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# NGOs in China: effectively navigating supply and demand

Jodie Nicole Klein  
*University of Iowa*

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# NGOS IN CHINA: EFFECTIVELY NAVIGATING SUPPLY AND DEMAND

by

Jodie Nicole Klein

A thesis submitted in partial fulfillment of the  
requirements for the Master of Arts degree in International  
Studies in the Graduate College of The University of Iowa

May 2010

Thesis Supervisor: Professor Wenfang Tang

Graduate College  
The University of Iowa  
Iowa City, Iowa

CERTIFICATE OF APPROVAL

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MASTER'S THESIS

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This is to certify that the Master's thesis of

Jodie Nicole Klein

has been approved by the Examining Committee for the thesis requirement for the Master of Arts degree in International Studies at the May 2010 graduation.

Thesis Committee:

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Wenfang Tang, Thesis Supervisor

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Kristine Muñoz

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Mark Sidel

In China you do things not because there is a legal channel to do them; you occupy space before the government claims it, and the legal mechanisms all happen after the fact... Use the space you have—don't wait for policies and laws, because you have to create new ways of doing things.

Working for a CSO in China is much more difficult than overseas, because it requires greater effort to overcome administrative hurdles and social criticism, and to attract new members.

– Xie Lihua, Chinese NGO leader, as quoted in Julia Greenwood-Bentley, “Survival Strategies for Civil Society Organizations in China.”

## ACKNOWLEDGEMENTS

This project is a direct result of dedicated nonprofit professionals in China taking the time to share their lives and their work with me. Due to the instability in the sector, I have kept the names of nonprofit workers and their organizations anonymous, but these people are in no way anonymous to me or to those within the realms they occupy. They have made a name and a place for themselves in service to others, and those they come in contact with will not soon forget their selfless dedication.

I want to thank Professor Wenfang Tang for his willingness to advise my project and for his help in organizing my research.

I would not have been able to make many of the valuable connections to nonprofit organizations without the help of Holly Chang, executive director of Golden Bridges. I owe a huge debt of gratitude to Holly for taking me on-board during a turbulent time and letting me learn and explore. I doubt that anyone could find a harder working person with a bigger heart.

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## LIST OF ABBREVIATIONS

NGO .....	Nongovernmental Organization
GONGO .....	Government Organized Nongovernmental Organization
MoCA .....	Ministry of Civil Affairs
ICB .....	Industry of Commerce Bureau
DPF .....	China's Disabled Persons' Federation
TRP .....	T. Rowe Price

## INTRODUCTION

China has experienced rapid growth in the number of nongovernmental organizations (NGO) that occupy civil society. These organizations came forth at a time of economic and political change, and the legal framework that governs their existence has not yet been adapted to offer support to the organizations that are filling in the gaps of societal needs. Instead, NGOs in China have to individually navigate their way to success. At a time when much of the focus is on the growth of the business sector in China, far less attention is paid to the upsurge of NGOs. This paper seeks to identify how individual NGOs have achieved success. This will be discussed by separating these new and evolving concerns into supply and demand. The demand side factors chiefly consist of matters pertaining to the societal need an NGO is meeting. Supply side factors pertain to a NGO's ability to create infrastructure to support their organization, including both the space in society to function and the processes necessary to fund their operation.

By understanding the supply and demand side factors of the third sector in China, NGOs are able to achieve effectiveness in a variety of different capacities. In the current regulatory framework, many of these capacities are not legal, but resilient NGOs come to a deep understanding about the social needs (demand) that they are working to relieve and use the relationships they have to figure out how they can exist in relation to the state and how they can receive funding in light of that relationship (supply). In an effort to highlight one possible solution, the last chapter looks at intermediary NGOs. This special type of NGO seeks to work out arrangements that benefit both the donor and the beneficiary, helping both overcome some of the challenges presented by the difficult regulatory environment. In doing this, an intermediary NGO fulfills a special role in

meeting supply and demand in the third sector, and though its role is still evolving, it can propose many useful solutions for philanthropy in China today.

...

## CHAPTER 1. THE DEVELOPMENT OF NGOS IN CHINA

For nearly two decades, the number of nonprofit, nongovernmental organizations (NGOs) in China has been growing. These organizations are starting to take over more prominent roles as social service providers and organizations providing necessary outlets for social expression, filling in tasks neglected by the government. As with the public and private sectors in China, the third, or nonprofit, sector consists of blurry lines between government involvement, official classifications and actual practices. The state limits the number of NGOs that can become legal nonprofit organizations, thereby forcing many NGOs to seek alternative paths in order to survive. The registration system creates challenges for NGOs, and a more supportive legal structure would be ideal, and in fact has been forecasted for China's future.<sup>1</sup> Most of the articles, papers, reports and opinion pieces about the nonprofit sector in China, especially those produced by international groups, examine the problems with this legal environment and the unfair hurdles this creates for NGOs. However, there are many active NGOs in China, both foreign and domestic, that are not correctly registered and have figured out how to be effective by navigating their way around the legal structure and finding a supportive path for their work.

### **1.1 History and Characteristics**

It will be beneficial to start with taking a quick look at the history that brought forth this unique sector to offer a backdrop to the climate that NGOs in China function in today. The changes that have occurred in China in the last 60 years have dramatically

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<sup>1</sup> Karla W Simon, "Regulation of Civil Society in China: Necessary Changes After the Olympic Games and the Sichuan Earthquake," *Fordham International Law Journal* 32, no. 943 (February, 2009), 945.

changed the third sector more than once. In the years leading up to 1949, China had a multitude of private associations and institutions.<sup>2</sup> After the establishment of the People's Republic of China in 1949, organizations that were not formed by the Chinese Communist Party were either suppressed with no explanation or absorbed into the party-state system.<sup>3</sup> The pre-reform era in China (generally referred to as the time between 1949 and 1978) saw intense state control over all socio-economic matters. Following the model of the Soviet Union, all private service providers were promptly nationalized and nearly all voluntary associations disappeared.<sup>4</sup> It was not until post-Cultural Revolution (ended in 1976) that there was a "reawakening" of Chinese society.<sup>5</sup>

Late 1978 brought the beginning of reforms and the "opening-up" of China, including the creation of plans for economic modernization, bringing with it implications for all of Chinese society. The economic growth happened more rapidly than expected; the gross domestic product multiplied quickly, growing from \$270 billion in 1987 to \$1.19 trillion in 2000.<sup>6</sup> One important achievement that occurred alongside this economic growth, and partially as a result of it, was the formation of a third sector.

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<sup>2</sup> For example, private hospitals and schools were common. *United States Congressional-Executive Commission, on China, To Serve the People: NGOs and the Development of Civil Society in China : Roundtable before the Congressional-Executive Commission on China, One Hundred Eighth Congress, First Session, March 24, 2003.*

<sup>3</sup> Simon, "Regulation of Civil Society," 950.

<sup>4</sup> Jillian S. Ashley and Pengyu He, "Opening One Eye and Closing the Other: The Legal and Regulatory Environment for 'Grassroots' NGOs in China Today," *Boston University International Law Journal* 26, no. 29 (2008), 41.

<sup>5</sup> Mary E. Gallagher, "China: The Limits of Civil Society in a Late Leninist State," in *Civil Society and Political Change in Asia: Expanding and Contracting Democratic Space*, ed. Muthiah Alagappa, (Stanford, California: The Stanford University Press, 2004), 419-452.

<sup>6</sup> United Nations Statistics Division, "GDP (Current US\$) China," [http://data.un.org/Data.aspx?q=china+GDP&d=WDI&f=Indicator\\_Code:NY.GDP.MKTP.CD;Country\\_Code:CHN](http://data.un.org/Data.aspx?q=china+GDP&d=WDI&f=Indicator_Code:NY.GDP.MKTP.CD;Country_Code:CHN), (accessed April 17, 2010).

Despite the top-down structure of the authoritarian regime, grassroots organizations of all kinds began appearing in this new space.

The official registration agency for NGOs in China, the Ministry of Civil Affairs (MoCA), reported in 1988 that China had a total of 4,800 officially registered NGOs of all types, including government-organized nongovernmental organizations (GONGOs). By 1998, the number had risen to over 180,000, including 2,000 national-level GONGOs.<sup>7</sup> In 2002, MoCA reported a total of 244,000 NGOs of all types.<sup>8</sup> By 2006, the number had risen to 346,000.<sup>9</sup> Total numbers of NGOs, including those unregistered or not registered with MoCA, only come from estimations. In 2007, *China Daily*, China's major English-language daily newspaper, printed an article reporting that there were about 3 million, but that only one out of every 100 was registered.<sup>10</sup> Some scholars have given high estimates for overall numbers, including Wang Shaoguang, a Hong Kong scholar, who said in 2007 that the total number of GONGOs and NGOs of all types, including small clubs, totaled more than 8 million.<sup>11</sup> What is certain is that all across China, from the busy streets of Beijing to the small villages of the Lhasa region, the grassroots movement had exploded.

