

Financing Social-Justice Civil-Society Organizations in China: Strategies, Constraints and Possibilities in Rural Poverty Alleviation

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Abstract

Rural poverty reduction is an area in which a significant number of CSOs are active in China. They deploy a mix of strategies to fund their work. While many are appropriately preoccupied with activities supported by government contracts and foreign-aid grants, these organizations are also striving to increase their undesignated revenues from earned business income, philanthropy and membership fees. Key constraints—including rigid government management practices, corruption and traditional giving patterns—reduce CSO prospects of independent funding. At the same time, a number of new directions could open up funds to nonprofits, including conversion of mass organizations to NGO-like structures, building the capacity and reforming the incentives of government officials to work productively with civil society, responding effectively to emergencies, and a cluster of trends associated with corporate social responsibility. Over the next ten to twenty years, Chinese and foreign scholars should work with other stakeholders to provide quantitative and qualitative research in support of efforts to expand CSO financing for rural poverty reduction.

Introduction

The purpose of this paper is to examine the strategies, constraints and possibilities of financing social-justice civil-society organizations active in rural poverty alleviation in China. How third-sector organizations mobilize funds in China is an important question not only for individual organizations and the nonprofit sector of which they are part, but also for the evolution of public-policy more generally in that country. And, ultimately, how civil society organizations (CSOs) are financed will to a great extent define the nature and scope of non-state, non-market citizen participation in China in the future.

Social-Justice Civil Society Organizations

For the purposes of this paper, social-justice civil society organizations (CSOs) are broadly defined here as non-governmental, non-profit and community-based organizations whose mission is social, economic or environmental change informed by critical, systemic analysis. Seeking to redress a range of injustices—including income deprivation, unemployment, homelessness, food insecurity, lack of access to education and health services, lack of affordable medicine for HIV/AIDS, gender inequality, ethno-cultural discrimination, exploitative labour practices, environmental degradation—these CSOs, Chinese or foreign, operating nationwide or within specific districts, run programs and projects, raise public awareness and, in some cases, advocate policy reform. This paper is concerned with a sub-set of these organizations: social-justice CSOs working to reduce rural poverty in China.

One of the most striking features of the Chinese third sector is its small size in comparison to the scale and reach of the state. In a very real sense, the case of China is the polar opposite of Bangladesh, where CSOs and NGOs are large, influential and, in a number of cases—deliver a parallel and usually more effective—set of services to the population. In that country, NGOs are often seen by government as a threat to the latter's legitimacy (Freedman, 2004a). In China, strict controls by government and the Communist Party have ensured that the civil-society sector has so far remained a minor player in the nation's development. With its concerns about maintaining stability and avoiding national fragmentation, the state has restricted CSOs and NGOs from becoming active in the "hot zone" of partisan politics and political advocacy.

Nonetheless, civil-society organizations operate throughout China, and the sector is dynamic and growing. An online directory operated by [China Development Brief](#) (2004) provides profiles of the major international NGOs actively engaged in a wide range of program activities, including poverty reduction, rural development, community development, environment, health and HIV/AIDS. Most of these international organizations have set up offices in major urban centres that afford them proximity to their corresponding government agencies. Some base their operations in the local counties where they undertake projects.

For its part, Tsinghua University's NGO Research Center (2002) tracks 500 NGOs active in China. The Center classifies these organizations as people societies (*remin tuanti*), academies (*xue hui*), sodalities (*lianyihui*), communities (*huzhu zuzhi*), foundations (*jijinahui*), associations

(*hangye xiehui*), charity associations (*cishan xiehui*) and others. “Economic organizations,” such as professional associations and sector chambers of commerce, are heavily represented in this database. These organizations generate funds through membership fees and consultancy fees for research and training. In contrast, for those NGOs involved in rural and community development, gender equality and environmental protection, overseas donors and government provide the bulk of financial support.

Traditionally, most NGOs in China have had close ties to government and the Party. However, this is starting to change. A combination of the greater social space that has been created by economic reform, and the state’s inability or unwillingness to be solely responsible for the same range of social services as before, has allowed the emergence in recent years of a new group of CSOs with varying degrees of autonomy from state and Party structures. These CSOs have become involved in an increasing range of organizational activities and have been allowed to occupy, or have created for themselves, social space within which to operate. In certain cases, these new CSOs have represented societal interests and even conveyed these interests to policy-makers. These CSOs both liaise between the state and society, and deliver vital welfare services that otherwise might go undelivered (Saich, 2000).

