

The Decline of Foreign Aid and the Dilemma of the Chinese Grassroots NGOs

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Introduction

In recent years, with the rapid development of China's economy, not only the governments of developed countries have drastically reduced or even stopped their foreign aid to China, but also a growing number of INGOs (international non-governmental organizations), some of which have already cancelled their offices there, have reduced the funding to their Chinese counterparts. What is the impact of the substantial reduction of foreign aid on the Chinese grassroots NGOs and the impact on civil society development?

What this paper attempts to answer is whether China's rapid economic development has brought an increment in local community donations; whether the current growth of local donations can reduce the plight of grassroots NGO funding; whether the assistance from INGOs to Chinese grassroots NGOs is no longer needed; and, also in future, what kind of help INGOs should provide to nurture the development of grassroots NGOs and civil society in China.

1. The economic growth and increase of donations in China

Since 1978 the average annual economic growth rate in China has remained at around 9%. With the rapid development of the economy in 2010, China's gross economic production has become the second largest in the world. Moreover, China's GDP per capita has increased from 155 USD in 1978 to 5,000 USD in 2011. In this context, public awareness regarding charity in this country has increased – as well as the sum of donations.

According to the Charity Statistics Center under the Ministry of Civil Affairs in China,¹ from 2000 to 2005 the sum of donations was less than one billion USD per year. After 2006 there occurred a trend of rapid growth of donations in China. Due to the Wenchuan

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1 <http://cws.mca.gov.cn/article/tjbg/>. Official website of Charity Statistics Center under the Ministry of Civil Affairs; and <http://www.charity.gov.cn/fsm/sites/newmain/preview1.jsp?ColumnID=423&TID=20120628115915209127610>.

earthquake in 2008, the total amount of donations hit a record high in that year, reaching 16.9 billion USD (3.46 times that in 2007). Since then, China's donations have kept at a high but fluctuating level. In 2011, even when multiple scandals in the charitable field were published and no natural catastrophes happened, the overall social donations were still as high as 13.37 billion USD. This amount accounted for 0.18% of the GDP in 2011, or 10 USD per capita each year.

After 2006, the main aspects causing the rapid growth of China's donations are:

Firstly, they have been catalyzed by China's rapid economic development and growing private wealth. According to the 2012 China Private Bank Development Report, jointly published by the CITIC Bank and the Central University of Finance and Economics, the population with investable assets of 10 million RMB has increased from 361,000 in 2006 to 1.185 million in 2011 in China, an increase of 2.3 times² in half a decade. There is no doubt that the economic development and the increase in the number of rich people have laid the ground for China's rapid growth in donations.

Secondly, the Regulation on Foundation Administration was published in 2004. Before that, only the government could initiate the establishment of charitable foundations, and it was almost impossible for the private sector to set up any forms of foundations. Nevertheless, the new amendments to the Regulation in 2004 liberalized the threshold for the private sector to set up a foundation.³ For the first time it allows enterprises and individuals to initiate the establishment of private foundations. According to HURUN Research Center, there are 35 people among the top 100 biggest donors who set up their own organization or named a foundation by themselves; e.g., the YUPENGNIAN Education Foundation; the HERENG Foundation (Mr. Cao Dewang named his foundation after his father's name); the HESHENG ZHUJIANG Education Development Foundation (named after Mr. Zhu Mengyi's company). Among these non-public funding foundations, YUPENGNIAN Charity Foundation's assets exceed 8 billion RMB, followed by the River Ren Charitable Foundation with more than 3.7 billion RMB.⁴

Had the government not relaxed the set-up threshold for foundations, there would not have been so many rich people contributing such huge donations. In addition, in 2007, China had also amended the Corporate Income Tax Law and the Personal Income Tax Law. According to the Corporate Income Tax Law, the amount of an enterprise's donation that does not exceed 12% of its payable tax can be deducted directly from taxable income. According to the Personal Income Tax Law, the amount of personal donations that do not exceed 30% of the taxpayer's taxable income can also be deducted from their taxable income. Under the previous corporate and personal income tax law, these percentages were only 3% for enterprises and 10% for individuals. The revision of these laws and regulations has greatly stimulated the donation behavior of businesses and the wealthy.