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<sup>7</sup> Muthiah Alagappa, "The Nonstate Public Sphere in Asia" In *Civil Society and Political Change in Asia*, ed. Muthiah Alagappa (Stanford, California: Stanford University Press, 2004), 457.

<sup>8</sup> Julia Greenwood-Bentley, "Survival Strategies for Civil Society Organizations in China," *International Journal for Not-for-Profit Law* 6, no. 2 (January, 2004), [http://www.icnl.org/knowledge/ijnl/vol6iss2/art\\_1.htm](http://www.icnl.org/knowledge/ijnl/vol6iss2/art_1.htm) (accessed April 3, 2009).

<sup>9</sup> He and. Ashley, "Opening One Eye," 41.

<sup>10</sup> Xiaohua Sun, "Working to Build Trust in China's NGOs," *Chinadaily.com.cn*, March 13, 2007, [http://www.chinadaily.com.cn/china/2007-03/13/content\\_826023.htm](http://www.chinadaily.com.cn/china/2007-03/13/content_826023.htm) (accessed April 1, 2010).

<sup>11</sup> Xiaohua Sun, "Working to Build."

## 1.2 Enabling Environment

The legal and regulatory framework that civil society functions within, deemed the enabling environment,<sup>12</sup> has been the tool the state has used to keep the third sector at bay. The state has carefully implemented a registration system that makes it difficult for grassroots NGOs to receive official registration. In 1950, only months after the establishment of the People's Republic of China, the "Temporary Regulation of Registration of Social Organizations" offered the first classifications of organizations in civil society.<sup>13</sup> At this point there were not many groups established enough to consider registration, and it took some time before the framework was prepared to react to the requests for registration. In 1988, the state established MoCA, a government ministry under the State Council, which was to govern social organizations. MoCA's main role was to enforce a new registration system for NGOs that was to be promulgated in 1989.<sup>14</sup> This piece of legislation, notably occurring after the protests in Tiananmen Square, required each NGO to register with MoCA. By crafting this system, the state gave itself power to arbitrarily shut down unregistered, and therefore technically illegal, NGOs.

In the 1990s, NGO activity continued to expand with no set of regulations that facilitated growth. In 1998, China promulgated new regulations that called for yet another level of relationship to the state, allowing for even closer monitoring. This system, still in place in early 2010, requires NGOs to place themselves under (挂靠/*gua kao*) the 'professional management' of a government sponsor in addition to being

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<sup>12</sup> Barnett F. Baron, "The Legal Framework for Civil Society in East and Southeast Asia," *The International Journal of Not-for-Profit Law* 4, no. 4 (July 2002), [http://www.icnl.org/knowledge/ijnl/vol4iss4/art\\_1.htm](http://www.icnl.org/knowledge/ijnl/vol4iss4/art_1.htm).

<sup>13</sup> Ibid.

<sup>14</sup> Simon, "Regulation of Civil Society."

registered and vetted annually by MoCA. This government sponsor, often called the ‘professional management agency,’ can be any government agency at the national, provincial, or city level. The government can also certify a GONGO to take on this role.<sup>15</sup> The professional management agency must work in an area similar to the NGO seeking their supervision and approval. This system is often called the ‘dual management system’ and ensures that the state has access to all areas of the organizations’ activities. The professional management agency has a broad range of responsibilities, including supervising the following areas: “the NGO’s ‘ideological work’, financial and personnel management, research activities, contacts with foreign organizations, and the reception and use of donations from overseas.”<sup>16</sup> Unfortunately, as many NGOs discover, the chances of securing a professional management agency are very slim, as state agencies have no requirement to accept requests from NGOs; and if they accept a request, this not only creates responsibility but also could potentially create competition for funding.

In addition to the dual management system, the 1998 regulations set forth stringent restrictions that are difficult for small NGOs to attain to. A number of articles have subjective phrasing, leaving the state with a lot of space to claim veto power. Selected articles are listed in the Appendix.

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<sup>15</sup> Ashley and He, “Opening One Eye,” 43.

<sup>16</sup> Yiyi Lu, "NGO-State Relations in Contemporary China: The Rise of Dependent Autonomy," Institute of Social Studies, <http://www.iss.nl/DevISSues/Articles/NGO-State-Relations-in-Contemporary-China-The-Rise-of-Dependent-Autonomy>.

### 1.3 NGO Classifications

After learning about the legal infrastructure, it is easy to get confused about who is in control at different levels of activity in civil society. There are often unclear lines between government involvement, official classifications and actual practices, making researching and working in the third sector difficult. This state of affairs is not uncommon in China. To get a reminder of the reality of the modern day Chinese landscape, I have only to think of a family I know in southern China that makes a living, a *good* living, selling pirated (illegal) DVDs. To reach a point of confusion about legality in China, I think of the multitude of people in any given underpass that are selling items that appear to be stolen. Though commanded by the consistent strength and power of the CCP, the backdrop of the business and social sectors in China is undoubtedly ridden with uncertainty and disorder, causing illegal activity to fall into sub-categories that exist along a spectrum from *acceptably* illegal to *dangerously* illegal.

Falling into a confusing category of legal existence are NGOs that register as commercial units in order to gain some legal legitimacy. Though these NGOs are not aiming to be for-profit organizations, they are forced into registration with the Industry and Commerce Bureau (ICB) for lack of a better legal option. This is often after they fail to find a professional management agency. These ICB-registered NGOs are generally expected to pay corporate tax on all income, including donations.<sup>17</sup> Additionally, they are barred from public fundraising or soliciting funds in any way, and domestic donations are not tax-deductible.<sup>18</sup>

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<sup>17</sup> Ashley and He, "Opening One Eye," 58.

<sup>18</sup> Ashley and He, "Opening One Eye," 61.

The best way to talk about NGOs in China is to break them apart based on their relationship to the state. This is generally the most clarifying delineation for assessing a NGOs' capabilities. From a state-society relationship level, I have separated nonprofit work in China into four main tiers, demonstrated in Table 1. The top level, Tier One, consists of GONGOs. GONGOs are staffed with civil servants and controlled directly by the government, enjoying the most benefits of stability and access to resources. In Tier Two are NGOs that have obtained registration as a "social organization," the official nonprofit registration. These organizations have successfully acquired a professional management agency and have registered with MoCA. As a result of their connection to the government, these legally registered NGOs enjoy stability and access to resources not afforded to unregistered NGOs. Tier Two is somewhat unique to China, from a Western perspective, consisting of NGOs that have very Chinese characteristics due to their relationship to the state.

The final two tiers consist of grassroots NGOs. In Tier Three we find the ICB-registered NGOs who face the struggles of taxation and the inability to solicit funds. Finally, Tier Four houses the unregistered NGOs, by far the largest grouping. I have placed commercially registered NGOs at a level higher than the unregistered NGOs because their legal status affords them an increased level of stability. However, both Tier Three and Tier Four lack the stability and access to resources afforded to the top two tiers as a result of their direct relationship to the state. The table does not account for the degree of difference that separates each category. In fact, the bottom two tiers are very close together and, in some discussions, are similar enough to be grouped together.

Though they do have a lot in common, legal status is their one major distinguishing factor.

**Table 1 : Chinese NGOs – Classified by State-Society Relationship**

<b>Tier One</b> 2,000 (30 highly visible)	GONGOs - e.g. China Charity Foundation, Chinese Red Cross	- Government backed - Staffed with civil servants - Can issue receipts - Access to resources
<b>Tier Two</b> 346,000 (end of 2006 official MoCA registration)	MoCA registered NGOs  - e.g. Learning Disability Fund	- Dual management system 1) MoCA 2) Professional management agency - Can only operate in geographic area where no state organization currently works - Professional management agency accepts full financial and legal responsibility for NGO - Can issue receipts (receive tax-deductible donations)
<b>Tier Three:</b>  100,000 – 200,000 (2005 estimate by Wang Ming of Tsinghua University NGO Research Center)	Commercially registered (with ICB) grassroots NGOs  - e.g. Disability School A, Rare Disease Group, Environmental Group A	- Provides legal person to open a bank account and hire personnel with less hassle - Cannot legally solicit funds - Pay taxes on all income, including donations - Usually well-established and aware of government work in their area of focus - Sometimes have three-party agreements with a government agency to receive tax-deductible donations
<b>Tier Four:</b>  2 – 7 million (general estimate)	Unregistered grassroots NGOs  - e.g. Project A and Control Center (Orphan-Disability Group), All Migrant Schools	- Cannot legally solicit funds - Lack legal protection and can be shut down arbitrarily - Lack stability overall: often leads to deficiencies in visibility, transparency and legitimacy

Source: Compiled by the author, statistics from Ashley and He, “Opening One Eye.” NGO capabilities derived from interviews with nonprofit professionals working in China. The total number of NGOs in China is estimated at 2-8 million, with the exact number unknown because of the vast number of NGOs that are unregistered or commercially registered. Tiers Three and Four bring a lot of uncertainty into the overall number of NGOs. The examples offered here will be referred to in the remainder of the paper.