Rural Poverty

China’s record of economic growth is well-known and impressive. In the 20 years through 2000, per capita GDP grew four-fold to more than \$800. In the process, China pulled itself out of poverty, an unprecedented feat. However, notwithstanding these remarkable achievements, high absolute numbers of poor persist in the country. Debates continue on poverty-line definitions. The Chinese government claims that there are 30 million poor people in the country. But some aid agencies estimate that China accounts for 20% of all citizens of the world living on less than \$1 a day—in the order of 160 million people, or about 12% of China’s total population. Despite this divergence of views, however, there is a broad consensus, shared by both Government and donors, that most of China’s poor reside in the rural areas of the country’s underdeveloped western provinces (World Bank, 2002; Schatz, 2004; Li and Yue, 2004).

For its part, the government is implementing a ten-year, nationwide, multi-level (state, province, district, county, municipality) poverty alleviation strategy involving subsidized loans, food for work and grant funds, overseen by the State Council Leading Group Office for Poverty Alleviation and Development (2001). At the same time, the government is encouraging both foreign and Chinese NGOs to contribute to rural poverty alleviation, within the framework of this program (Schatz, 2004). Often focusing on particular districts or clusters of districts, and working closely with local governments, NGO interventions involve capacity building, training and service-delivery in microcredit, agriculture, off-farm employment, education, health, water and sanitation, and other activities.

Profiles of Active CSOs

Some examples serve to illustrate the roles currently played by civil society organizations in rural poverty reduction, and the financial basis of their efforts:

China Youth Development Foundation. Established in 1989 by the All-China Youth Federation, a mass organization under the Communist Youth League, the Foundation mobilizes local and international funds for youth education, science, culture, social welfare and environmental protection. Through its largest initiative, Project Hope, the Foundation has built nearly 10,000 primary schools and helped some 2.5 million students from poor households complete their nine years of basic education. Project Hope has attracted cash and in-kind contributions from, among others, Shanghai Bell Telephone Manufacturing, China's Administration of Posts and Telecommunications, UNESCO and, especially for multi-media, web and internet facilities, Motorola and Nokia. In 2002, the Foundation raised \$7.4 million and made \$7 million in grants (China Youth Development Foundation, 2004).

Cultural Development Center for Rural Women. The Center is the non-profit umbrella organization for a suite of programs promoting the legal and social rights and opportunities of rural women throughout China. In 1993, the organization's leaders, with close ties to the All-China Women's Federation, launched Rural Women Magazine (formerly Rural Women Knowing All), a unique monthly publication providing practical advice on rights and services to rural women and a circulation of 200,000. Run as a for-profit business, the magazine generates revenues that support the group's research and activism. In 1998, the group set up a training centre offering courses in gender awareness, computer skills, sewing and hairdressing. In 2002, responding to the expanding set of problems experienced in the workplace and community by migrant women, the Center launched the magazine Migrant Women. Among the Center's key funders and partners is Oxfam Hong Kong (see Rural Women, 2004).

The Amity Foundation. Set up in 1985 as a subsidiary under the Chinese Protestant Association, this Christian social-service agency operates a range of field-based rural poverty initiatives. In 2002, for example, Amity's integrated rural development projects served 150,000 citizens in 13 counties of six provinces: Gansu, Guizhou, Hunan, Ningxia, Shanxi and Yunnan. Working with local governments, and often financed by western aid, these projects seek to increase household security through farm and livestock training and inputs, watershed management, health and literacy training, and microcredit for women. Amity raises private donations from offices in Nanjing and Hong Kong, offering donors the possibility of designating their gifts for specific issues or projects (Amity Foundation, 2004).

The Yunnan PRA Network. In 1993, building on a Ford Foundation project on uplands agriculture, a multidisciplinary group of professionals joined together to form the Yunnan Participatory Rapid Appraisal (PRA) Network. Influenced by the work of Robert Chambers, the group promotes the use of PRA techniques in project planning, management and monitoring in social forestry, nature conservation and agriculture. In 2000, the Institute of Development Studies at the University of Sussex advised the Network on strategic planning. In 2002, the group was funded by the World Bank to train village leaders in citizen participation in decision-making (World Bank, 2002).

Oxfam Hong Kong. Oxfam Hong Kong (OHK) is a “foreign NGO” that is increasingly active in supporting rural poverty projects in China. The NGO’s partnership with the group operating the magazines Rural Women Knowing All and Migrant Women has brought important advice and resources to these initiatives. Oxfam Hong Kong operates a number of revenue-generating activities, notably the Oxfam Rice China Development Fund, whose sale of 120,000 packets of rice in Hong Kong raised HK\$ 3.2 million for development and relief projects on the mainland. At the same time, the organization has attracted 50,000 individual supporters; Hong Kong donors contributed almost HK\$40 million in 2001-2002, while mainland donors provided over HK\$ 11 million in donations. In other fundraising efforts, OHK raised another HK\$ 21 million through its Trailwalker hiking event, HK\$ 18 million via other events and appeals, and HK \$2 million in revenues from its two second-hand shops that sell CDs, international crafts, bags, clothing and jewellery (Oxfam Hong Kong, 2004).

