerging and engaging in international giving, while domestic giving within middle-income and developing countries is also increasing fast.

Countries like China, but also Brazil, India, Indonesia and South Africa, are becoming more involved in development assistance not only through government aid but also through private investment, remittances and homegrown philanthropy. As the world looks for additional sources of funding to finance its fight against poverty, inequality and climate change, a lot of hope is resting on the rise of philanthropy. A strong and healthy philanthropic sector in China, confident in looking outside its borders and with the right capacities to respond to the great demands, will benefit China, as well as the rest of the world.

This report believes that China today has the unprecedented opportunity to tap into its expanding non-profit and philanthropic sector. Home to record numbers of billionaires who have started to give back, with more and more corporations investing in corporate social responsibility (CSR) and with an expanding middle class increasingly aware of environmental and social challenges, China has vast resources to mobilize in support of philanthropy. In the last few years, technology and new media have created innovative ways to donate, which are making it even easier for the general public to participate in philanthropy. Finally, as Chinese businesses and state-owned companies continue to go global, China's philanthropists are also starting to look beyond their borders.

At the same time, important institutional and social barriers to the development of philanthropy still exist. In many respects, China is still a place where philanthropists are finding it hard to build, promote, and sustain charitable organizations. This report

calls for targeted reforms to be undertaken in order to remove these barriers and unleash the enormous potential for philanthropy in China. The majority of these reforms are not costly, yet they would allow the philanthropic sector to play a much larger role in tackling poverty and inequality, and contribute to the SDGs, both within China as well as globally.

Einstein once said: “it is every person’s obligation to put back in to the world at least the equivalent of what he or she takes out of it”. Supporting the development of philanthropy in China will allow millions of people to actively contribute to a more equitable, prosperous, and stable world.



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INTRODUCTION



PHILANTHROPY

Philanthropy encourages compassion and strengthens community ties

The Oxford Dictionary defines philanthropy as “*The desire to promote the welfare of others, expressed especially by the generous donation of money to good causes.*” Philanthropy as an expression of human generosity exists in every society, and is reflected in most of the world’s cultures and religions. Philanthropy is literally the “love of humanity.” It enhances what it is to be human through the process of giving and receiving – private giving for the betterment of others. Its contributions can make up for the failure of governments or the marketplace. This can be a pivotal contribution to sustainable development.

The UN recognizes that corporate and private philanthropy played an important role in supporting the achievement of the Millennium Development Goals (MDGs). In fact, in the last 15 years the growth in global philanthropy has transformed the international development sector. Its resources have grown exponentially as a proportion of total Official Development Assistance (ODA). However, philanthropy should not be viewed simply a “gap filler” for ODA¹. Instead, and most importantly, philanthropy brings a complementary and beneficial set of new actors, approaches, and types of funding to development. And this comes at a crucial moment for global development cooperation with the enactment of the new Sustainable Development Goals (SDGs). As the world looks for additional sources of funding to finance its fight against poverty, rising inequality and climate change, a lot of hope is resting on the rise of philanthropy in

China. A strong and healthy philanthropic sector in China, confident in looking outside its borders, will benefit China, as well as the rest of the world.

In many ways China today has the unprecedented opportunity to tap into its increasing economic development and its expanding non-profit sector. While philanthropy in China is currently at a nascent stage, it has grown rapidly in recent years. The total amount of charitable donations have increased by 66 per cent between 2009 and 2014, while the number of charitable organizations have multiplied almost 5 times between 2004 and 2014². Home to approximately 500 billionaires in 2015, and with an expanding middle class, China has vast and growing socio-economic resources to be mobilized in support of philanthropy³. In addition, the use of the internet and social media, together with small-scale innovations have created new tools such as crowd-funding and online or even social media donations, which are making it even easier for the general public to participate in philanthropy.

However, important institutional and social barriers to the development of philanthropy still exist, such as a) the gap between the sector’s fast growth and the outdated regulations that govern it, b) the lack of transparency and therefore public trust in charitable organisations, c) and the lack of capacity for foundations and organisations to carry out charitable projects. This report calls for reforms to be undertaken in particular to address these barriers, especially in the context of the forthcoming 13th 5 Year Plan due to be published

in 2016. With the enormous potential for philanthropy in China, the sector is expected to have the ability to greatly influence development, tackle inequality and poverty, both in China as well as globally.

This report aims to present a basic overview of the state of development of philanthropy in China, with a special focus on the practical governance and policy-related reforms needed to unleash the true potential of this sector in China. It compiles data collected via an extensive literature review including official publications by Chinese authorities and international agencies together with interviews of key experts and practitioners in the sector. The aim is to review the sector's scale and scope, discuss some important innovations and more recent trends, and analyse the main challenges that are holding Chinese philanthropy back, eventually putting forward actionable suggestions for reform.

It should be noted that this report does not discuss the role or status of international philanthropy in China, nor does it discuss in depth trends related to Chinese philanthropy towards poorer countries and communities outside of China, nor general "Corporate Social Responsibility" activities by Chinese companies overseas. While implications may be drawn for these issues from this report, detail analysis on these issues is left for other reports and in-depth research.



HISTORY & CULTURE OF PHILANTHROPY IN CHINA

“...philanthropy in ancient China was dominated by clan-based lineage organisations”

Philanthropy saw its emergence in ancient Chinese society. The Confucian tradition, with its doctrines on relationships and social roles, created conditions for the exchange of goods and services between people, strengthening community ties and consolidating *guanxi* – a Chinese word describing the system of social networks and influential relationships which facilitate business and other dealings. Philanthropy in ancient China was thus dominated by clan-based lineage organisations, offering services like care for widows and orphans, distribution of grain and construction of schools for boys in the clan. This type of ‘clan-based charity’ was based on an expansive understanding of the family. Through its doctrine of altruism and humanity, Confucianism however also brought within its fold those who were found outside the institutions of family and clan. There is evidence, for example, of local notables and wealthy individuals overseeing village welfare activities such as the establishment of clinics, refugee shelters, and soup kitchens.

Between the nineteenth and early twentieth century, missionaries arrived and introduced western methods of charitable giving, paving the way for the new charitable organisations found in China today. With the Communist Party coming to power in 1949, wealth nationalized and the environment for philanthropy in China completely changed, as any kind of recognition

of the need for charity was seen as a sign of state failure. However, in the 1980s and 1990s, due to reform and opening up, as well as decentralization and increasing social demands, philanthropy in China was given the space to develop, especially at the local level. As China opened itself up to the world, concepts and international practices of philanthropy started to influence Chinese policymakers and social elites.

With the increase in socio-economic status, individuals in China are now becoming more concerned with public welfare, and more willing to spend time and money on public projects. While the Chinese economy has entered a ‘new normal’ of slower economic growth, in 2014 total regular donations, (i.e. donations not related to natural disaster relief) reached a historic new high of \$15.51 billion⁴. Recently, responding to pressure from both the state and civil society, corporations have also begun to pay attention to social responsibility by supporting projects that address community and social needs. Overall, a new culture of philanthropy is arising, featuring active public participation in a wider range of charitable projects.

The number of people in China who decide to donate to charity is growing every year together with the amount of money donated by corporations. If this trend continues China will soon surpass most developed countries in the overall absolute amount of resources raised for

charity. In addition, new technologies are creating a world where effective philanthropy is no longer only the work of big foundations or organizations, but anyone interested in giving back. This invigorates people and enables them to think that they can make a difference, while urging others to do the same. All of this should be supported and encouraged.



THE PHILANTHROPIC SECTOR IN CHINA

“Education is the primary focus of work, for both private and public foundations”

I. The Landscape

The charity or philanthropic sector in China is a growing part of the not-for-profit or ‘third sector’, which in the Chinese context is mostly organized under a large array of Social Organisations⁵ (社会组织, Shèhuì zǔzhī - SOs). These organizations are required to be registered under the local Civil Affairs Bureau of the Ministry of Civil Affairs and include: Social Associations (社会团体, Shèhuì tuántǐ), Civil Non-Enterprise Institutions (民办非企业, Mínbàn fēi qǐyè) and Foundations (基金会, Jījīn huì).