### **1.4 Navigating Supply and Demand**

It is clear from this short historical account that the environment for NGOs in China is still in a state of early transition. People are waiting for legislation to support this emerging movement, but waiting for these changes to occur does not accomplish anything; it could prove to be a long and uncertain waiting phase. For those who want to continue on without legal infrastructure, it is necessary to find unique avenues to support their work. I will spend the remainder of this paper talking about how grassroots NGOs (Tiers Three and Four) have been able to correctly identify the supply and demand for their services in order to survive in an unsupportive enabling environment.

I arrived at this framework after setting out to do something entirely different. During the summer of 2009, I interned with a new U.S. intermediary NGO in Beijing called Golden Bridges (to be discussed in the last chapter). One of our summer projects was to form new relationships with the grassroots NGO community, in order to better understand the needs that exist in the third sector. We traveled by foot, subway, taxi and bus all over Beijing getting an up-close look at NGO work, allowing us to put faces and names with the people working to alleviate social needs. Through this internship I met most of the NGOs I discuss in this paper.

Originally, I had hoped to develop a benchmark or an organizational assessment for grassroots NGOs in China as a tool to measure capacity or effectiveness. Whenever I came across a new NGO, I approached the meeting with an eye for analyzing what made this particular NGO effective. Did it have a very key relationship to the state? Was it registered in a certain way? Did it have strong connections to international groups? Did it keep records in a certain way, or seek funds in a particular fashion? The idea was to take these answers and convert qualitative data into quantitative data for donors to easily

and quickly see where potential existed and then to use the same tool to turn around and measure growth. I had previously come across several NGO capacity benchmark studies that were developed for particular kinds of NGO work or for particular parts of the world. I spent time pulling apart the various categories and applying the studies to NGOs in China. After visiting a wide variety of NGOs, I realized that the lack of infrastructure in the sector made this a highly problematic task.

This paper highlights the areas that are difficult to assess because of variation from one NGO to another. To say that a NGO can be effective if it does *x*, *y* and *z* is very difficult, and there are several reasons for this that will be expanded upon in the central part of this paper. When compared to NGOs in Tier One and Tier Two, grassroots NGOs have an increased responsibility to work with the system to achieve success. For this discussion, I have separated these areas into a discussion about supply and demand. The supply is defined as the major factors that enable NGOs to operate. I will mostly talk about supply in terms of what affects the legal “space” that a NGO operates in and its ability to access donations. This section relates more directly to the issues plaguing NGOs as a result of the enabling environment. But first I will address the demand side factors, or the issues surrounding the need that warrants NGOs’ existence.

## **CHAPTER 2. KEYS TO EFFECTIVENESS: DEMAND SIDE FACTORS**

### **2.1 Understanding the Need**

In modern day China there are some severe, widespread social needs that the state has not yet been able to sufficiently address, warranting the establishment of many effective NGOs. In China's current stage of development, it is vital that NGOs take bold steps into the arena of nonprofit work and effectively meet a societal demand or answer a need in society that warrants their existence. Since grassroots NGO activity is in some way a risk, effective NGOs in China have the difficult task of not only correctly identifying the need, but intimately understanding it. Their close proximity to the people they serve is one large advantage they have over state-sanctioned activity, giving NGOs the upper hand in some areas of demand.

When we talk about disadvantaged groups in China, we are addressing very large numbers of people and discussing problems more enormous than we are used to dealing with in the U.S. For example, an unemployment rate of 10% in the U.S. would mean 30 million unemployed people, but in China, this would mean 130 million unemployed people. The immense population makes the demand to fill in the gap of service a very serious concept. Another big difference is that some of the issues plaguing disadvantaged groups are desperate and life threatening. Others are just massive and constantly changing, creating a burden that is nearly impossible to keep up with.

### 2.1.1 Migrant School Example

One such massive area is problems surrounding the welfare and social services for migrant workers, such as the education of their children. Migrant workers travel for employment, often flocking to large cities for construction jobs. There are an estimated 150 million migrant workers in China, half the population of the U.S. and more than that of Japan.<sup>19</sup> Most of their children are not registered with the government, meaning they have no access to basic education. I met three migrant school principals while I was in China, and they had similar characteristics. They were all resilient, strong leaders who cared deeply. Though they run schools, they are not able to achieve proper registration, and thus they operate a lot more like a Tier Four unregistered NGO than a school. Some of the people they serve cannot afford to pay tuition, or they pay very little. Some students come and go, and often the same is true of staff. These principals are more like firefighters than planners, constantly being forced to face only the blazing problems of that particular day.

Two of the principals I talked with explicitly noted that the local government was aware that they were operating as unregistered schools, but had expressed that they were thankful for the solution these schools provided in educating migrant children. The principal of Migrant School A said that state officials, including someone from the Ministry of Education, stopped by his school to recognize the work he was doing. They pointed out to him that he was not registered, but said they would not shut him down because of the solution he was providing. However, they remarked that he should “be

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<sup>19</sup> "China's Evolving Philanthropic Landscape- Asian Philanthropy Forum." <http://www.asianphilanthropyforum.org/2009/08/chinas-evolving-landscape.html> (accessed February 11, 2010).

careful” not to cross any lines.<sup>20</sup> This implies that the state will be happy as long as the school quietly sticks with education, but “crossing a line” into something like advocacy for migrant worker rights, for example, would not be tolerated.

After visiting three migrant schools, it became clear that migrant schools succeed at least in part because they have moved forward to meet a demand that they understand well enough to sufficiently address. These three schools were all located on the outskirts of Beijing in transitioning neighborhoods that were undergoing development, forcing the schools to eventually relocate; one school was literally the only building still standing within blocks, revealing itself as an institution that would be the last to go because of residents’ reliance on it. The issues surrounding migrant workers are difficult to address and the demand is large, leaving an opportunity for grassroots workers to find success by understanding the demand and creating solutions.

### **2.1.2 Orphan-Disability Group Example**

Organizations aiding orphans, the disabled, and those with health afflictions constitute another large portion of NGO work in China. Previously, I worked for a year with an international nonprofit that cared for disabled orphaned and abandoned children in two locations in southern China. I will call this organization Orphan-Disability Group to protect their unofficial government relationships that I discuss. Having been established in the area for ten years, this international nonprofit has accomplished their work primarily because they have correctly identified a solution to meet the need in this region. It is important to note that Orphan-Disability Group does not operate in Beijing or Shanghai, but has chosen a location that is still lacking state programs to aid the disabled.

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<sup>20</sup> Anonymous (principal of Migrant School A), interviewed by author, July 29, 2009.

The state has implemented new systems to care for orphaned and abandoned children, as well as the disabled, but these programs have not yet reached this location. In many places I visited, the disabled, abandoned children in the welfare system are regarded with little care and, because they have little or no hope for adoption, they are basically abandoned for a second time within this system.

Orphan-Disability Group proposed to partner with the welfare center and create new homes for the children with new systems of care, hiring all local staff as caretakers. This program, which I will call Project A, includes care for over 100 children. Orphan-Disability Group also has a Control Center that is an office housed with staff that administratively manages Project A and Orphan-Disability Group's other projects in China. For the sake of this discussion, Project A and the Control Center function as grassroots NGOs financed by the international nonprofit Orphan-Disability Group. Ultimately, Orphan-Disability Group would like for these projects to become self-sustaining in China, but currently Project A is funded almost entirely by Orphan-Disability Group's foreign donors, though the welfare center contributes a small amount toward the monthly care of each child. The Control Center manages all of the in-country activity of Orphan-Disability Group, including their expansion to replicate Project A in new cities. After ten years, it is clear that Project A is not in any immediate danger because they have proved to the state that they intimately understood the need and can successfully implement a bottom-up solution for alleviating this particular situation.

Project A is sponsored by a welfare center in Changsha, but the Control Center has run into some registration difficulties. Since the Control Center staff does not technically work with the children, the welfare center has decided it would not be wise to

officially sponsor the Control Center. This is an issue for stability and growth purposes, but also for work permits that allow foreign workers to secure long-term visas. At the time I spoke with Orphan-Disability Group's staff in 2009, the work permits were being issued by the welfare center through a memorandum of understanding that was written up to secure this arrangement for the next five years. This situation is considered somewhat unstable and impermanent, but it has been worked out as a direct result of the state not being able to meet the demand in this particular area. The welfare center values the work in Project A enough to cross legal boundaries and take small risks. This allows Orphan-Disability Group to have time to work out a more official registration.