Financing Strategies

These profiles suggest that rural-poverty CSOs working in China today tap the same basic revenue sources that their counterparts in other countries utilize (see Jackson, 2000). In general, there are five main sources that these CSOs use to grow and sustain their core operations and key programs:

- government grants and contracts;
- grants from international aid agencies;
- earned business income (including non-related business revenue, cause-related marketing and asset-appreciation);
- private philanthropic donations from individuals, corporations and foundations (both local and international); and
- membership fees.

How the Chinese government structures and enforces legislation and regulations in each of these areas, and interacts programmatically with the CSOs implementing these strategies, to a great extent defines the shape and scale of civil society in the sub-sector of rural poverty reduction. This can be referred to as the “supply side” of the financing question. For its part, the “demand side” involves building the governance, management and technical capacity of the CSOs to implement these professionally demanding financing strategies while staying focused on their missions.

Generally speaking, government grants and contracts, and grants from international aid agencies, are closely tied to specific activities and (increasingly) outputs and outcomes. Moreover, these funds almost always, in legal and fiduciary terms, must be *fully spent out* by the end of the funding period. Controllers and auditors in donor governments and administrations require this for accountability reasons.

In contrast, earned business income, private philanthropy and membership fees usually constitute undesignated revenue. That is, these funds can be put to any use the CSO’s board and management choose. While both categories—designated and undesignated—of revenues are

necessary and important, it is the second group that permits CSOs the most discretion in building an independent pool of funds to advance their core missions.

Of the five CSOs profiled, it is obvious that Oxfam Hong Kong has developed the most mature and independent resource-mobilization strategy. In fact, even by global standards, OHK has built a very diversified and dynamic revenue-generating “machine.” Oxfam Hong Kong can perhaps serve as a model for some mainland China CSOs to learn from, adapt and emulate in the future.

At a sectoral level, a number of other external organizations are working to build China’s philanthropy capacity, from both the supply and demand sides. The Asia Pacific Philanthropy Consortium, in particular, has sponsored meetings with government officials and NGOs to raise awareness on policy, laws and fiscal incentives to encourage the setting up of private and corporate foundations. United Way International has worked with the China Charity Federation to build the latter’s capacity as an intermediary to both raise and grant funds in the charitable sector. WINGS, for its part, has promoted the use of community foundations in China.

The Commercial Activities of Civil Society Organizations

There is a small but informative literature on the commercial activities of civil-society organizations in China. Overall, as Young and Woo (2000: 35) have observed: “In common with many government departments, NPOs [nonprofit organizations] frequently attempt to fund public service projects from sideline commercial activities.” However, “a sense of the opportunities provided in the marketplace is not always balanced by a due appreciation of the risks.” Consequently, note Young and Woo, some CSOs have lost their initial commercial investments, sometimes recording substantial losses.

At the same time, there is widespread recognition within civil society that business revenue is an essential arrow in the fundraising quiver. “Most CSOs in China are financially challenged,” write Wanzhu et al (2003:82). While there is often debate about whether this is an appropriate role for CSOs, commercial engagement is, for many, a basic necessity. In fact, some sector leaders, like Ms. Xie Lihua, of Rural Women Knowing All, argue that *all* CSOs should operate businesses as a revenue-generating strategy—but, that the business and nonprofit functions should be separate. “In her case,” Young and Woo (2000: 35) observe, “the nonprofit is one of the departments of her business organization, and is funded by the business.”

The business activities of Chinese foundations, in particular, have been studied in some detail. While State Council regulations of 1988 appear to prohibit foundations from managing or operating enterprises (Xin and Zhang, 1999), the opposite is the case in practice—to say the very least. “Unlike foundations in many countries, many Chinese foundations conduct business and maintain investments,” writes Zhang (1995b). “Running companies is a common practice for foundations. The China Literature Foundation, for example, runs eighteen companies ranging from big hotels to small restaurants. They generate a substantial amount of revenue for the Foundation. Consultancy fees have become a major source of revenue, especially for the natural science and technology foundations.”