2 "2012 Personal banking development report" by CITIC Bank and Central University of Finance and Economics, http://news.cq.soufun.com/2012-07-24/8166970_all.html, accessed July 20, 2012.

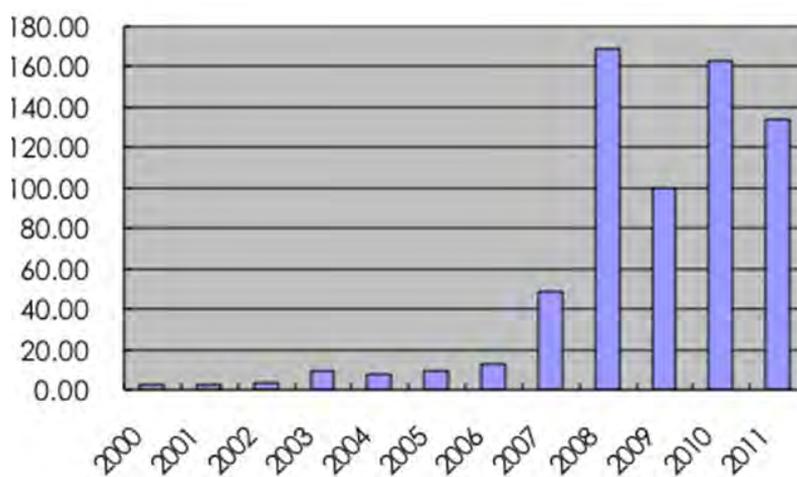
3 According to the Regulation on Foundation Administration in 2004, there are two types of foundations: public foundations and non-public foundations. The public foundations can request donations from the public; these foundations are typically established by governmental departments. The non-public foundations cannot request donations from the public and are typically established by donations from corporations or individuals.

4 http://money.163.com/12/0508/16/810DEF1B00253G87_5.html. Accessed July 25, 2012.

Thirdly, the 2008 Wenchuan earthquake stimulated the motivation among the Chinese people to make donations. That year is also known as China's "starting year of charity" due to the large number of volunteers and charitable organizations involved in the earthquake rescue and relief, which allowed the government and society to recognize the role of philanthropic activities. Hence, both corporate and personal charitable awareness were strengthened after the earthquake.

Overall, since 2006 Chinese society has not only dramatically accumulated huge social wealth, but also witnessed a rapid growth of charitable donations. Of course, compared to the United States and other developed countries, China's donations still fall far behind. In 2011, donations totaled 298.42 billion USD in the United States, which equaled 1.98% of its GDP. The charitable donations of that year in the United States are 22 times those of China.

Chart 1: Sum of donations in China 2000–2011 (in 100 million USD).



2. The funding dilemma faced by Chinese grassroots NGOs

Apparently, as mentioned above, along with the rapid economic development, Chinese people's charity awareness and donations have kept on rising. Yet, in the context of the growing donations, have the resources owned by Chinese grassroots NGOs also increased? Chinese grassroots NGOs in fact have not solved their funding problems in recent years, instead they are facing even more difficulties.

What is the exact cause of the Chinese grassroots NGOs' funding dilemma? In the author's view, reasons like the legal bottleneck that the Chinese grassroots NGOs' funding faces, the donations that mainly flow to GONGOs (government organized non-governmental organizations), and the withdrawal of overseas funding are causing the current situation.

2.1 The legal predicament of grassroots NGOs' funding

Grassroots NGOs are NGOs established by the private sector, as the counterpart of government-organized NGOs (GONGOs). In China there are not only many GONGOs, but also a large number of grassroots NGOs.