The Control Center's work is nonprofit and should be registered with MoCA, but in the dual management system, the Control Center cannot register with MoCA alone, and there is no state agency that will agree to be their professional management agency. Previously, the Control Center was registered under the Labor Department, as it was viewed that the foreigners were coming to China to be employed by Orphan-Disability Group. However, when this registration expired in 2005, for unknown reasons they were not allowed to renew this status. This means that a large portion of Orphan-Disability Group's in-country operations, or everything that happens in the Control Center, is technically functioning illegally as an unregistered grassroots NGO in Tier Four. They are only able to continue their work because the director of the welfare center has recognized their vital role to the success of Project A, and has agreed to unofficially sponsor work permits for the foreigners, allowing them to get visas to work there. There is some danger that a MoCA official would check the office staff work permits and discover that they are not working in the exact area their permit says they should be

working in (the welfare center). This could be cause for deportation, and severely endangers the work of Orphan-Disability Group.

Essentially, Orphan-Disability Group's success has occurred because their keen understanding of the need has caused state officials to treat the Control Center as if it were a registered unit. This is similar to the way government officials ignore that migrant schools are not officially registered. External factors, like the power of relationships, may play somewhat of a role, but in this particular situation, the demand is so great that the state is willing to bend. At this point, Orphan-Disability Group must maintain a close, positive relationship with state officials, and especially the director from whom it has won favor. From the outside, one might assess this situation and say that its success is the result of a relationship with the state, but the reality is that it never would have reached this position if it did not excel in meeting a serious societal demand.

## **2.2 Variation in Need: One Factor in State's Ambivalence**

One NGO I encountered in the Beijing area felt deep resentment toward the ambivalence the state exhibits toward NGO work. The state's ambivalence seems to be a reaction to different areas of demand, some of which are large and serious, and others that are equally serious in nature, but much smaller in scale. This particular NGO aims to create awareness about and help those afflicted by a rare bone disease. I will call it Rare Disease Group. Rare Disease Group receives absolutely no support for their work from the government, and the directors feel this is because they aim to help a relatively smaller group of people. The co-director that spoke with me seemed very pragmatic about his feelings that government support, through registration or other means, was not worth going to any trouble for. I did notice a large, clear donation box in their office, which

means they are illegally soliciting funds. The co-director seemed very unconcerned about state involvement or punishment. “They don’t care about us or want to bother with what [Rare Disease Group] is undertaking,” he told me.<sup>21</sup>

Though the demand for its services is not manifesting in government support, Rare Disease Group has managed to help 500 families in its two years of operation. It is ICB-registered and makes very good use of volunteers. The co-director expressed that Rare Disease Group was having considerable difficulties achieving financial sustainability, but it is still a new NGO and there is definitely a learning curve to financial management. They have spent a lot of time making connections, learning about the best possible avenues of care for these individuals, and helping families travel to Beijing for surgeries. Though garnering support for rare diseases is difficult, Rare Disease Group has made substantial progress by coming to an understanding about what it would take to meet the demand in this area.

Rare Disease Group is an example of a NGO working in an area where the state may perceive less demand, causing them to struggle with state support. However, their close relationship to the demand has caused them to become effective in many areas. Rare Disease Group has taken a realistic look at arbitrary state support and decided that since the support cannot be consistently mapped, it needed to seek alternate paths to meet the demand.

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<sup>21</sup> Anonymous (Co-director for Rare Disease Group), interview with author, July 7, 2009.

### CHAPTER 3. KEYS TO EFFECTIVENESS: SUPPLY SIDE FACTORS

For the purposes of this paper, the analysis of the supply for NGO work pertains to the factors contributing to a NGOs' ability to meet the demand. I found that the two factors brought up most often in interviews were the difficulties in securing a stable legal "space" from which to operate and problems related to fundraising that result from the difficult regulatory framework. Thus, this section will look into some of the major problems brought on by the regulatory environment and how NGOs find a way to work with this system.

These supply-side factors are vital for NGO success: understanding the demand means nothing if a NGO cannot find the money and space to turn its know-how into effective work. Some studies have found that forming partnerships with local government agencies is key to harnessing supply side factors, a concept I also found to be popular in my research.<sup>22</sup> However, these partnerships take on various forms and a partnership itself is not an isolated success factor. An individual NGO must navigate the supply side factors itself and decide what kind of partnership is possible and would be most beneficial. A large part of the supply side factors deal with figuring out what sustainability means in each particular situation. Though there are overall trends in the development of the sector, such as commercial registration, the instability and lack of access to resources that grassroots NGOs face makes it important for grassroots NGOs to devise a workable plan for achieving sustainability, a plan that varies with each organization.

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<sup>22</sup> Schwartz and Shieh, "State and Society Responses," 16.

### **3.1 State Impact on Supply to NGOs**

#### **3.1.1 State Negatively Impacts Supply**

The discussion of supply must start with the state's influence. It is with the regulatory environment that the state exhibits its strongest negative influence on the various supply factors to NGO work. A great deal of the research done about civil society in China focuses on the limitations the enabling environment imposes on NGOs. Some researchers look at the state-society relationship and, through a socio-economic lens, try to decipher whether or not this relationship leaves Chinese NGOs independent, democratic and participatory.<sup>23</sup> Other prominent researchers go into extensive historical analysis about the evolution of civil society in attempt to create a theory about the current day state-society relationship.<sup>24</sup> Many legal researchers make the point that the state-society relationship must mature in order to ensure that China's social sector can evolve healthily, and perhaps then there could be a social revolution similar to the economic revelation.<sup>25</sup> Whatever the issue being researched, it is widely agreed upon that the lack of legal backing has had a negative effect on the supply to NGOs and therefore to the overall sustainability of the grassroots movement.

For NGOs that are unable to attain legal status, donors sense more of a risk and it can be difficult for NGOs to establish sustainable funding. Even in Tier One and Two, there are various levels of deductibility and a limited number of NGOs that can receive

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<sup>23</sup> Zhang Ye, *China's Emerging Civil Society*, Center for Northeast Asian Policy Studies: The Brookings Institution, 2003.

<sup>24</sup> Kang Xiaoguang and Han Heng, "Graduated Controls: The State-Society Relationship in Contemporary China," *Modern China* 34, no. 1 (January 2008).

<sup>25</sup> See Karla Simon, Kang Xiaoguang, Han Heng, Yiyi Lu, Zhang Ye, Jillian S. Ashley and Pengyu He

tax-deductible donations from large corporations.<sup>26</sup> Charity laws in China are complicated and still in a state of evolution. One NGO worker I spoke with knew that there were two large GONGOs in her city that could receive tax-deductible donations, and she felt this was a large reason why there was no state organization that would agree to be the professional management agency for the NGO she worked for.<sup>27</sup> Becoming a registered charity would give this smaller NGO the legitimacy to grow and potentially become competitive for charitable donations. The perceived competition for funds is forecasted to increase in the future as China has been re-working its Charity Law, looking to expand the possibilities of tax deductibility for donations.<sup>28</sup> For now, the uncertainty and unattractiveness of an illegal status paired with the lack of tax-deductibility limit grassroots NGOs' access to supply.

### **3.1.2 Potential Positive Impact: State Recognizes Demand**

The state has had some sort of a positive impact on the supply factors for NGOs; an impact that could continue to improve in the future. The state, in fact, models charitable involvement for the general population, playing a large and dominant role in social service delivery. Civil society as a whole has a much weaker sense of charitable involvement, though this is changing. As discussed in the demand section, the needs in society far outweigh what the state is able to address at this point, and the state has recognized the role of NGOs in meeting these needs. The reality of a developing authoritarian regime is that often the leaders in Beijing are not able to be aware of what is

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<sup>26</sup> Ashely and He, "Opening One Eye," 51.

<sup>27</sup> Anonymous (staff member of a disability group working in Tianjin), in discussion with the author, November 2008.

<sup>28</sup> Ashley and He, "Opening One Eye," 52.

happening and what the needs are at the local level. It is not uncommon for local government officials to suppress the truth about needs or grievances in the interest of preserving their jobs. In fact, some experts say that the ability of NGOs to channel these grievances to help avoid social unrest has been a major factor in helping NGOs to gain importance and influence.<sup>29</sup> The state is increasingly recognizing these benefits, and there have been many sweeping promises made about a more supportive environment for the future.

In a September 2009 *China Daily* article, the director of the social welfare and charity promotion department under MoCA was quoted saying, "The mechanism, system and idea of China's charity sector has lagged far behind citizens' demand." According to the article, MoCA reported a draft law for new NGO regulations to the State Council in August of 2009, meaning that a new law should be expected within a year or two of that date.<sup>30</sup> However, it has previously been suggested that there was to be a new set of regulations out for social organizations in the first half of 2008, and that a new charity law was to have been passed in March of 2008, just in time to regularize philanthropic activity such as volunteering, prior to the 2008 Beijing Olympics.<sup>31</sup> Neither one of these ever came to pass. Though the state has publicly acknowledged the worth of NGOs, they have been slow and inconsistent in supplying solutions.