As Estes (1998) has shown, Chinese foundations combine revenue from their commercial activities with an array of other sources, including: grants, subsidies or in-kind contributions from their sponsoring government agencies, gifts from overseas Chinese, donations from individuals, cash and in-kind contributions from business entities, and cash and in-kind contributions from major international NGOs. Estes notes that sponsoring government agencies provide salaries, pensions, subsidized housing and other benefits to senior foundation staff (who often are retired government officials). The sponsors also provide the foundation with access to office space, vehicles, equipment and other resources that continue to be managed by the department rather than the foundation itself. “Younger staff members and the senior staff of many of China’s newer foundations, however, rarely receive the full spectrum of salary and benefits that are provided to the senior officials of the more heavily subsidized foundations” (Estes, 1998: 15).

In terms of funds management, foundations can buy stocks, bonds and other securities. But they cannot own more than 20% of the shares of any single company. The Bank of China directs foundations to use donations for its programs. Interest made on investments is to be used to pay salaries (Xin and Zhang, 1999).

The Government’s Challenge

Among the many complex challenges faced by the Chinese government in this period of rapid economic and social change is to determine the extent to which it will permit, and even encourage, CSOs to build independent pools of money. On the one hand, in theory at least, there is some political risk in doing so. The more independent CSOs are, the greater may be the chance of them “going political.” On the other hand, the state is simply not capable of addressing the collateral damage of economic growth, freer markets, and accession to the World Trade Organization. And one important element in this collateral damage is persistent rural poverty, especially in the west. Moreover, in practice, the CSOs active in rural poverty reduction have been demonstrably focused, even consumed, with that mission. They have tended to act in ways that attempt to solve economic and social injustice while maintaining social stability, law and order.

This is not surprising, given that some of the main organizations operating in the field are actually creatures of proponents who are aligned with, and often themselves leading members of, the Party. The China Youth Development Foundation and Rural Women Knowing All are cases in point. Still, the way they work, and the issues they tackle, also indicate that within the Party there are differing points of view and a range of strategic choices, as well as considerable space, at least on some policy issues, for innovation. For their part, the Christian and foreign organizations, like Amity and Oxfam Hong Kong, are very careful not to step into the “hot zone” of political rights and participation in China. Rural poverty CSOs do, however, speak up on labour and social rights for women, factory workers, migrants and farmers. In the present political and economic context, this zone of activism seems acceptable, while overtly political advocacy remains unacceptable.

Constraints

It is not news that there is a host of constraints to CSO financing in China today. However, it is worth underscoring some of the factors that limit the resource-mobilization of rural-poverty NGOs in particular:

Regulation. The Party and the state (through the Ministry of Civil Affairs, or MOCA) have devised laws and regulations to bind CSOs to state patronage and to try to control their activities and expansion. In 1998, regulations were adopted that sought to incorporate CSOs more closely with existing party and state structures. These included the need to register with a sponsoring state agency that would oversee and be responsible for the organization's activities. Another was the banning of 'similar organizations' co-existing at the various administrative levels. For example, there cannot be two national trade unions. This serves to inhibit the number of registered CSOs, and keeps the numbers to a smaller (and "manageable") total amount level. These measures have, arguably, been used to deny registration for certain groups, and have also served to constrain the growth of independent CSOs.

Furthermore, the above measures serve to ensure that the existing "mass organizations" (e.g. All China Women's Federation, All China Federation of Trade Unions and the Communist Youth League), which are well-endowed with state financing, continue to enjoy monopoly representation in their sectors. At the same time, it is difficult for the financially-weaker, independent CSOs to challenge the mass organizations. At another level, these laws and regulations maintain a "compartmentalization" in a manner that mirrors that of China's government departments, and thus limit horizontal (spatial) linkage across jurisdictions.

All of these measures, cumulatively, favour those CSOs with close ties to government—and which already possess substantial financial reserves—and act as structural disincentives to bottom-up, financially-constrained, community-led initiatives. By inhibiting the establishment of "opposing" CSOs (on a specific issue), these laws and regulations also serve to dampen popular debate and community-led mobilization. At the same time, these regulatory constraints reinforce the state-led dimensions of civil society, rather than fostering civil society *per se*.

Despite the significant legal and regulatory controls which impact the financial operations of CSOs, some CSOs have found ways to evade such controls, have raised the 'independent' financing necessary to operate, and have acted as catalysts for positive change. Some have even been able to operate within the existing structures, and to achieve their desired ends. Other local CSOs have been able to find alternative means of financing (other than state financing), and have been effective working within the system, in negotiating with the state to influence the policy-making process or at least bring key issues into the public domain.