Currently foundations play the biggest role in the growing philanthropic sector in China and receive the majority of the funds donated by either individuals or corporations. The Chinese legal system categorizes foundations into public and non-public foundations (hereafter private foundations). The largest difference lies in their ability to raise funds. While public foundations are allowed to raise funds directly from the public, private foundations are prohibited from public fund-raising, and instead must only rely on endowments from wealthy donors or corporations.

Most public foundations were established in the 1980s and 1990s with some form of government support. The Chinese Children and Youth Foundation was the first public foundation established in 1981; other well-known public

foundations include the China Foundation for Poverty Alleviation, the Soong Ching Ling Foundation and the China Youth Development Foundation. It was only in June 2004 with the passing of the *Regulations on Administration of Foundations* (RAF), that private, independent foundations were legally recognized. Since then, the number of private foundations has surged to 2,724 in 2014, surpassing the number of public foundations in 2010. By the end of 2014, 65 per cent of the 4,211 foundations registered in China were private (**Graph 1**).

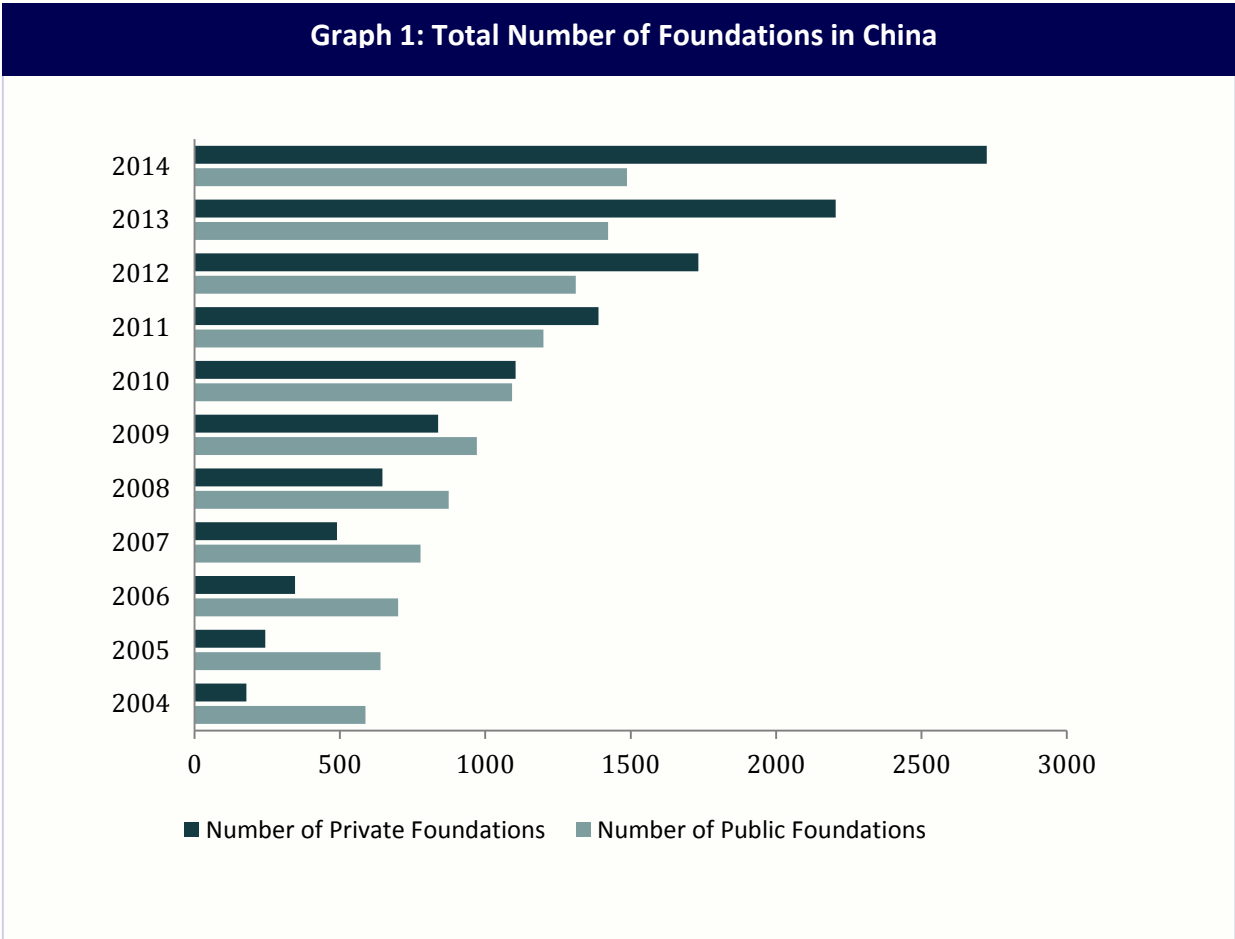
Strict approval procedures and requirements by the Ministry of Civil Affairs make registration of a new public foundation, allowed to openly fundraise, difficult. Even with these restrictions, however, foundations in China receive a significant portion of all charitable donations within the country (46 per cent in 2013)⁶. The total yearly income of all foundations has steadily increased between 2010 and 2014, going from \$5.92 billion to \$8.31 billion USD (**Graph 2**). Over 80 per cent of the income comes from donations, while the rest is from government subsidies and investment revenues.

Although nowadays there are more private foundations than public, the overall share of assets and income in private foundations is still slightly lower⁷. In 2013, the total assets of public and private foundations were \$7.61 billion (51.65 per cent) and \$7.31 billion (48.35 per

cent) respectively. Of the total income for all foundations in 2014 (\$8.31 billion), public foundations received \$5.28 billion, or 63.54 per cent of the total. Finally, because public foundations are required to spend no less than 70 per cent of their total income from the previous year, their expenditure is also higher (\$4.54 billion in 2013). This is three times the expenditure of private foundations, which are required to spend at least eight per cent of the remaining funds of the previous year⁸.

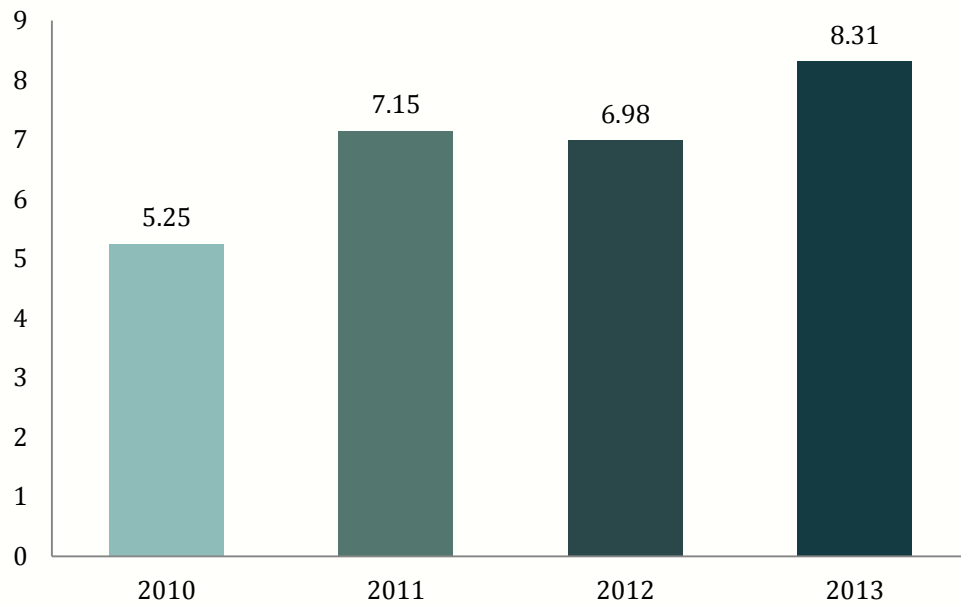
According to a recent survey by China Foundation Center, education is the most popular area of work for both private and public foundations. Other areas of focus include: poverty reduction, public health, culture and the arts, children, and disaster relief. Private foundations have tended to direct their resources to focus on projects that are usually not taken up by their public counterparts. For example, one of the most prominent private foundations in

China, the Narada Foundation, has made its mission to “*foster civil society*”. Overall, the growth of private foundations has revitalized the philanthropic sector in China by increasing the total amount of donations, bringing in new and professional human resources, and introducing more missions and projects that are conducive to the overall development of civil society.