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<sup>29</sup> Carin Zissis, "China's Slow Road to Democracy," *Council on Foreign Relations* (March 7, 2008), [http://www.cfr.org/publication/13616/chinas\\_slow\\_road\\_to\\_democracy.html#p5](http://www.cfr.org/publication/13616/chinas_slow_road_to_democracy.html#p5) (accessed February 17, 2010).

<sup>30</sup> Lan Tian, "Nation to have charity law within 2 years," *The China Daily* (Beijing) Sept. 17, 2009, [http://www.chinadaily.com.cn/china/2009-09/17/content\\_8701441.htm](http://www.chinadaily.com.cn/china/2009-09/17/content_8701441.htm), (accessed February 1, 2010).

<sup>31</sup> Simon, "Regulation of Civil Society," 945.

In 2009, a public announcement was made about legislation for HIV/AIDS organizations. Currently, more than 400 NGOs are working in this field nationwide, the majority of which are unregistered. The executive director of UNAIDS was quoted in the *China Daily* saying, “[NGOs] actually play an important role in fighting AIDS and have an advantage over the government in reaching out to vulnerable groups like sex workers and men having sex with men.”<sup>32</sup> This shows that the state is starting to recognize civil society’s position to better understand the demand. The area of HIV/AIDS work is one place where the state has undoubtedly recognized its lack of capacity to respond and has turned to NGOs of all types for assistance.<sup>33</sup> The *China Daily* article, in very uncertain terms, reports on the possibility for more supportive legislation, stating that “experts close to the situation” have said “the government is considering legally recognizing these organizations.”<sup>34</sup> The only thing to do is wait to see what develops. This change and changes similar to this would make a large positive impact on the supply for NGO work.

### **3.2 Working with the Supply: Correctly Navigating the System**

Though MoCA registration is not necessary for effective work in the third sector, it is necessary for those working for NGOs to be knowledgeable about the boundaries of the system in order to choose the best path. In other words, NGOs need to be able to work with what they are given. They must learn which relationships will become most beneficial for them, and they must discover what kinds of unofficial arrangements can be made. Most NGOs are born out of a need that is not being met, so forging a path, both in

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<sup>32</sup> Shan Juan, “NGOs to get legal status from govt” *China Daily* (Beijing), December 1, 2009, [http://www.chinadaily.com.cn/china/2009-12/01/content\\_9082055.htm](http://www.chinadaily.com.cn/china/2009-12/01/content_9082055.htm) (accessed February 11, 2010).

<sup>33</sup> Schwartz and Shieh, “State and Society Responses,” 18.

<sup>34</sup> Schwartz and Shieh, “State and Society Responses,” 18.

the legal and social realms, is really like walking through a forest with a dim flashlight. The only way to understand the space that exists ahead is to move forward.

### **3.2.1 Effective Disability Group Example**

An example of an effective NGO that has found its way into some open space is Disability School A, a domestic grassroots NGO that runs a school to train parents to care for their children who have this particular disability. On the cutting edge of successful grassroots nonprofit work, there is much to be learned from this forward-thinking group of innovators. Founded in 1993 by the mother of a disabled child, Disability School A is China's first school devoted to children with this disability and their families. It offers an individual educational program as well as a training program for parents.

In the current system, MoCA registration will not be a path available to Disability School A. It has tried for this form of legal registration, and has approached China's Disabled Persons Federation (DPF) about becoming its professional management agency. Eventually, DPF replied with a clear message of decline. Though the DPF has recognized the success of Disability School A by recently listing it as the 'rehabilitation department' for children with this disability, DPF has communicated that it does not want the responsibility of becoming a professional management agency. Disability School A has had to be resilient over the years as it has experienced a lack of stability caused by not being correctly registered.

Though I emphasize the eventual success of Disability School A, I do not want to understate the challenges it has had to overcome. It does have to pay taxes on all its donations, and it has relocated the entire school seven times in 16 years due to instability with rent, fluctuating funds and changing neighborhoods. It also struggles to get visas for

foreign volunteers that, through a partnership, come from Germany for short-term visits, and it struggles to find long-term Chinese volunteers who can help in various capacities.

Many of the struggles Disability School A faces could be solved by the legal legitimacy afforded by MoCA registration, but it has accepted that this is not an option available. Despite the numerous hurdles, Disability School A has figured out how to function effectively and meet a social need that many parents would do anything for. In fact, Disability School A has gone beyond achieving the essential requirements and has become a very professional organization. It has managed to navigate its way through the legal infrastructure to find a successful arrangement.

It is ICB-registered, and though it does pay taxes on donations, it has worked out a three-party agreement with the China Charity Federation to be able to issue receipts and receive tax-deductible donations from corporations.<sup>35</sup> The China Charity Foundation agreed not to charge an administration fee for this service, though sometimes a 3-15% administrative fee is charged. Disability School A has repeatedly sought expertise from professionals working with this disability, even creating an arrangement to send staff overseas to receive specialized training. Disability School A has undoubtedly had to put forth a lot of energy to make this work, and it has publicly expressed frustration with the system.<sup>36</sup> This frustration is overridden by the smiles on parents' faces after they leave the school.

Families travel from all over China to bring their children to this school, seeking hope in a seemingly desperate situation. In 2007, a documentary was made about the

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<sup>35</sup> Anonymous (employee for Disability School A) interview with author, July 1, 2009.

<sup>36</sup> Ashley and He, "Opening One Eye," 81: Disability School A was among eight Chinese NGOs, all established for more than 10 years, that banded together to submit a bill to the NPC calling for a better legal environment for NGOs

school that won a number of international film awards. The trailer shows a glimpse into the progress the young kids make during their weeks of training along with their parents. An especially heart-warming moment shows a beaming, laughing father asking his son “Who am I?” and the son responds “Daddy,” something he had never spoken before his time at the school.

Without this key state agency relationship, Disability School A has had to continue on with their ICB registration. Within this arrangement, they have focused on keeping detailed records and have produced annual reports that display this recordkeeping. Despite their seven moves, they have ended up acquiring very suitable facilities. Through their three-party agreement they have achieved a diverse group of donors. Disability School A has made significant accomplishments, and has done it all by effectively navigating their way through the legal infrastructure to be able to meet the supply and demand in their area of work.

### **3.3 MoCA Registration**

When looking at the supply side factors that help NGOs succeed, I was mostly concerned with finding out how NGOs find space to operate in and how they achieve fundraising. MoCA registration is one option that supplies solutions for both of these factors. The general public is still wary of nonprofit work, sometimes not understanding concepts such as nonprofit professionals getting paid to facilitate charitable gifts.<sup>37</sup> Not all organizations can work out a three-party arrangement like the one that helped Disability School A find success. Generally speaking, there is reduced charitable giving

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<sup>37</sup> Kay Zhang, “Working for a Charity in China: Nothing is Perfect,” ChinaCSR, <http://www.chinacsr.com/en/2009/11/23/6632-working-for-a-charity-in-china-nothing-is-perfect/>, (accessed March 1, 2010).

to organizations not connected to the state. While grassroots NGOs make up over 90% of the third sector in China, they receive only about 15% of the total funding.<sup>38</sup> GONGOs and MoCA-registered NGOs are fewer in number, but can wield more power with their depth of resources, including these funds. Additionally, the relationships gained through connection to the state mean that there is no fear of the state perceiving a threat, exercising the law and coming in to shut down operations. Chinese NGOs are able to access more resources and enjoy more stability with legal registration, but I found that these perks are not a precursor to effectiveness for the modern day Chinese NGO. It just means that grassroots NGOs face an uphill climb. Without a doubt, if NGOs could register freely and easily in China, the supply side factors to success would open up and NGOs could more easily attain effectiveness.

While there has been a lot of wonderment about the state-society relationship, most studies leave out the discussion about the supply side factors that affect the day-to-day operation of an NGO. It is true that in some ways the day-to-day operations of an unregistered NGO are affected by its lack of legal backing. It might be running on a tighter budget and it may be more challenging for Tier Four and Tier Three NGOs to draw in and retain professional employees with competition from GONGOs and MoCA-registered NGOs. These challenges, among others, have shortened the life span of many NGOs and limited the areas of programming or the potential for expansion of others. However, for a grassroots NGO, MoCA registration is in no way an isolated supply side factor determining their effectiveness. This can be seen in the story of how one NGO happened upon legal registration

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<sup>38</sup> Social Venture Group, "Research - Challenges in China's Non-Profit Sector," [http://www.socialventuregroup.com/index.php?option=com\\_content&task=view&id=11&Itemid=31](http://www.socialventuregroup.com/index.php?option=com_content&task=view&id=11&Itemid=31), (accessed February 11, 2010).