Interesting examples here include the Yunnan PRA Network, which has been involved in social forestry, nature conservation and agriculture in poverty regions in Yunnan province since 1993, the Sanchuan Development Association (local education, health care, rural income and economy and social services), the Jingpa Project (local income generation, local infrastructure, local cultural protection), and the Snowlands Service Group (water management, local education, and cultural protection) in Qinghai province. All of these local CSOs have reportedly been directly

or indirectly involved in policy discussions with the provincial and local levels of government in their respective fields of activity.

Even certain traditional government-organized NGOs/CSOs (or “GONGOs”), which function in principle as traditional Leninist ‘transmission-belt’ organizations for the government, have been able to direct the relationship of state sponsorship to achieve their desired objectives, and influence the policy process. One example is the China Family Planning Association (CFPA), set up by the official State Family Planning Commission (SFPC) to operate as its NGO (Saich, 2000).

CFPA is an interesting case of the extent to which a GONGO, backed by state financing, and operating at one level removed from the state, can nonetheless open up social space for community mobilizing, and act as a catalyst for policy innovation in contemporary China. While it is charged with promoting official family-planning policy, the CFPA has become sensitized to “international practices” through its foreign contacts and grassroots policy experimentation. As a result, the Association has become more attuned to the inadequacies of the current policy environment and the limitations in the current methods of policy implementation. SFPC, particularly its local branches, has run a number of innovative projects relating to sex education for young people, income generation for women, public health education, and raising women's awareness about their rights. It can be argued that, through its pilot initiatives, the CFPA has influenced the government's policy implementation approach to family planning and conducted experiments to shift from a “target-driven, quota-based system” of family planning to one that is “more client-driven”, offering choice of contraception combined with education (Saich, 2000). Further, some argue that the SFPC has not always been able to control the CFPA entirely, and that the Association has begun to develop its own quasi-autonomous organizational identity and ethos.

Corruption. The Government's new leadership has recently intensified efforts to reduce corruption in licensing, procurement and other state functions (Yong and Ran, 2004). And the standards and transparency required by the World Trade Organization and foreign direct investment are helping to reduce mismanagement in the commercial sector. However, overall, the culture and incentives associated with rent-seeking by government officials remain entrenched in much of the Party and the bureaucracy, especially (though not only) in lower levels of government and in rural areas—precisely the representatives with whom many rural-poverty NGOs must interact in their daily work.

Of course, CSOs themselves are not immune to corruption. In a high profile case, the China Youth Development Foundation recently avoided a crippling scandal over financial improprieties alleged in the Hong Kong press. In early 2004, the Foundation was cleared of wrongdoing by the Central Commission of Discipline Inspection, an anti-corruption unit of the state Government (Xin Dingding, 2004). Yet questions remain about the effectiveness and commitment of the CCDI itself (Yong and Ran, 2004). Another high-profile financial scandal involved the former leader of the China Charity Federation (Ding et al, 2003).

These and other scandals have reinforced public scepticism about the ability of Chinese NGOs with close ties to government to be prudent and accountable in their financial practices. And

such scepticism has in turn kept Chinese donors from fully supporting these organizations for such purposes poverty reduction—even for disaster relief. Observers note that some GONGOs are taking steps to present themselves as independent nonprofits, at arm’s length from the state. The skeptics see this as a strategy to gain the confidence of international donors, but not to address the culture and systems of corruption.

Media. One of the potential checks on corruption is the media. But at this point, heavily state-controlled and risk-averse, most media in China are not yet in the business of aggressively exposing corruption and mismanagement. If they did so vigorously and independently, in conjunction with Government reform efforts, corruption might be contained and eventually reduced. In practical terms, this would save CSOs time, money and insecurity in dealing with their regulators. A more transparent, accountable and predictable policy environment would boost the confidence of donors, both individual and institutional. And this, in turn, would result in an increase in the quantum of undesignated funds available to civil society.

There are some hopeful signs, though. There has been a major relaxation of media taboos. Reporting on disasters, corruption and other negative social issues that are non-threatening to the regime are not only deemed acceptable but are actually encouraged. In the business sector, Government is encouraging the growth of *Caijing*, a weekly magazine that has exposed crony capitalism and corporate scandals. With a circulation of 80,000, the publication focuses on facts, not rumours, in its journalism, taking advantage of an apparent expansion of press freedom in relation to commerce. Still, *Caijing* has not reported on corruption implicating the most senior levels of China’s elite. But staying within the unstated boundary of what government considers acceptable is not easy, and the boundary itself moves regularly (see *The Economist*, 2004).