Sources: Yang, Tuan (ed.), 2015, Blue Book of Philanthropy: Annual Report on China’s PhilanthropyDevelopment (2015), Beijing: Social Sciences Academic Press (China)

Graph 2: Total Income of Foundations (billions of USD), 2010-2013



Source: Liu, Zhongxiang (ed.), 2014, Annual Report on China's Foundation Development (2013), Beijing: Social Sciences Academic Press (China); Yang, Tuan (ed.), 2015, Blue Book of Philanthropy: Annual Report on China's Philanthropy Development (2015), Beijing: Social Sciences Academic Press(China).

II. Governance

Legal and policy context

Although there are a number of separate regulations that govern different parts of the philanthropic sector, China has yet to pass a single national law in the National People's Congress (NPC) regulating the third sector. Most existing regulations are lagging behind the rapid development of the sector and this is creating considerable challenges to its sustainable future development. For example, the regulations on social associations and civil non-enterprise institutions, both passed in the late 1990s by the State Council, are mostly concerned with the management of registration of social organizations and did not attempt to regulate the broader sector. Since then, the Law on Donation for Public Welfare passed by the NPC in 1999, and the RAF, passed by the State Council in 2004, were important steps forward in regulating the sector. However, many practitioners and scholars agree that there is a need for an overarching law that clarifies roles and responsibilities, designs new incentives to give to charity and sets a clear path for the development of the sector – who can do what, under which circumstances and through what means.

Efforts to push forward legislation on philanthropy started as early as 2005 by the Ministry of Civil Affairs (MCA) that submitted a draft “Law on Promoting Philanthropy” to the NPC. However, it was only in 2014 that the legislative efforts entered a more official drafting stage. A draft law was made available by the NPC for public consultation in late 2015, and it is widely expected that this will be finalized in 2016.

It is notable that some of the most outstanding research institutes dedicated to philanthropy and the social sector in China, including the China Philanthropy Research Institute, Beijing Normal University's School of Philanthropy, and Sun Yat-Sen University, have actively participated in the legislative discussions and provided their own draft proposals for consultation by the NPC. Their participation was funded by foundations.

For example, the BNU draft was sponsored by the Heren Philanthropy Foundation, while the draft prepared collectively by Beijing University and Tsinghua University was funded by the Dunhe Foundation from Zhejiang province⁹.

Taken together, the legislative proposals provided by various institutes suggest that the following issues in the governance of philanthropy in China are most pressing. First, there needs to be a clearer definition of the scope of philanthropy. While some propose that philanthropy should only be limited to social assistance to the needy, others strongly argue that the legal definition of philanthropy should include anything related to social development, such as the arts and sciences. Second, while most proposals suggest that the MCA be the sole agency for administration of philanthropy, some have proposed a separation between regulatory and administrative functions. These proposals include the set-up of a National Philanthropy Commission with the role of regulating the sector, with Civil Affairs Authorities as administrators. Third, given the limitation faced by private foundations on public fund-raising, and consequently on their charity work, all proposals call for relaxation of requirements for obtaining public fund-raising status. This would unleash the potential of private foundations to bring more innovations and raise standards within the sector. Finally, most experts have proposed legislative reforms to encourage transparency and accountability of charity organisations, better investment behaviour of foundations, and stronger, more effective tax incentives for both donors and receivers.

However, some have expressed concern about the latest stage of legislation, and have argued that it would be sufficient to update the existing laws and regulations in order to follow the sector's development, instead of passing a whole new law. Some believe that since philanthropy in China is still in a transitional phase, additional time should be allotted for more trials and developments within the sector before an overarching piece of legislation is appropriate. However, as many parts of the philanthropic sector currently function in a regulatory grey area, they would benefit from more legal clarity

and policy support. In addition, introducing one set of reforms at one stage does not preclude another set of reforms being introduced later on.

Registration of Social Organisations

According to a pilot study carried out by The Center for Global Prosperity, which measured philanthropic freedom using three main categories of indicators (civil society regulation, domestic tax regulation, and cross-border flows regulation), China has some of the most serious barriers. Governed by a ‘dual registration and management system’, a social organization in China has to first find a ‘sponsoring agency’, which can be a government department or one of few authorized government-backed organisations; only then can it qualify for registration with the Civil Affairs Bureaucracy. As the sponsoring agencies bear potential risks from the operations of the organization, they tend to prefer to sponsor organisations that have close relations with the government. For independent grassroots organisations, finding a sponsor agency is difficult and many choose to register as a business or to stay unregistered, even though this is illegal and carries the clear risk of being shut down. Often, especially smaller organisations, prefer to avoid the added government oversight and bureaucratic and tax-related costs that are currently associated with official registration as a non-profit.

While the central government has been contemplating national reforms of the registration procedures of SOs, some local governments conducted experiments of their own. Shenzhen was the first municipality to remove the dual management system in 2008, allowing social welfare and charity SOs to register without a sponsoring agency. In 2009, the Beijing Municipality introduced the so called ‘hub association’ which temporarily replaced the usual sponsoring units for SOs. Eventually in 2013, the National Development and Reform Commission (NDRC) issued a reform policy to allow direct registration of philanthropic organisations. The reform was successively enhanced during the Third Plenum of the 18th Central Committee of the Communist Party of China (CPC) in 2014 and was included in its

“Decisions on Some Major Issues Concerning Comprehensively Deepening the Reform.” This reform allows four categories of CSOs to directly register with civil affairs institutions: industrial and commercial associations, technological organisations, philanthropic organisations, and rural and urban community service organisations. Currently, MCA is revising relevant regulations accordingly and piloting direct registration with local civil affairs departments. By March 2015, more than 30,000 eligible CSOs had directly registered.

Foundation Management Regulations

Different from their international counterparts, most foundations in China are ‘operational’, meaning that they conduct projects themselves rather than giving grants to other social organisations as implementing partners. This is due to a general lack of trust from the donors in sub-granting programmes and a lack of capacity in smaller social organizations and the broader NGOs sector. This dual mission of Chinese foundations, namely fund-raising and project implementation, requires more staff support and overhead costs compared to simply grant-giving foundations. In China this is particularly difficult because foundations are required to keep administrative costs (including salaries and payments) below 10 percent of annual expenditure. While this was originally designed to keep costs low, most operational foundations find it hard to meet these requirements.

In addition, as stated above, public and private foundations have very different regulations when it comes to fundraising. Only public foundations and officially designated organisations, like the China Red Cross Society or the China Charity Federation, have the authority to engage in public fund-raising; private foundations and other non-profit organisations, on the other hand, are funded by gifts or donations through private channels.

Incentives for Charitable Giving:

Over the last 15 years several laws and regulations have tried to define tax exemptions for donations, including the *Individual Income*

Tax Law, the *Enterprise Income Tax Law*, and the *Law on Donation for Public Welfare*. However, the enforcement and implementation of these laws remains difficult, and continues to discourage donations. The biggest barrier remains the requirement that receiving organisations need to be eligible to receive tax-deductible donations¹⁰. Because of the strict and complex procedures involved, until today only 157 organisations have received this status in China. This means that the majority of charity organisations, even if officially not-for-profit entities have to pay taxes for the donations they receive. These organisations are not able to issue tax-deductible invoices for donations, and donors are therefore unable to apply for tax deductions, making them less motivated to donate.

Another barrier lies in the registration status of most organisations. In fact, most social organisations in China are often still registered with the Industry and Commerce Bureau as ‘businesses’, which means they continue to have to pay taxes for all donations received, along with other business taxes. In light of this, those who can, ask their donors to give to partnering foundations, which in turn charge 3 to 5 per cent overhead for receiving and managing funds. Even worse, for those organisations not registered either with the Civil Affairs Bureau or with the Industry and Commerce Bureau, receiving donations remains a very challenging affair.

Finally, corporate-giving makes up the majority of total charitable donations, and has been the main engine in the development of charitable undertakings in China. However, the current tax regime, which allows the deduction of up to 12 per cent of corporations’ taxable income for donations to approved charitable organisations, has been held back by the same bureaucratic and regulatory constraints explained above.