### 3.3.1 Achieving MoCA Registration Example

I came across one NGO in Beijing that serves as an example of how MoCA registration can grant an NGO legal space to operate in, but does stand as an isolated indicator of success. Along with some colleagues from Golden Bridges, I was visiting an environmental NGO, and as we were leaving we were approached by one of its board members. She happened to be stopping by the office and when she heard us talking about NGO work, she asked if we had a few minutes to speak with her about another NGO. We kindly obliged and sat back down in the meeting room.

This woman, Wang, was somewhere in her 40's, and appeared to be an educated member of the middle-upper class. The fact that she was a board member for this environmental NGO already told us that she was progressive and in-tune with the issues plaguing civil society in China. Wang proceeded to tell us about a new NGO she had founded that was committed to educating about a particular learning disability. Wang was passionate about the issue, having first learned about it through a friend who runs a clinic that identifies this learning disability. Wang said she was shocked at the lack of awareness about this disability, and it saddened her to know that some Chinese children were being punished for bringing home bad grades when they were truly doing all they could to succeed.

As of the summer of 2009, Wang's "Learning Disability Fund" had two volunteers, one pamphlet and a tentative plan for programs. In her very primary stages of development, Wang was attempting to put together a board and start raising funds. This kind of beginning, born out of passion and high hopes, and then proceeding into logistical management, is very typical of a start-up grassroots NGO. In the Chinese context, the

Learning Disability Fund had one large distinctive factor. She had already managed to bypass Tier Four and Tier Three of the state-society relationships and had officially registered as a social organization, propelling her to Tier Two.

How can one woman with one pamphlet make it through the red tape and become an officially recognized NGO, when other high-impact, effective NGOs cannot manage this? In this case, it seems to be the right relationship at the right time. Most people who are familiar with Chinese culture know about the definitive strength of the “power of relationship,” called *guanxi* in Chinese. This power of having the right relationship to get what you need to move ahead pervades the public, private and social sectors. The right relationship can help you bypass bureaucracy and propel beyond what your actual qualifications would suggest you should deserve. A friend of Wang’s has connections with an official at the Chinese Red Cross, one of the large GONGOs, and, as a result, they agreed to be the professional management agency required for registration with the MoCA. Wang’s pamphlet indeed reads “Red Cross-Learning Disability Fund,” though I am unsure about her official right to use the Red Cross name in this manner on her materials.

For my discussion about supply and demand, the important aspect of Wang’s NGO is that the Red Cross has indicated to Wang that her situation is an exception, and if she fails to bring in money, they will have to end their affiliation. She is still charged with the same task as any other NGO: clearly identifying the supply and demand for her area of work. If legal status were an isolated component of achieving success in the nonprofit world, then the Learning Disability Fund should be easily moving forward. However, her NGO was not formed any differently than other grassroots NGOs. Her case is unique,

but only on paper. She has already successfully navigated herself into the space to operate in and the legal right to solicit funds, two large factors contributing to success. Though her endeavors are now legal, the situation she is faced with is not all that different from that of other Tier Four or Tier Three NGOs. She has to continue to work with the supply and demand. In her case, if she is able to establish her organization, she will enjoy the benefits of stability and additional access to resources that her registration affords her. The navigation process is still up to her.

### **3.4 The importance of resilience in an unpredictable environment**

There seems to be no hard and fast rules as to how an NGO can find success in China. The NGOs that have succeeded have one common trait: resilience. The pool of successful NGOs has been somewhat weeded out by natural selection, with only those NGOs that have acquired the necessary amount of resilience persevering. There are some suggestions that can be given on the basis of the success of others, but there are no guarantees. Some NGOs can secure the supply side factors through a particular route that will never be made available to others. Furthermore, for each example of success, there are various theories as to what brought about the success in that circumstance. For example, by some analyses, Wang's Learning Disability Fund was allowed registration because her NGO was not perceived as a competition for funds. The Red Cross official recognized that there was no GONGO serving this particular group of people, and, in line with demand factors, there was no state agency equipped to meet this need. If she proves to be successful, the Red Cross will be able to pat itself on the back; and, if she fails, it will cancel the affiliation. Compare this scenario to the situation for Rare Disease Group. It also wishes to serve a population that is relatively small and underserved, but its

chances of finding state support, through registration or otherwise, seem grim. Therefore, the reasoning applied to the Learning Disability Fund's success does not carry over into this situation. And while *guanxi* in the relationship with the state official seems to be a successful factor in the registration of Wang's NGO, *guanxi* is also inconsistent and one can never depend on receiving favor. Furthermore, resilience will still be required of Wang as she moves forward to navigate a path to sustainability.

From these two situations we can see that the state's arbitrary support cannot be consistently mapped. The only consistency to be found is in the unpredictable nature of the state's response. The state uses this lack of transparency as a control mechanism, allowing NGOs to form but not giving them a clear legal path for doing so, maintaining the power to either support, repress or end the NGO's work. A large topic that I do not attempt to include in the scope of this paper is the degree of political sensitivity involved in a NGO's work. While this is undeniably a large indicator of the state's reaction, I have instead chosen to discuss NGOs that are meeting societal needs, mostly focused on service delivery or education. However, it is worth mentioning that a NGO's resilience might include overcoming the discouragement of a necessary shift of focus to ensure an increased level of security. One NGO I spoke with, Environmental Group A, has very purposefully made its name include the word "education" and its mission statement clearly state they exist "to educate.... increase awareness...equip with knowledge." Environmental Group A has been able to gain support from international foundations, something that would not be possible if its goals were more politically sensitive than

education.<sup>39</sup> A portion of resilience must be reserved for settling for an organizational rhetoric, including verbiage and programming, that is “safer” than what might be desired.

The state has used its inconsistent and arbitrary action to maintain a large amount of power. Perry Link, in his article “China: The Anaconda in the Chandelier,” writes about how the state crafts an environment for self-censorship with this uncertainty that he deems “vagueness.” He notes that this vagueness has achieved a psychological control that frightens people into changing their behavior. Constructing vague or self-contradictory laws “gives leaders immense room to be arbitrary while still claiming to be legal.”<sup>40</sup> This vagueness can be seen in the varying levels of state support to NGO work.

There are two important conclusions that can be drawn from the environment that has been created by this “vagueness.” The first is for those wishing to form a NGO in China or take on a leadership role in one, whether foreign or domestic. Nothing within the regulatory framework is predictable or reliable; navigating supply and demand factors in this climate inherently requires resilience. And if MoCA registration is achieved, there are still the basic supply and demand factors that remain the responsibility of the NGO. A NGO must be prepared to navigate supply and demand on its own and accept and overcome the inevitable setbacks.

Second, this conclusion is important for those looking to support NGO work, whether through volunteering or donating. When examining a possible beneficiary, a donor must decide on the definition of “stable” in this environment. Is a new, MoCA-registered NGO necessarily more stable than a resilient, ICB-registered NGO that is well

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<sup>39</sup> Anonymous (employee of Environmental Group A) interview with author, July 17, 2010.

<sup>40</sup> Perry Link, “China: The Anaconda in the Chandelier,” *New York Review of Books* 49, no. 6 (April 11, 2002): 67. (accessed April 13, 2010).

established in its area of work? Are the unofficial arrangements for receiving funds going to be long lasting? I have found that the answers to these questions, and many others, may vary, creating a difficult situation for partnerships. The next chapter will take a look at one successful model for forming supportive partnerships with grassroots NGOs that attempts to overcome some of these questions.

## **CHAPTER 4. INTERMEDIARY NGOS: MEETING SUPPLY AND DEMAND**

The final chapter in this project will take a look at intermediary NGOs, a type of organization that focuses on connecting the needs of donors and beneficiaries, or, for the sake of this paper, they focus on the details of the supply and demand. The concept of philanthropic giving is emerging in China, both as a new opportunity and a new trend. The wealth disparity creates both an increased demand for social services and an opportunity for a large donor base.<sup>41</sup> The policy restrictions pose a large blockade for NGOs to access this potential. This new concept of philanthropy is coming at a time when the third sector is not entirely prepared to receive it. Grassroots NGOs might be completing incredibly important work but not understand how to attract or facilitate larger financial gifts. As previously discussed, though MoCA registration is not necessary for effectiveness, there is a decreased level of trust for grassroots NGOs that lack direct state involvement, resulting in reduced giving to grassroots NGOs. Intermediary NGOs are one solution for this problem, serving as a way for NGOs to achieve sustainability and become effective.