Traditional Giving Patterns. Historically, philanthropy in China has been clan- and county-based. The cultural practice of *guanxi* relations has meant that the tradition of gift-giving in China tends to be rooted in reciprocal ties of obligation, and Chinese have tended to give to those they know are observant of this particular moral code. Moreover, for three decades after the 1949 Communist revolution, philanthropy was actually banned outright. Since the 1980s, however, individual and corporate giving have been growing across China. Donations from overseas Chinese, increasingly through automatic teller machines and the internet, have also been on the rise. The favorite targets of this giving have included disaster relief (floods, etc.), family welfare, village welfare, universities, temples and churches (Asia Pacific Philanthropy Consortium, 2001).

“There is a pressing need,” writes one commentator, “to engage diaspora philanthropists in bringing about more social justice and equity” (Johnson, 2004:2). This would require donors to take a more strategic and longer-term view of their giving. At the same time, donors need to “humanize” their giving (Yamamoto, 2002). In particular, there needs to be more direct interaction and exchange between donors and poor communities to achieve accurate needs assessment and better targeting of donations and gifts. Rural poverty reduction is an ideal field in which to promote more of a social-justice approach to philanthropy. While traditional giving patterns seem to get in the way of this new direction, blending new approaches with old ones may prove a productive way forward.

Management Practices of Local Governments. All CSOs working at the grassroots level in China must cooperate, often very directly, with local governments. The problem is that the management practices of local governments in poor rural areas tend to be top-down, rigid and controlling, and very competitive in seeking resources and power. This is not so much about corruption as it is about a public management mindset that traditionally has been command-oriented, risk-averse and highly sensitive to protecting bureaucratic mandates. In these settings, it will take considerable time—perhaps a generation or more—before the skills and knowledge, together with the systems and incentives, are put in place to support more participatory, team-oriented and evidence-based planning and decision-making practices.

In the worst-case scenario, CSOs must either continuously fend off competitive or conflictual actions by their government counterparts, or continuously try to achieve “buy-in” to rural projects by government departments. All of this takes time and money, and dilutes the energy and focus required for success in rural poverty reduction. A recent evaluation of a sample of foreign-supported Amity Foundation projects found that productive engagement by government departments optimized the projects’ chances of success, while disengagement or hostility, not surprisingly, reduced the possibilities of success very decisively (Freedman, 2004b).

Over-Regulation of Microcredit. One practical poverty-reduction strategy in rural areas is microcredit, that is, the lending of very small amounts of money to households and individuals with no collateral. Group lending techniques are often used in order to maximize repayment rates. Across China today there are some 500 microcredit programs in operation. While many such programs have been widely judged as successful, government regulation seems to be stifling potential scaling up of this approach. First, interest rates are set by the People’s Bank of China; NGOs have no flexibility in setting interest rates that could generate surplus to enable their programs to expand. Second, government does not permit NGOs to collect and manage pools or borrower savings. Such pools are used around the world as revolving funds to reach more clients while at the same time ensuring that current borrowers have a real stake in the program (Du, 2003; Wu, 2001). This type of over-regulation removes the possibility of CSOs mobilizing new resources to strengthen and expand their rural lending activities. In poverty-reduction terms, such policies are counter-productive.

Possible Directions

Apart from Government’s considerable motivation to address poverty and social inequality in the rural west, and the strong interest of Chinese and foreign CSOs in contributing to rural poverty reduction there, there are several other possible directions that may make CSO financing more possible in this field in the future:

Growing Policy Space. As a result of public-sector downsizing and the fact that many local governments are strapped for fiscal resources, there appears to be growing acceptance on the part of Chinese authorities that CSOs can play a positive role in welfare provision. Official recognition for CSOs and NGOs has come from former CCP General Secretary, Jiang Zemin, and former Premier Zhu Rongji, who formally sanctioned the further development of CSO/NGOs at the Party and National People’s Congresses of 1997 and 1998. In his speech to

the 15th Party Congress, Jiang stressed the need to ‘cultivate and develop’ what he termed ‘social intermediary organizations’ as part of the country’s ongoing reform program (Jiang, 1997). These senior-level proclamations have been followed up with further policy changes which support the development of CSOs. For example, the State Council Leading Group Office of Poverty Alleviation and Development (2001) has officially recognized that “all walks of life” have been mobilized to join the poverty alleviation drive, including social organizations, NGOs and private firms.