In summary, an extremely complicated and burdensome process required for receiving tax deductions has held back both corporate and personal giving in China. It can be argued that this is especially true in the personal income tax sphere, where incentives are practically

impossible to use for individual donors. Yet, this could be considered the largest potential for growth in Chinese philanthropy and reforms in this area could help unleash a new culture of philanthropy in the future.

Key Requirements for Chinese Foundations

Minimum capital requirement	<ul style="list-style-type: none"> • \$1.2 million for nationwide public foundations • \$590,000 for regional public foundations • \$295,000 for private foundations
Sponsoring requirement	<ul style="list-style-type: none"> • Must obtain approval from a government 'sponsor agency' • The 'sponsor agency' must be in charge of the public sector of the applicant's philanthropic activities
Public interest domain	<ul style="list-style-type: none"> • MCA and 'sponsor agency' must confirm that the proposed foundation falls within the definition of 'public interest domain' (i.e. promotes public welfare in China)
Approval	<ul style="list-style-type: none"> • Desired name, articles of association and list of personnel must be submitted to and approved by MCA and 'sponsor agency'
Expenditure requirements	<ul style="list-style-type: none"> • No less than 70% of previous year's income must be spent on public benefit activities in public fundraising foundations • No less than 9% of previous year's surplus must be spent on public benefit activities in private fundraising foundations
Other requirements	<ul style="list-style-type: none"> • Must have a registered office address in China • Administrative costs to be kept within 10% of capital



CHARITABLE GIVING IN CHINA

“Corporate giving accounted for the majority of all charitable giving in 2013”

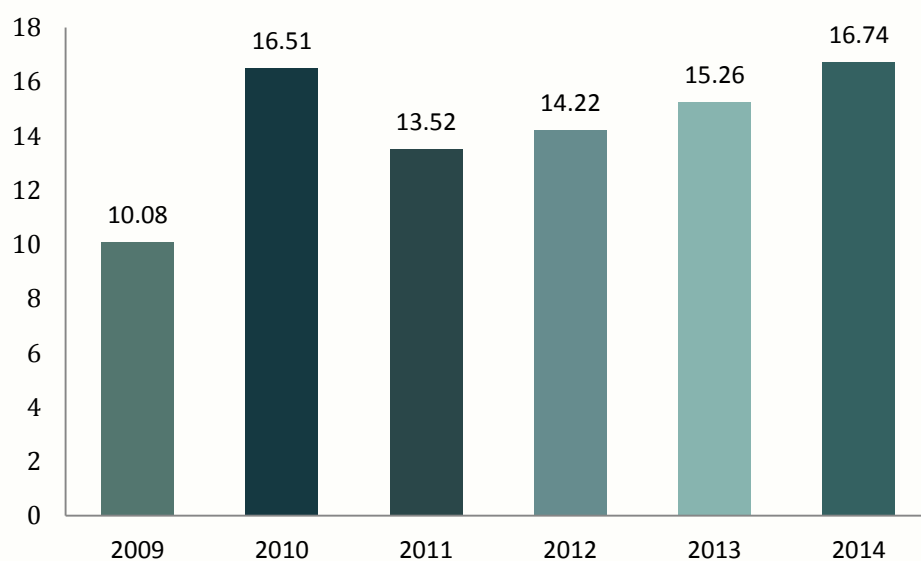
According to the China Charitable Giving Report (2014) published in September 2015¹¹, the total sum of domestic and international charitable donations in 2014 amounted to 104.23 billion RMB (approximately \$16.40 billion) and accounted for 0.16 per cent of the annual GDP. Compared to 2013, overall donation witnessed a 5.3 per cent growth despite the economic slowdown and low incidence of major natural disasters. Graph 3 shows the rise and fall in charitable giving in China since 2009. The volatility of the total amount is related to the incidence of natural disasters, as seen from the rise in donations in 2010 and 2013 when major earthquakes and landslides hit Qinghai, Sichuan and Gansu.

Corporate giving accounts for the majority of charitable giving, reaching almost 70 per cent in 2013 (Graph 4). Both domestic and foreign private enterprises proved to be major contributors in 2013 (Chart 5). In comparison, the percentage of individual giving was small. For example, individual donations to the China Charity Federation in 2013 accounted for merely less than one per cent of total donations it received, while the rest were received from corporations. As the data shows, the government and major corporations remain the main players within the philanthropic sector in China, while the contribution from individual donations remains very small. This remains the largest untapped resource for charity and philanthropy in China, the power of the many private citizens who are slowly becoming more interested in

giving away small sums of money. However, a lack of trust in most charities and the inexistence of practical financial incentives (e.g. in taxation) for the middle class to donate to charity have slowed the growth in personal giving.

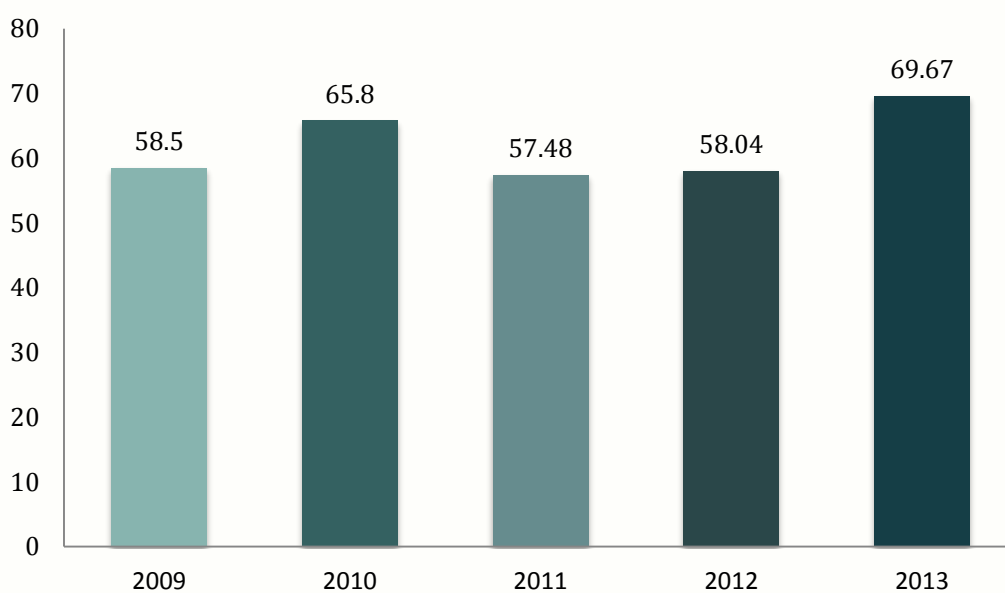
Because of the preferential fundraising status of public foundations, approximately 59.18 per cent of charitable giving in 2013 went to the government or its affiliated charity organisations, including the China Charity Federation (34.27 per cent), Civil Affairs Bureaus (13.79 per cent), and other government and public institutions (11.12 per cent). As it receives the majority of donations, the state has dominated the development of the philanthropic sector and has a key role to play in shaping its future. As incomes and expenditures grow, state-backed institutions have an opportunity to shape the medium-term future of the sector. They can continue to channel more resources to Government-backed institutions or Government Organized Non-Governmental Organizations (GONGOs), thereby reinforcing their status within the sector; or they can distribute more resources to more autonomous social organisations and incentivize the growth of a new ecosystem of smaller organisations. Either way, the state remains the dominant player within the philanthropic sector in China and continues to affect change in the dynamics of the sector. The question remains whether in the future it will choose to unleash new potential or continue to affect change to best suit its own needs.