### **4.1 Chinese Donors Give More, Expect More**

A September 2009 article in *The New York Times* Global Business section discusses the new trend of philanthropy emerging in China. Titled, “In China, Philanthropy as a New Measuring Stick,” the article quotes Zhihua Yan of Z.H. Studio, a Beijing marketing consultancy, about the increasing interest in philanthropy. “In the last two years, China’s corporations have become much more aware of philanthropy and

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<sup>41</sup> Ashley and He, “Opening One Eye,” 62.

social responsibility and are putting a much higher priority on it. They are striving to innovate ways they can give back to the community.”<sup>42</sup>

An NGO blogger called 2008 the “coming out” year for philanthropy in China.<sup>43</sup> Both NGOs and volunteers played integral roles in helping Sichuan recover from the earthquake that devastated the region on May 12, 2008. According to a report done at the NGO Research Center at Tsinghua University in Beijing, philanthropic donations in China reached 107 billion renminbi, or \$15.7 billion, over three times what they were in 2007. An estimated \$11 billion of that went to relief efforts in Sichuan.<sup>44</sup>

#### **4.2 NGOs with a Special Role: An Emerging Effective Model**

There is a growing body of research about intermediary organizations that upholds the effectiveness of the intermediary model to fund and support NGO work. In its most basic form, an intermediary organization is “an organization that is positioned between a funding entity and a beneficiary organization.”<sup>45</sup> The intermediary can use its position to help both the donor and the beneficiary attain their goals. For the donor, the intermediary may take on an advising role since it is already equipped with the education and foresight to know where money can turn into results. On the other end, the intermediary can help the beneficiary fulfill the goals of the donor by providing technical assistance or training that will help the organization complete the project effectively.

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<sup>42</sup> Julie Makinen, “In China, Philanthropy as a New Measuring Stick,” *The New York Times*, September 22, 2009, sec. Global Business, <http://www.nytimes.com/2009/09/23/business/global/23donate.html> (accessed February 11, 2010).

<sup>43</sup> Shieh, Shawn, *On what Obama can do for NGOs on His Visit to China*, 2009, <http://ngochina.blogspot.com/2009/11/on-what-obama-can-do-for-ngos-on-his.html>

<sup>44</sup> Makinen, “In China, Philanthropy.”

<sup>45</sup> The U.S. Department of Health and Human Services Center for Faith-Based and Community Initiatives and the White House Office of Faith-Based and Community Initiatives, *Breakthrough Performance: Ten Emerging Practices of Leading Intermediaries*, 2008, <http://www.hhs.gov/fbci/Tools%20&%20Resources/Pubs/breakthrough.pdf>.

Some intermediaries have very specific roles and operate in only one capacity. For example, a *distributive intermediary* might focus solely on re-granting funds from public or private donors. A *social service intermediary* might focus only on connecting donors with frontline social service providers with the purpose of building the capacity of the frontline organizations.<sup>46</sup> However, far more intermediaries serve in a variety of roles, depending on the needs of the sector and the relationships in the field this organization already holds.

Advising intermediaries are popping up all over the field of charitable giving as the expectations from donors are increasing. In this emerging practice, the fields of wealth management and investment advising meet nonprofit professionals, and a lot is demanded of this new relationship. Generally, businesses are so happy to give and NGOs are so happy to receive, that the story can end there for both parties. The involvement from the donor is low, causing expectations from the beneficiary to be just as low. Effectiveness is not measured and the involvement is short-lived. However, as the number of donors and NGOs increase in China, the competition in the market gets steeper too. NGOs must be even more keenly aware of the supply and demand and the various emerging needs at all levels. For example, in order to reach financial stability, NGOs will need to prove they are high impact and not just throwing money into programs that produce empty results. This responsibility requires a level of administrative work that many NGOs are not equipped to handle. This is where the work of an intermediary could be beneficial.

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<sup>46</sup> The U.S. Department of Health and Human Services Center for Faith-Based and Community Initiatives and the White House Office of Faith-Based and Community Initiatives, *Breakthrough Performance*, 5.

A new era of evaluations and reports has begun, requiring sophisticated measures of documenting and presenting results. Some intermediary NGOs form just for the purpose of evaluating NGO work. One such group in the U.S. is Tactical Philanthropy Advisors, founded in 2009 out of repeated requests for the service. Founder Sean Stannard-Stockton coined the phrase “tactical philanthropy” in 2006 in his book *Mapping the New World of American Philanthropy* and started a blog with the same name.<sup>47</sup> This same concept of enacting tactical philanthropy has caused an influx of intermediary NGOs to form in the last decade, exemplifying the growing needs of this evolving sector worldwide.

#### **4.3 Intermediary NGOs in China**

Both international and domestic NGOs use intermediaries, but the process seems more naturally required of international, cross-cultural giving, such as that facilitated by international nonprofits. International nonprofits have registered in their home country and facilitate philanthropy in a foreign country in ways like giving financial gifts or organizing projects and volunteers. International nonprofits operate in China in a variety of ways, but for this discussion, we can think of Orphan Disability Group as the intermediary and Project A and the Control Center as grassroots NGOs. Orphan Disability Group is charged with understanding the culture of philanthropy and the specifics of the legal parameters in the United Kingdom, where the international administration office is registered, and also in the five other countries where it has registered national offices in order to facilitate charitable gifts in each location. Without these efforts it would not be able to legally accept donations and it would not be able to

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<sup>47</sup> Tactical Philanthropy, "History | Tactical Philanthropy," <http://tacticalphilanthropy.com/about-us/history> (accessed February 11, 2010).

attract donors to make its programs successful. However, Orphan Disability Group is also charged with understanding the enabling environment that governs its work in China. Orphan Disability Group is a uniquely well-equipped international nonprofit, hiring mostly local staff to run projects and forming strong relationships with the state that have achieved paths to effectiveness. They have taken on the intermediary roles themselves, devoting time and staff to correctly match the demand with supply. The U.K. office takes on many administrative intermediary tasks such as documentation, communication, and matching donors with needs.

Give2Asia is an example of a broader-focused intermediary that has emerged to meet this kind of a need. The Asia Foundation started Give2Asia in order to answer the need for governance and evaluation that is required of charitable gifts to foreign locations. The Asia Foundation has a 50-year history in Asia and aims to “collaborate with private and public partners to support leadership and institutional development, exchanges, and policy research.”<sup>48</sup> Give2Asia was formed two weeks after the terrorist attacks on September 11, 2001, at a time when accountability in foreign charitable gifts was in high demand. Give2Asia is “a U.S. public charity which empowers donors and local Asia-based charitable groups.” Serving individuals, corporations and foundations, Give2Asia has facilitated well over \$100 million USD in charitable giving since 2001. With goals of advising the donor and meeting the donor’s needs, Give2Asia is an example of an intermediary that developed out of the identifiable needs in the Asian region.<sup>49</sup>

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<sup>48</sup> “About The Asia Foundation,” <http://asiafoundation.org/about/> (accessed February 4, 2010).

#### **4.4 Golden Bridges: Successfully Matching Supply and Demand**

Golden Bridges is an emerging intermediary international nonprofit in Beijing aiming to use knowledge of the third sector and connections with grassroots NGOs to create a gateway for giving. For founder and executive director Holly Chang, it was the issues plaguing local NGOs that instigated her interest in forming an international nonprofit. Chang, an engineer by training, has extensive experience as a project manager for the United Parcel Service, and also spent time as a disaster relief volunteer with the Red Cross after hurricane Katrina devastated the Southeast region of the United States. Chang was involved in volunteer work in China and began to understand the limitations that civil society experiences. In her own words, as written on Golden Bridges' website, Chang says she "saw glimpses of a nongovernmental sector doing amazing and critically important work but was institutionally underdeveloped and largely unsupported by the general public."<sup>50</sup>

In her experience, much of the input from foreign companies by way of corporate social responsibility lacked the long-term vision to generate transformable impact. Organizations formed for the purpose of creating cross-cultural volunteer opportunities seemed generally to focus more on the experience of the volunteer, and less on the impact in civil society that the volunteer's visit would make. In 2007, she formed Golden Bridges with the following: a vision that "well-executed mission-driven volunteer projects can be a powerful bridge-builder and transformative force in people,

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<sup>49</sup>Give2Asia, "Give2Asia's Philanthropic Community Takes Action in Asian Disasters." [http://www.give2asia.org/newsarticle.cfm?articleID=10010522&PTSidebarOptID=12585&returnTo=javascript:history.back\(\);&returnToName=Search&SiteID=309&pageid=11477](http://www.give2asia.org/newsarticle.cfm?articleID=10010522&PTSidebarOptID=12585&returnTo=javascript:history.back();&returnToName=Search&SiteID=309&pageid=11477) (accessed February 11, 2010).