In a major departure from past practice, the current ten-year plan for poverty alleviation explicitly states the need to bring NGOs on board to help implement government development projects in poor areas. The NGO meeting sponsored by the China Foundation for Aiding Poor Areas called for the government to set up systems for bidding and tendering to ensure fair competition and to break-up government monopoly over the implementation of such projects. And there is evidence to show that numerous NGO-run projects have been more successful in achieving the intended results in alleviating poverty than similar government-run programs. The former head of the China Charity Federation (CCF), Yan Mingfu, has argued that the government should delegate most social services to NGOs and volunteer organizations in order to improve the delivery of social services to the grassroots.

Overall, it appears that those CSOs working in the areas of education, environment and gender have been permitted, or have negotiated, the most "space" for their organizational activities. Friends of Nature (FON) is a good example of how an environmental CSO can be quite effective in creating a range of space for its activities (Saich, 2000). Part of the reason for its space may be the fact that this CSO is headed by a former member of the Chinese People's Political Consultative Conference, Liang Congjie. FON has been involved in non-governmental efforts to protect the habitat of the golden monkey (that was being hacked away by illegal loggers in Yunnan). This issue had caught the attention of Beijing youth, including students at the Academy of Forestry in Beijing and other campuses. The students began holding candlelight vigils for the monkeys. Chinese authorities began to take notice of the issue and popular response. This gave FON an opening to engage in policy advocacy. FON mobilized public support and media attention for the monkeys’ cause and its members wrote letters and petitions to central leaders. The combination of social mobilization, media spotlight and the concerns of the authorities for student action led to government decisions which have, in turn, strengthened the enforcement of the ban on illegal logging. FON contributed to the process whereby local authorities have banned the logging activities, and has stepped up local government efforts to preserve the habitat of the golden monkey (Saich, 2000).

Preparation of Local-Government Officials. Much more could, and should, be done to train local-government officials in productive ways of working with CSOs to reduce rural poverty. Rigid, top-down control styles, traditional planning and decision-making, and dysfunctional incentives must be contained and reduced at the provincial, district and county levels. Training and other forms of capacity building in strategic planning and more participatory management, together with reform of salaries and incentive practices, would go some way toward maximizing potential synergies between the third sector and local government. Like the possibility of transforming mass organizations, this approach to preparing local officials to work with CSOs carries many obstacles, especially those associated with entrenched interests and corrupt

practices. Yet it also offers major social and economic returns if the issue can be advanced. Government may well be predisposed to try it. International development agencies should help.

Conversion of Mass Organizations? There appears to be interest in some quarters of the Party and Government in converting some mass organizations, particularly those for women and youth, from government-funded Party appendages to more independent, NGO-like structures. Such a change would free these bodies to raise more funds from private donations and other forms of philanthropy, as well as increase their foreign-aid injections. The mass organizations could then supplement government efforts in rural poverty-reduction in particular. Debates on this issue will continue among Party leaders and cadres, but if this option is supported and moves forward, mass organizations will see their government funding reduced substantially. In that scenario, they would need to thoroughly renovate not only their financing strategies but also their legal, governance and management regimes. Transparency and accountability must be key priorities. If asked, international development agencies should assist.

Emergency Response. Notwithstanding public scepticism over accountability and financial management, a growing number of Chinese NGOs have performed admirably in emergency-response situations—and thus have earned the respect of the public. In the 2003 outbreak of SARS, for example, CSOs acted—and were seen to act—more flexibly, efficiently and faster in finding solutions and recourse for affected citizens and communities. CSOs were in this case able to adjust government's standard disaster-relief policies according to local circumstances. These organizations at the same time supplemented government service-delivery, especially serving marginalized citizens. By demonstrating their value as an alternative and reliable social-service delivery channel, CSOs are likely to win greater acceptance and funding from both the government and the public.

Building Social-Change Philanthropy. This too is an uphill battle, in light of the inadequate legal and regulatory framework for *any* type of foundation, let alone those seeking to fund social-justice CSOs. And giving in China has traditionally been very clan- and locality-based. Yet, among a growing urban middle class and a new elite enriched by business profits—especially among the younger generations—a minority of Chinese are drawn to volunteerism, nonprofits and social justice. It is upon this platform of innovators that (at first) a small social-change philanthropy sector can be built. Organizations like the Asia Pacific Philanthropy Consortium should continue to play a crucial role in this effort.

Socially Responsible Investment. As a recent study by the Association for Sustainable and Responsible Investment in Asia (ASRIA) for the International Finance Corporation has reported, the potential in China for socially responsible equity investment, in the long term, is exceptional (Du, 2003). Foreign institutional investors are seeking investee companies in China with strong environmental records or those that make or sell environmental technologies. Similarly, more investors want to put their money into companies that meet acceptable labour practices. A growing number of institutional and individual investors want to *exclude* companies from their portfolios that use prison labour, harass their workers, pollute the environment and bribe government officials in China. Finally, there is much room to finance and expand microcredit lending in rural China, through government and NGO channels (see Du, 2003). Multilateral agencies, multinational corporations, pension funds and professional associations can play key

roles in creating space for socially responsible investment and the financing it could make available for CSO activities.