Graph 3: Annual Amount of Charitable Giving (unit: billion, USD)



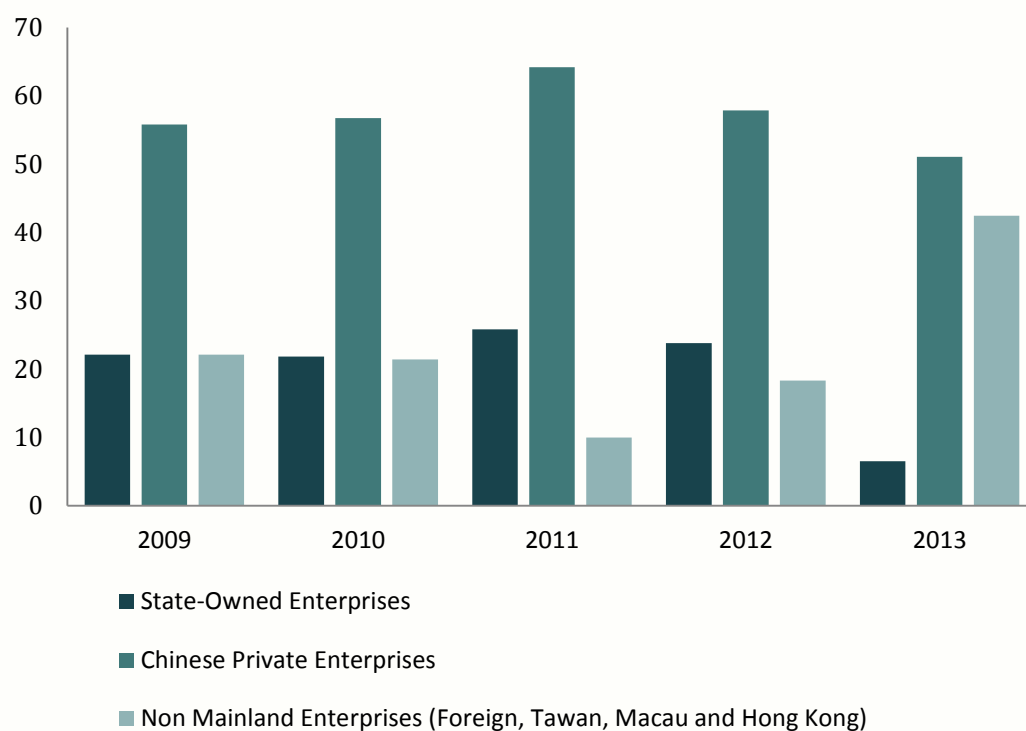
Source: Peng Jianmei (ed.), 2014, *China Charitable Giving Report (2013)*, China Charity InformationCenter, Beijing: Enterprise Management Publishing House

Graph 4: Percentage of Annual Corporate Giving (%)



Source: Peng Jianmei (ed.), 2014, *China Charitable Giving Report (2013)*, China Charity InformationCenter, Beijing: Enterprise Management Publishing House

Graph 5: Percentage of Corporate Giving by Types of Enterprises (%)



Source: Peng Jianmei (ed.), 2014, *China Charitable Giving Report (2013)*, China Charity Information Center, Beijing: Enterprise Management Publishing House



TRENDS & INNOVATIONS IN THE PHILANTHROPIC SECTOR

Philanthropy is still at an early stage of development in China. From an international perspective, while China's GDP was about half of that of the US in 2013, the total amount of charitable giving in the US was 21 times of that in China¹². According to the World Giving Index, the percentage of China's giving population ranked only 115th in 2013¹³. However, China's philanthropy sector is growing fast, with per capita charitable giving increasing 20 per cent annually until 2013¹⁴. In fact, as more social actors have joined this sector and the use of new technologies for charitable giving is increasing, it is reasonable to expect that the recent growth trends will be sustained. This chapter will discuss some major trends and innovations that have emerged in recent years, along with their implications for the future development of philanthropy in China.

Increased Popularity of Philanthropy

The popularity of philanthropy in China is apparent from the way citizens from all walks of life have joined together to participate or donate for different causes. In 2013, former Premier Zhu Rongji donated \$3.22 million from royalties he earned from one of his books to found the Shishi Zhuxue Foundation, dedicated to basic education in impoverished areas. Although a number of China's politicians are known to support charity work, Premier Zhu's was the

first contribution by a politician made publicly and was considered a sign of the broader acceptance of giving away wealth across sectors of society.

China's newly rich have also started to give back and are more willing to support a wider range of development issues through innovative means. According to recent estimates, the levels of personal and corporate wealth in China are rising faster than ever before. At the end of 2015 more than 500 billionaires resided in China, surpassing even the number residing in the USA. The total net worth of the 400 richest persons in China was valued at around \$570 billion USD, a 35 per cent increase from the previous year. Many of these wealthy individuals are starting to give back, by setting up private foundations or by supporting the work of other social organizations. At the end of last year there were over 4,211 foundations in China, a 60 per cent increase from just five years ago. The majority of these are corporate or family foundations associated to a company. The income of these foundations has also grown exponentially, to account for more than \$8 billion USD at the end of 2013. According to the Hurun Philanthropist List 2015, in 2014-2015 China's top 100 philanthropists together contributed the equivalent of \$3.18 billion to support charitable causes including education (44%), social good (26%), poverty alleviation (9%), disaster relief

(5%) and others (17%).

The contributions of the superrich have been growing rapidly over the last few years. As per the Hurun Philanthropy List 2014, 58 out of the 100 richest people in China were among the most generous philanthropists in China, whose per capita giving in 2013 amounted to over \$200 million (an increase of 264 per cent since 2012)¹⁵. It is important to note that among the top 100 philanthropists in China, in 2015 18 were women, a 50% increase from just three years before.

Over the last few years, some of China's billionaires have started to establish philanthropic trusts funded by share options granted by their corporations. Jack Ma, China's richest individual, publicly donated two per cent of Alibaba's equity (equivalent to \$3 billion) to establish a charity fund in 2014. Some hope that this will push other large companies to do the same soon¹⁶.

Outside of the corporate sector, celebrities, journalists, and other professionals have also displayed great commitment and success in mobilizing and taking action to address social issues. Wang Keqin, an investigative journalist, raised public awareness for black lung disease through his reports and by founding the Love Save Pneumoconiosis Fund, which has raised \$3 million since 2011, and has contributed medical infrastructure for treatment of patients across China. Family foundations in particular have started to play an increasingly important role in the sector, as they can take more risks of capital –investing in longer term ideas that may not result in an immediate impact but may foster more structural changes over years and often decades.

New technologies and innovations

New technologies, such as the internet and social media, have been strong driving forces behind philanthropic development around the world, with China being no exception. It is now more and more common practice for foundations and other social organisations in China to use social media platforms such as Weibo and WeChat to

increase public awareness about particular social causes, calling for donations and voluntary action, and publishing project updates. More recently, online donation portals have reduced the indirect costs of giving, and have thus encouraged public enthusiasm toward philanthropy. For an individual donor, there are two ways to donate online: 1) through a public foundation's website, or 2) through third-party platforms; Both can benefit from the idea of crowd-funding.

Crowd-funding

Crowd-funding for philanthropic causes in China was initiated in 2007 by 51Give.org¹⁷. The idea was to bridge the gap between projects and donors by publicising donation calls, accepting donations, and tracking charity activities for donors online. Because private foundations and social organisations are prohibited from public fund-raising, many such organisations partner with public foundations by setting up special funds (专项基金, Zhuānxiàng jījīn), which are publicised on crowd-funding websites and receive funds from the public through secure payment systems. By building a reputed and secure system for fund-raisers, crowd-funding services have solved the problem of asymmetry in information networks, and have reduced transaction costs of fund-raising, while increasing transparency of investments and impacts of charitable projects.

Major new social media players and online payment services have joined the crowd-funding sector, and have made it easier for individuals to donate regularly. For instance, Sina Weibo's Micro-Philanthropy platform raised more than \$16 million within 72 hours for 32 projects which focused on the Lushan Earthquake relief in 2013¹⁸. The service also allows any individual to submit calls for donation for charity causes, which, once verified by Sina's team and accepted by a public foundation willing to host the project for fund-raising, will be broadcast through the user's Weibo account. This provides the public with more choice, and makes funding available to many causes that are otherwise ignored. While individual donations can be small in amount, some corporate donors have

promised to donate cash or goods based on the number of re-tweets, which accelerates the speed of online mobilization.