<sup>50</sup> "Meet Our Founders," Golden Bridges, <http://goldenbridges.org/founders.html> (accessed February 11, 2010).

organizations and societies;” and a goal to “create systemic and sustainable positive impact on China’s civil society.”<sup>51</sup>

It is estimated that there are around 10 to 20 capacity-building intermediary organizations in China striving to serve millions of nonprofits.<sup>52</sup> Chang noted that a common strategic problem is being “immediately tasked with boiling the ocean,” therefore making it difficult to focus and stabilize Golden Bridges’ position. Chang’s creation of Golden Bridges has become a testing ground for creating solutions to solve the challenges that exist in navigating demand and supply factors. For the pilot project, Chang knew it was key to find connections between the corporation and the NGO to better meet the needs on both sides. In other words, match the capabilities and needs of the donor with the long-term capacity or sustainability needs of the beneficiary that is focused on meeting the demand. For Chang, working with an unregistered NGO was not a scary concept because she had spent enough time in China to understand what this meant. She looked to the private sector because she realized early on that the state alone would not be able to solve China’s social problems, and the private sector had resources that made it capable of widespread change in the grassroots movement.

Golden Bridges’ pilot project consisted of forming a partnership between T. Rowe Price (TRP), an international investment firm, and Green Garden Primary School, an unregistered school serving the children of migrant workers. The key was to find the connection between the donor and the beneficiary and use some creativity to form a value-based partnership. Another key concept was to not require too much from either

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<sup>51</sup> “Meet Our Founders,” Golden Bridges, <http://goldenbridges.org/founders.html> (accessed February 11, 2010).

<sup>52</sup> Holly Chang (Executive Director of Golden Bridges) e-mail to the author, April 24, 2010.

party, but to set reasonable parameters for the interaction that would result in a mutually beneficial relationship. Chang and her team had a relationship with Green Garden's principal who had been dedicated to this project for ten years. Principal Zhang, a rotund man in his early 30s, along with his wife and son, live on the school property in a one-room facility that overlooks the courtyard. In November 2008, he managed roughly 600 migrant school children with only 15 staff members. The school stays afloat through student fees, but sometimes students are unable to pay, and Principal Zhang has a reputation of letting them continue to attend. He opens the doors of Green Garden at 5 a.m. daily and allows children to stay overnight if they cannot return home.

The needs at this school are vast, but upon Golden Bridges' first visit to the school, most apparent were the structural insufficiencies that created a challenge in the learning environment. Their desks were mostly broken, tearing the kids' clothes and creating a barrier to learning for these at-risk children that already faced a mountain of adversity. With this need in mind, the initial step for this partnership was to plan a one-day outing where the TRP associates would visit the school and then take the kids to an aquarium. This also allowed the TRP associates to connect with the children, something they had indicated was important in their willingness to participate. The Golden Bridges team planned every aspect of this event. They prepared a budget for the event (1463 USD for 21 TRP volunteers to make the trip) and planned for transportation from TRP's five-star hotel in Beijing to Green Garden and then to the aquarium and back. Golden Bridges even provided volunteer translators and sent along a fun worksheet of key Chinese/English words for the aquarium. The event lasted for only an afternoon and was widely viewed as a success.

The intermediary model used here to create a high-impact event provided a myriad of solutions for TRP and Green Garden. From the beneficiary standpoint, Golden Bridges created solutions for the supply and, through its international nonprofit status, provided a channel of fundraising that was both legal and mutually beneficial. Donations were initiated by TRP on the U.S. side, intended for Golden Bridges to use to purchase supplies for the school. The money was not regranted, but used directly to purchase necessary supplies, allowing Golden Bridges to provide purchase receipts to TRP for reporting purposes. This supply solution also benefits the donor. Because Golden Bridges is a registered U.S. charity, TRP can be issued a tax-deductible receipt and know that Golden Bridges is held to a certain standard required of its legal status. Golden Bridges also has the vantage point from which to communicate with TRP about the issue of the unregistered nature of Green Garden and the confusing issues surrounding migrant workers. Golden Bridges' knowledge of the demand and its close proximity to the issue allowed them to create a solution to meet the demand.

Golden Bridges let TRP know about Green Garden's needs in a very tangible way, eliminating the confusion of wondering exactly what donations will be spent on. Principal Zhang came up with a list of three needs and their approximate costs, and Golden Bridges included this information in its orientation for TRP. The only obligation for TRP was the cost of that day's activity, but their experience yielded a desire to give more. After all, this event had also created a solution in identifying the need for TRP. They were looking to give philanthropically in the local community but did not know where to begin with the complex infrastructure of NGOs. This opportunity created a very direct way for them to give, and they were more than happy to do so. Through their

donations, Green Garden was able to refurbish the entire school, hire a new staff member for recordkeeping and make plans to update its technology.

Though this model created solutions for both the beneficiary and the donor, Golden Bridges has not yet devised a way to replicate it. High-impact volunteer events were part of Golden Bridges' original vision, but it is still struggling with its own financial stability and cannot commit to providing this service at the current time. The amount of capacity every transaction would require seems to indicate that Golden Bridges has not yet found a scalable model for high-impact volunteer events.

However, as one of the few intermediary service-providing organizations in the sector, there has been an increasing demand for Golden Bridges' services from all types of philanthropic practitioners, including foundations, grassroots, corporations, and individuals. Golden Bridges is currently building a fee-based model in efforts to achieve sustainability, and in the meantime it has been afforded some opportunities to take part in projects that have pioneered various other models and solutions for the sector. The focus of its programs will likely evolve and go through transformation in the upcoming years, but Chang has indicated she is optimistic about the future of its work.<sup>53</sup>

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<sup>53</sup> Holly Chang (Executive Director of Golden Bridges) e-mail to the author, April 24, 2010

## CONCLUSION

Grassroots NGOs face hurdles in China today, but many have persevered and found ways to be effective. The effectiveness factors I discuss in this paper are taken from real situations and portray the qualities of a developing, unpredictable sector. Above all of the keys to effectiveness, two seem to be most important: strong leadership and resilience. To achieve success in an environment that forces you to climb uphill, and occasionally throws obstructions in your path, you need a leader that believes in the cause for the journey, and crafts the organization with the ability to persevere. There are too many uncertainties involved to enter this situation with an inflexible, weak approach. The only thing that does seem certain is that the solutions of today are not necessarily the solutions of tomorrow. Navigating supply and demand will continue to change as China develops and adjusts the regulatory framework to better suit the evolving needs.

But for grassroots NGOs that have a plan for the problems of today and need to be able to continue work through tomorrow, knowledge of demand and supply factors is key to achieving success. This takes creativity and an individualized plan since legal registration is often not an option, and does not promise to be a one-stop solution. International resources are vast, but we are already seeing an increase in the number of domestic givers who want to be giving more. The intermediary model has potential to provide effective solutions for grassroots NGOs, but the intermediary role is one that is still evolving. It seems that today's NGOs have cleared some space for the next generation of NGOs to move into, but it remains to be seen just how steep of an incline they will face in navigating supply and demand.

## APPENDIX

### SELECT ARTICLES: “REGULATIONS FOR REGISTRATION AND MANAGEMENT OF SOCIAL ORGANIZATIONS.”<sup>54</sup>

**Article 2:** In these regulations 'social organization' means voluntary groups formed by Chinese citizens in order to realize a shared objective, according to their rules and to develop non profit making activities.

All groups other than state organs may join social organizations as institutional members.

**Article 4:** Social organizations must observe the constitution, state laws, regulations and state policy; must not oppose the basic principles of the constitution, harm the unity, security or ethnic harmony of the state, or interests of the state and society, or the lawful interests of other organizations or citizens, or offend social morality.  
Social organizations may not undertake profit seeking activities.

**Article 6:** The Ministry of Civil Affairs and local Civil Affairs departments at county level and above are the basic peoples government agencies for registration and management of social organizations. (Below, these are referred to as 'registration and management agencies' [*dengji guanli jiguan*]). State Council relevant departments and local government relevant departments at county level and above, or organs empowered by the State Council or local government at county level and above, serve as the relevant leading units of social organizations in related trade, scientific or other professional areas (These are below referred to as 'professional leading units' [*yewu zhuguan danwei*]). Laws, administrative laws and regulations regarding the supervision and management of social organizations, will take effect in conjunction with other laws, administrative laws and regulations

**Article 10:** To establish a social organization the following conditions must be satisfied:

I. An organization must have more than 50 individual members or more than 30 institutional members or, if it has both individual and institutional members, a total of at least fifty.

I. It must have a standard name, and organizational capacity.

III. It must have a fixed location.

IV. It must have staff with qualifications appropriate to the professional activities of the organization.

V. It must have lawful assets and a source of funds. National level organizations must have a minimum of 100,000 *yuan* to cover their activities; local social organizations and inter-area social organizations must have a minimum of 30,000 *yuan*.

VI. It must be legally liable in its own right.

**Article 13:** The registration and management agency will not approve the registration preparation in any of the following cases:

I. If it can be shown that the objectives and area of work of a social organization applying for the first stage of registration do not comply with Article 4 of these regulations.

II. If in the same administrative area there is already a social organization active in the same [*xiang tong*] or similar [*xiang si*] area of work, there is no need for a new organization to be established.

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<sup>54</sup> Translated by China Development Brief, accessed at <http://www.chinadevelopmentbrief.com/node/298>

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