Corporate Social Responsibility. Related to the beginnings of an SRI movement in relation to China, there are indications of increasing interest in corporate social responsibility, or CSR. While some labour groups remain skeptical, many NGOs acknowledge meaningful progress in this area. Third-party evaluation of local labour practices is gaining adherents. “Many foreign companies (such as Wal-Mart, Carrefour, GE, Adidas, Nike, Reebok, Disney, etc.) have paid for the inspection of labour conditions in over 10,000 factories,” reports ASRIA (Du, 2003). A recent project funded by the MacArthur Foundation and involving Hong Kong NGOs, Reebok, Adidas and others MNCs, and Chinese suppliers, provided training for these stakeholders in setting up plant-level health and safety committees with worker representation (Macbean, 2003).

In the area of the environment, the State Environmental Protection Administration has certified more than 1,000 Chinese companies as well as many European and American companies as compliant with ISO 14000 standards of environmental practices and reporting. And a growing number of Chinese and foreign companies are developing partnerships with NGOs fighting poverty or promoting education and health. A strong CSR movement itself is a powerful tool for poverty reduction among migrant workers, particularly women, reducing pollution and grantmaking to CSOs. CSR should be encouraged by CSOs in North America, Europe and Asia, trade unions, foundations, multinational companies, and the emerging global CSR consulting industry (Du, 2003).

How possible, really, are these “possible directions”? Certainly, each of the trends or directions described here has its basis in a small part of the complex reality that is contemporary China. The extent to which these trends will gain momentum, critical mass and leverage is more dependent on the focus and endurance of their proponents—and opponents—than on their intrinsic value, *per se*. In the vigorous evolving contest for ideas and resources in today’s China, focus and endurance matter a great deal. While these trends are unlikely to decisively change the CSO financing landscape in the next three to five years, their impacts could well be significant over a ten-to-20-year period. And, in the wide arc of China’s history, a decade or two is really not such a long time.

Constructing a Research Agenda

In light of the foregoing discussion of the strategies, constraints and possibilities associated with CSO financing in the rural poverty sector, the following elements of a research program are proposed. Chinese and foreign scholars, NGO managers and government officials, together with aid-agency and private-sector representatives, should join forces to:

- build a large-scale, *empirical database* through a comprehensive national survey on CSO financing practices, obstacles, needs and plans;
- build a portfolio of detailed *case studies* assessing these factors in detail for a smaller number of CSOs of varying type and location;

- carry out comparative research and training on a range of *legal, regulatory and fiscal models* for strengthening the philanthropy and nonprofit sectors, with a view to enabling them to diversify and expand their funding;
- assess the nature and extent of *corruption* in CSOs in China, and strategies for reducing it;
- support action-research to strengthen CSO capacity in *emergency-response and disaster relief*;
- conduct special studies on efforts to *convert mass organizations* to NGO-like structures;
- evaluate training and other capacity building techniques in preparing *local-government officials* to work productively with CSOs in rural poverty reduction;
- set up *knowledge networks* to support, test and replicate good practices in social-change philanthropy, socially responsible investment and corporate social responsibility.

Given the long-term nature of these various change processes, universities should use their comparative advantage as multi-generational knowledge stewards and producers (Jackson 2003), and assemble research teams comprising senior, mid-career, and junior academics as well as graduate and even undergraduate students. Focus and endurance will be important in effectively pursuing this research agenda.

Conclusion

Rural poverty reduction is an area in which a significant number of CSOs are active in China. They deploy a mix of strategies to fund their work. While many are appropriately preoccupied with activities supported by government contracts and foreign-aid grants, these organizations are also striving to increase their undesignated revenues from earned business income, philanthropy and membership fees. Key constraints—including rigid government management practices, corruption and traditional giving patterns—reduce CSO prospects of independent funding. At the same time, a number of new directions could open up funds to nonprofits, including conversion of mass organizations to NGO-like structures, building the capacity and reforming the incentives of government officials to work productively with civil society, responding effectively to emergencies, and a cluster of trends associated with corporate social responsibility. Over the next ten to twenty years, Chinese and foreign scholars should work with other stakeholders to provide quantitative and qualitative research in support of efforts to expand CSO financing for rural poverty reduction.

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