The internet service portal Tencent has promoted the idea of habitual ‘monthly giving’ (月捐, Yu è juān), which mobilises users to sign up for a recurring donation of 10 RMB (\$1.5) every month for a particular project hosted by public foundations¹⁹. Between May 2009 and September 2013, this service raised \$9.8 million from 16 million people. Taobao, a popular eBay-like service under the Alibaba Group, has allowed foundations and individuals to raise funds by selling virtual philanthropic ‘products’, and has encouraged sellers to donate a set percentage of individual sales to a philanthropic cause²⁰. Additionally, online banking and third-party electronic payment platforms such as Alipay, Tenpay, Yeepay, 99bill, Baifubao, Unionpay have been making online donation possible through their web services and cell-phone applications. With 648 million web-users in China (and still growing), these online donation platforms have the potential to transform the philanthropic sector in an unprecedented way. According to a research report on online donations in China, 560 million donations were made through these media channels since in 2013, raising a total amount of \$87 million²¹.

Online fund-raising is often complemented by offline activities such as walk-a-thons and academic seminars, which participants tend to find more engaging. These events then serve as promotional material on the internet to further the drive for donation and participation.

These new technologies are enabling foundations, social organisations and even small CSOs to deliver their philanthropic messages to a larger audience than ever before. Some of this potential has been recognized by the government and has influenced new policies. For example, six months after the “Free Lunch” programme for poor children was created by a journalist using Weibo and mobilised around \$4 million from 900,000 individual donors, the State Council issued a plan to improve the nutrition standards of rural students enrolled in primary

and middle schools by allocating annual funds to cover these costs in 860 counties.

Strategic Philanthropy

The combination of business investment, innovative finance and philanthropy has become increasingly popular in China with both Chinese and foreign business groups joining the drive towards what is known as “*social impact investment*”. Impact investing refers to investments made into companies, organizations, foundations and even financial products and funds that intend to generate a measurable, beneficial social or environmental impact alongside a financial return. Over the last few years it has become a form of socially responsible investing serving as a guide for various investment strategies in corporations and financial markets. Three cases are highlighted below as instances of the growing influence of social impact investment in China.

The Alibaba Group initiated several philanthropic projects to support small and medium enterprises and start-up entrepreneurs who want to deliver services or goods to the poor by providing easy access to loans and training services. The LGT Group, a private banking and asset management company, set up a venture philanthropy fund (LGTVP) in 2007 to invest in organisations or projects that work towards sustainable development and advancing the livelihoods of disadvantaged groups. In 2013, LGTVP set up an investment project on the Shangri-la Farm in Yunnan, to facilitate fair trade of local coffee and honey farmers. LGTVP provided funds and technical support to help farmers increase production, which in turn helped increase their incomes.

The China Social Entrepreneur Foundation (YouChange) has consistently supported social organisations and projects during their initial stages by acting like a venture capital firm. Different from commercial investments, the venture capital invested in philanthropic projects was not meant to generate material returns for the investors, but rather to achieve sustainability for both – fiscal conditions and social impact of invested organisations or projects. Through its

Eagle Plan, Start-up Café and innovative projects, YouChange helped the growth of a number of social enterprises and leaders. In 2013, along with the Climate Group and Green China Lab, it established the Social Impact Fund (SIF) to support projects that may have the potential of creating value for sustainable development. With expected donations estimated at \$80 million, YouChange and its partners have started to identify prospective projects focusing on the environment, food safety, health and aging.

In summary, the development of strategic philanthropy has created an ecosystem that connects businesses with charity groups. Not only can charity groups access fundamental support in monetary and technical terms, but their projects are also run more efficiently under the supervision of professional investors. Corporate donors also have better control over the returns of their investments, albeit in the form of social impacts, and thus are more willing to continue their contribution to the social sector.

Since 2000 Impact Investing utilizing private equity and bond funding has grown exponentially. The creative combining of commercial requirements with social impact represents a significant new investment practice. Impact investing witnessed significant growth in 2015, with \$8 billion in planned new investment in Asia and the Pacific alone. The market for social impact investing in private equity is likely to follow a similar trajectory as more institutions embrace both financial return and social outcomes in order to access this new influx of capital. China is viewed as the next frontier of this type of investment and growth in this sector could influence Chinese philanthropy in unprecedented ways.

Going Global

As Chinese businesses and state-owned companies have gone global, China's philanthropists are also starting to look beyond their borders. Over the last decade, some firms investing overseas have begun to participate in Corporate Social Responsibility (CSR) projects that work with local communities. However,

initial lack of local knowledge and capacity have kept these initiatives small; a recent report by UNDP, CAITEC and SASAC discusses the history and challenges surrounding these initiatives. More recently, several public foundations in China have also started to work internationally, sometimes by partnering with corporations or state-owned enterprises in their CSR efforts. In 2011, the China Foundation for Poverty Alleviation, which has other healthcare projects in Myanmar and Cambodia, built the Sudan-China Abu Ushar Friendship Hospital in Sudan, financed by the China National Petroleum Corporation. The project Hope for Africa, initiated by the China Youth Development Foundation in 2011, is building and rehabilitating primary schools in UN-identified Least Developed Countries (LDCs) including Tanzania, Kenya, Burundi and Rwanda.

In addition, more and more philanthropists have started to develop a global vision vis-à-vis issues that affect well-being in other parts of the world. In 2008, Dr. Feng Lun, Chairman of Beijing Vantone Industrial Corporation, started this trend by founding the World Future Foundation, dedicated to building green communities and funding R&D to mitigate climate change. Others have followed his leadership. In 2013 the Cihang Foundation, established by the Hainan Airlines Group started to contribute to the World Food Program and to UNICEF through a donation of 20 per cent of its shares. In 2014 Jack Ma and other Chinese philanthropists established the China Global Conservation Fund to support conservation projects around the world focusing on sustainable development.

In 2014, in a somewhat controversial move, the real estate tycoon couple of SOHO, Zhang Xin and Pan Shiyi, donated \$15 million and \$10 million to Harvard and Yale respectively to establish the SOHO China Scholarships, providing scholarships for Chinese undergraduates to study abroad. While many criticised them for donating to foreign institutions instead of the education sector in China, the move reflected the new international vision of Chinese philanthropists, and their willingness to look beyond China to cultivate the

next generation of leaders.

As philanthropy in China continues to grow, it is expected that these kinds of donations and the overall weight of Chinese donors internationally will increase. This represents an enormous opportunity for development, since a broader range of philanthropists is emerging and becoming engaged in international giving, while domestic giving within developing countries is also increasing. Countries like China, but also Brazil, India and South Africa, have become involved in foreign assistance not only through government aid but also through private investment, philanthropy, and remittances. While their official development assistance reached an estimated \$3.7 billion in 2012, remittances from these countries to developing countries amounted to more than \$14 billion in the same period. Philanthropic contributions to international causes in the developing world already amounted to around \$400 million, a 30 per cent increase from a year before.



CHALLENGES TO FUTURE GROWTH

In many ways China today has the unprecedented opportunity to tap into its increasing economic development and its expanding non-profit sector. While philanthropy in China is currently at a nascent stage, it has grown rapidly in recent years. Home to record numbers of superrich ready to give back, with more and more corporations investing in CSR and with an expanding middle class, China has vast and growing socio-economic resources to mobilize in support of philanthropy. In addition, the use of the internet and social media, together with small-scale innovations have created new fund-raising techniques such as crowd-funding and social media donations, which are making it even easier for the general public to participate in philanthropy.

However, important institutional and social barriers to the development of philanthropy still exist, such as the gap between the sector's fast growth and the outdated regulations that govern it; lack of transparency and therefore public trust in charitable organisations; and the lack of capacity for foundations and organisations to carry out charitable organisations; and the lack of capacity for foundations and organisations to carry out charitable projects. This report calls for reforms to be undertaken by the government in order to remove these barriers. With the enormous potential for philanthropy in China, the sector is expected to have the ability to

greatly influence development, tackle inequality and poverty, both within China as well as internationally.

1. Lack of clear incentives to give

Despite the fast growth of China's philanthropic sector, its size and impact are still small compared to other countries. In 2014 the percentage of China's donation to GDP was 0.17, and the jobs created by the philanthropic sector accounted for only 0.2 per cent of the labour market. In comparison, philanthropy in the US contributed to 12 per cent of its GDP and 10 per cent of its labour market²².

Part of this is related to the fact that China lacks clear, workable and effective financial incentives for the sector to grow further. The current fiscal space is not working well for neither small independent donors nor large corporations, nor recipients. While tax exemption and deduction policies exist, these remain too complex and unreliable to be taken up more broadly. On the donating side, this stifles the potential of personal donations from millions of Chinese citizens as well as large corporations to give more. While better income or corporate tax deductions would make a difference, the biggest barrier remains the eligibility requirements that organisations need to fulfil to be eligible for tax-deductible donations²³. However, the process of

registering for tax deductibility is complicated and burdensome, and receiving tax deductions remains inaccessible to most organisations. In addition, as most social organisations in China are registered with the Industry and Commerce Bureau as ‘businesses’, they continue to have to pay taxes for all donations received, along with other business taxes.

Finally, the inequality between public and private foundations is also negatively affecting the development of the sector. The inability of independent foundations to raise resources from the public limits their ability to grow, but most importantly to innovate and influence the public discourse around philanthropy in China. The dominance of the state in philanthropy is reducing opportunities for new players to come in and flourish. While the state should continue to direct the sector, allowing others to grow and innovate would benefit everyone.

2. Lack of transparency and public trust in the sector

Lack of transparency is a serious challenge facing the philanthropic sector in China, which has been hitherto dominated by state-affiliated charity organisations plagued by bureaucracy and inefficiency. Out-dated laws and regulations do not permit newly founded and more autonomous organisations to play a full role in philanthropy, still requiring most organisations to be affiliated with a semi-government entity. This stifles competition and innovation while enabling a small number of organisations to play an unsupervised and unrestricted role in the sector. According to a recent study by the Centre for Public Participation and Supports at Peking University, the average transparency score of the 93 surveyed Chinese philanthropic organisations was 35.49 (out of 100). Two-thirds of the organisations recorded scores between 20 and 50²⁴.

Many years of continued lack of transparency and accountability have created a public trust crisis. Recently, as the sector’s reputation was again tarnished by new revelations of misconduct (most famously the Red Cross Society scandal of 2011)²⁵, the state and public

foundations worked together to push forward clearer accountability and transparency rules. Both central and local governments have since made requirements of social organisations to disclose their fiscal reports annually; many have started publishing their fiscal expenditures on their websites or in annual reports. However, these attempts remain small scale, ad-hoc and insufficient without broader governance reforms that can clarify the operational and financial status of most philanthropic organisations.

In the meantime, some organisations have developed independent indices to measure the transparency of social organisations and have published independent rankings. The China Charity Transparency Index (CTI) Report has been released annually by the China Charity Information Centre (CCIC), a social organisation supervised by the Ministry of Civil Affairs. In addition, the China Foundation Transparency Index (FTI) and the China Grassroots Transparency Index (GTI) were later developed by the China Foundation Centre and the Union of Self-Disciplinary Organisations (USDO) respectively. With collective efforts from the state and civil society, accountability and transparency of philanthropic organisations is expected to improve, which should in turn build public trust in the sector and encourage more public giving.

3. Capacity building of social organisations and foundations

The transition of foundations in China from direct programme management to more grant-giving has been an issue of concern. The fact that most foundations in China run their own programmes has cut off an important part of new funding for smaller grassroots organisations, which have not been given the opportunity to grow and develop their operational capacity. This, in turn, has further reduced the level of trust by other potential donors towards CSOs across China, which created a vicious circle leading to less and less funding for CSOs. In the last five years most international development actors have left China, from bilateral donor agencies to international funding mechanisms like the Global Fund to fight AIDS, TB and

Malaria. These international sources of funding, which over the years had invested heavily on CSOs in China, have not been replaced by domestic sources. Both private and public funding of CSOs in China remains small. This has created an urgent funding gap for most community-based or smaller grassroots organisations. Domestic philanthropic resources should reach smaller community-based organisations, as they are equipped with the local knowledge and are often able to reach areas and populations that large foundations cannot.

Moreover, many donors still tend to restrict the use of their contributions, which often limits the foundations' ability to support social organisations. As a result, capacity building for social organisations remains a critical need for an efficient division of labour and for a more productive use of corporate and public philanthropic resources.

Specific capacity needs assessments and capacity building support is needed for foundations as giving entities. This could be focused on how to enhance giving, making it more strategic, increasing development impact and ensuring longer-term sustainability. This could be done by increasing support and strengthening of philanthropic associations that support the overall philanthropic sector in China. However, more collaboration among philanthropic organizations and philanthropists themselves, with peer to peer learning and more coordination and information sharing, would also support combining resources and ideas towards common goals and larger impact.

Finally, there is a lack of coordination and partnerships among different stakeholders – with most actors still working alone. However, there are enormous economies of scale that could be utilized if a better environment for collaboration and partnerships was built between GONGOS, family foundations, the private sector and academia.

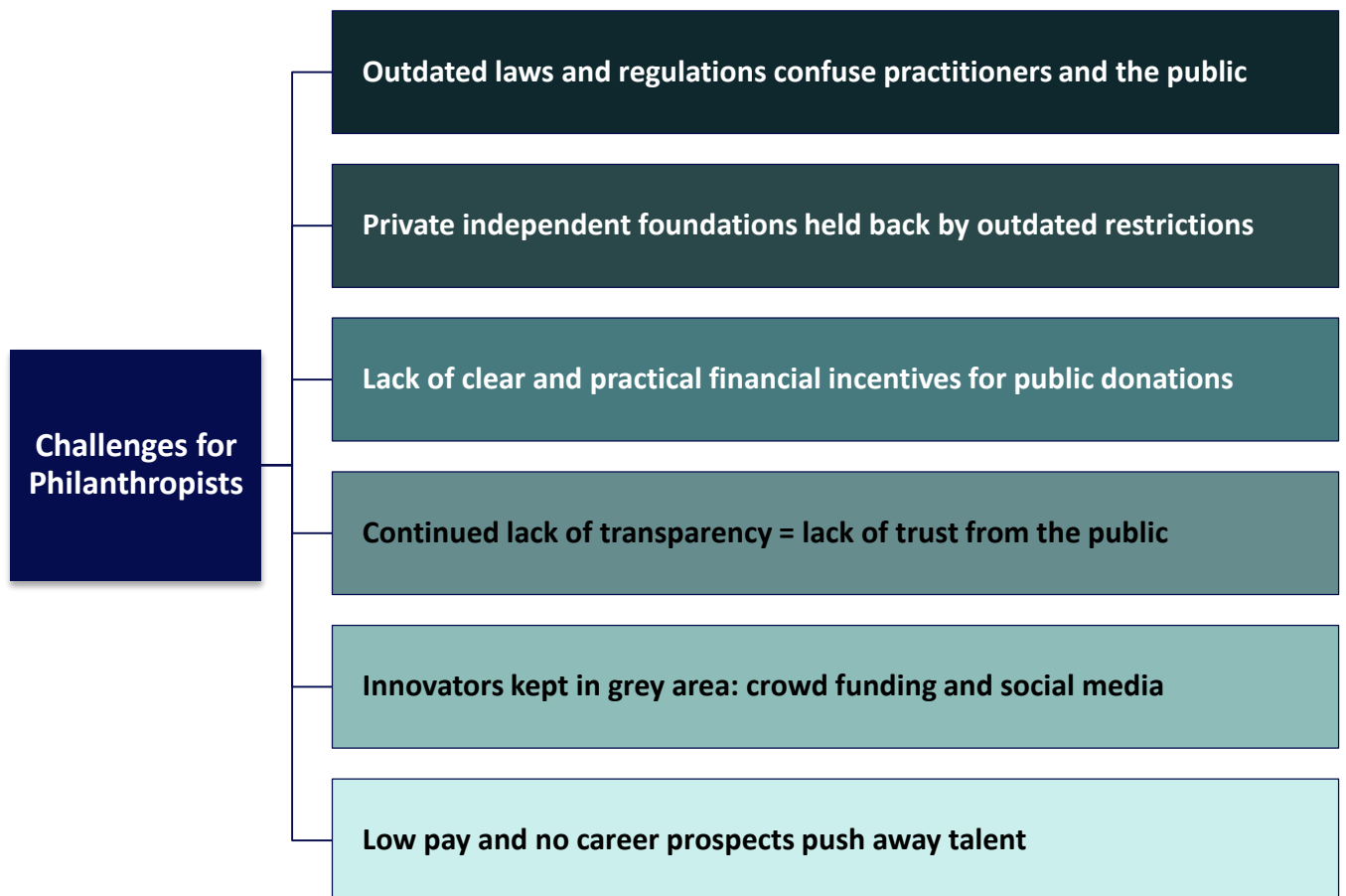
4. Human Resources and talent management

The fast growth in the philanthropic sector in China has created a number of human resource challenges. Firstly, the sector is in great need of

specialized workers who are skilled in areas such as fund-raising, accounting, information and communications technology (ICT) development and programme management. Most entry-level employees have insufficient training, and organisations have to spend considerable resources to train newly employed staff without the assurance that the latter, on acquiring skills and experience, will remain in employment.

This is connected to the second challenge of attracting and retaining skilled staff. The average wage for employees in charity organisations is comparatively low. According to the *2014 Guide on the Labour Market and Wages for the Philanthropic Sector* in China, an entry-level employee earns an annual salary of between \$5,000 and \$10,000 in a public foundation and between \$8,000 and \$30,000 in a private foundation. According to a report prepared by the Narada Foundation in 2010, 90 per cent of workers in other social organisations bring home a monthly salary of less than \$800. While payment for entry-level employees in the philanthropic sector is only slightly lower than that in other sectors, the mid- to high-level employees are paid significantly less if compared to the corporate sector. This discourages most young people and students from entering the sector and over the years it discouraged the proliferation of educational and training institutions focusing on the non-profit sector. While this is the case internationally, some countries have started to adopt specific fiscal, taxation or social-support policies to incentive the attraction and retention of talent in the non-profit sector.

Thirdly, as foundations are required by national regulations to keep administrative costs within 10 per cent of their income, they tend to employ fewer staff with lower wages, which creates unfair and over-burdened workloads. This results in a high mobility of the workforce, mostly within the sector since finding employment in the corporate sector is more challenging. Also, since most foundations and social organisations are small in size, the prospect of upward mobility is slim for mid-level employees, once again causing them to switch jobs.





CONCLUSIONS & RECOMMENDATIONS

“Lack of transparency is a serious challenge facing the philanthropic sector in China”

While the potential for growth for philanthropy is clear, it is also becoming evident that without some targeted reforms and governance changes the sector may lose its steam in the years ahead. This report calls for practical, evidence-based reforms aimed at creating a more enabling environment for philanthropy in China, in order to support China’s domestic poverty reduction goals, as well as tackling rising inequality. There is urgent need for a new, overarching governance structure of the sector, which includes clear roles and responsibilities of different actors. These new rules should focus on supporting innovations, incentivizing corporations to give back while focusing especially on unleashing the potential of personal giving, which this paper argues can grow considerably in the medium term. Most of these reforms are simple, have no cost to the state, and often consist of clearing specific institutional barriers which were originally introduced for good reasons but now are limiting innovators and stifling creativity within a “new normal” economic outlook.

The following recommendations are not meant to be exhaustive, but were chosen as the main pillars of a new vision for the governance of philanthropy in China.

1. Reform the eligibility for public fundraising

The inability of private or independent foundations or social organisations to raise

money directly from the public has hurt the development of the overall sector. Independent actors should be empowered to grow and innovate within the sector, as this will benefit everyone and increase the impact of philanthropy in China. Approval procedures should be reformed to allow more social organisations and foundations to register as public foundations while private foundations should be allowed to finally raise funds from the public. A more competitive fund-raising market will lead to innovations that will explore and better utilize the potential of individual giving, inspiring a race to the top in terms of delivering results. The sector will benefit from the development of more professional fund-raising services that is currently missing in China.

While this would allow availability of more resources to support a wide range of social causes, most importantly it would help change the narrative and perception of philanthropy and charity with the broader public.

2. Release the potential of individual giving

Corporate giving still accounts for too high of a proportion of the total philanthropic sector in China. Although new methods of online and social media giving have boosted individual donations in the last five years, the scale is still small, and provides the largest untapped potential for growth in the sector. The government should simplify and strengthen procedures for individuals (as well as

corporations) to claim tax deduction for their charitable giving. At the same time, regulations concerning qualifications for social organisations to receive tax-deductible donations also need to be streamlined and simplified, allowing more organisations to benefit from this status. Doing so would not only enable recipient organisations to earn more donations for charity, but would also enable them to issue invoices to donors who could legitimately claim tax deductions, creating a virtuous circle for growth.

3. Simplify and strengthen the regulation of the sector

A more autonomous philanthropic sector that incentivises competition and innovation will also be able to solve some of the transparency and accountability challenges identified in this report. However, the government could enhance its regulatory role in order to protect a growing sector from being damaged by irregular practices. New international standards in reporting and disclosing income and information could be adopted and standardised nationally. Independent efforts to enhance transparency in the sector should be supported and promoted. A zero tolerance towards corruption and mismanagement, especially in public foundations and semi-government institutions, should lead to internal reforms, rather than systemic paralysis. Finally, regulatory and administrative functions should not be assigned to the same bureau or authority. Rather, the different functions of regulation and administration are better undertaken by different entities.

4. Build capacity of social organisations

The philanthropy sector in China is currently top heavy. There are too many large organisations and foundations sitting on huge amounts of capital, with very few resources reaching smaller organisations at the bottom of the pyramid. At the same time, grassroots and community organisations need urgent capacity building, both in terms of internal management and project implementation. These organisations offer an enormous implementation opportunity, which could support philanthropists in achieving the social impact of their investments.

Innovative ways like online trainings and MOOCs can reach thousands of organizations and provide a new platform for networking and information sharing. It should be made easier for social organisations to qualify to receive tax-deductible donations. More grants should also be made available by foundations to grassroots organisations, and foundations should move away from project implementation and focus on fund-raising, grant-making and monitoring activities. Gradually, a more efficient division of labour between foundations and grassroots organisations could benefit the sustainable growth of the sector while supporting the growth of civil society in China.

5. Enhance the overall legal environment

As the recommendations above suggest, the sector is in urgent need of an overarching law to define the scope of philanthropy, clarify the relations between various actors, establish new principles and codes of conduct, better regulate and punish wrongdoers and incentivise giving. There is an opportunity for the new China Charity Law, currently under discussion in the National People's Congress (as of December 2015) to address all of these issues while leaving space for the sector to grow, allowing for future innovations. Most importantly, the law could focus on strengthening transparency and accountability for charity organisations, protect the interests of both donors and recipients, and include new, workable incentives for charitable giving by private individuals as well as corporations. Moreover, what is urgently needed is legal recognition of innovations such as philanthropic trusts and venture philanthropy tools, as well as regulations to protect and incentivise the growth in crowd-funding and social media fund-raising.

6. Invest in Human Resources

There is a need to create a new culture that values careers and professional development within the non-profit sector. Regulations that do not permit foundations or social organisations to invest in their internal capacity should be lifted. For example, the requirement for foundations to keep administrative costs within 10 per cent of their annual income has seriously limited the

capacity of foundations to grow their staff. Specific fiscal or tax policies could be considered in order to incentivise talent to join and stay within the sector. International best practices should be adopted to render the non-profit sector more attractive to young graduates and mid-career personnel. This could include a mix of tax incentives, broader support to social benefits (like mortgages or low-cost housing) or enhanced social security mechanisms. Universities and specialised higher-education training institutes should be engaged in providing more courses and professional training focusing on the philanthropic sector, therefore sparing social organisations the added responsibility to train their staff. As more universities in China have newly established philanthropy academies for training prospective charity workers, their coordination should be encouraged to develop qualified and standardised teaching materials and training methods. In the meantime, training of a new generation of academics and professors is also necessary, given that philanthropy research and teaching is relatively new in China. More fellowships and research grants could also be made available by donors, foundations and the government to help develop this new discipline among the education sector in China.

How to unleash Philanthropy in China



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