The NGO management system in China has two basic characteristics: firstly, the dual management system; secondly, the principle of “one association for one profession.” Under the dual management system all NGOs must find a competent professional unit before registering with the relevant authority – namely the Ministry of Civil Affairs; otherwise they will not be able to establish their legal personality. According to the principle of “one association for one profession,” only one NGO is allowed in the same administrative region. Due to the government-orientation of GONGOs, there is no difficulty for them to find the corresponding professional department in charge. However, for the grassroots NGOs, as the governmental departments are often reluctant to take political risks when in charge of NGOs from private sectors, or the government has already established similar GONGOs, it is difficult to find a way to register.⁵

Not only are the competent authorities highly discretionary, so are the registration departments in China. Even if some grassroots NGOs get permission from competent authorities, they will not necessarily succeed in registration. Moreover, they may be refused by the registration and management department.

Since the vast majority of grassroots NGOs in China cannot be registered with the Ministry of Civil Affairs to obtain legal status, a large number of grassroots NGOs are registered as enterprises, or even not registered at all.⁶ As a result, these grassroots NGOs without legal status have no fundraising qualifications and no preferential taxation privileges, which is much less attractive for donations from firms and individuals.

According to the existing laws and regulations, grassroots NGOs, even if registered with the civil affairs departments, do not have public fundraising qualifications. In China only public foundations, the Red Cross, and other official charity systems can carry out public fundraising and no other types of NGO fundraising are eligible. Apparently, these are almost all government-run GONGOs.

In summary: Due to the limitations by laws and regulations, grassroots NGOs face difficulties in obtaining legal status. Moreover, even if a small number of NGOs gets legal status, they do not have public fundraising qualifications which results in difficulties in obtaining donations from society.

5 Deng Guosheng, “The Hidden Rules Governing China’s Unregistered NGOs: Management and Consequences,” in: *The China Review*, Vol. 10, No. 1, 2010, pp. 183-206.

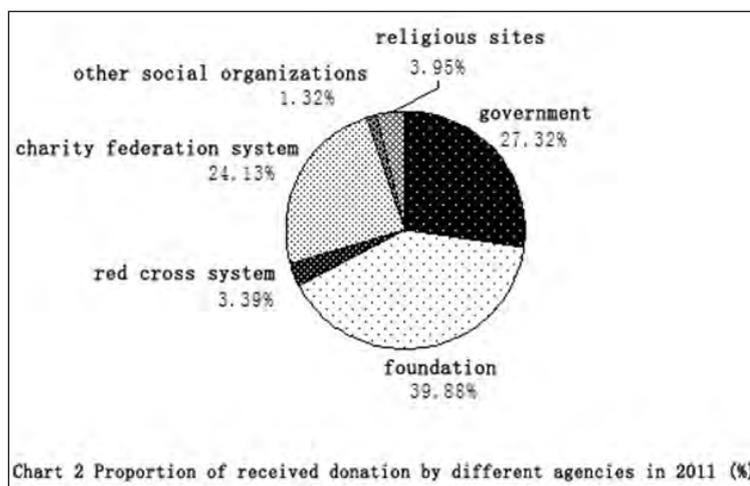
6 The Chinese government views NGOs with a “no recognition, no banning, no intervention policy” (the “three ‘no’ policy”). This policy states that although the government does not recognize the legal status of these NGOs, as long as they do not harm state security or social stability the government will not ban them or interfere with their internal affairs. See Deng Guosheng. “The Hidden Rules Governing China’s Unregistered NGOs,” pp. 183-206.

2.2 Donations mainly flow to the government or GONGOs

According to the statistics of the China Charity Information Donor Center,⁷ in 2011, 27.32% of the charity donations in China were received by the government, 24.13% were received by GONGOs, 3.39% by the Red Cross, and 39.88% of the donations were received by foundations. Less than 4% of the funds were raised by religious sites and other institutions, and only 1.32% by other social organizations, including grassroots NGOs. In other words, there is an enormous amount of donations in China each year, but most of them go to the government or GONGOs whereas grassroots NGOs only take about 1%.

Furthermore, when a catastrophe occurs, funds raised by the Red Cross, charities, and foundations would sometimes be appropriated by the government. For example, after the earthquake in Wenchuan the government required the Red Cross, charities, and foundations to turn in all raised funds to the government departments, so that the government could use them in a coordinated manner. Eventually about 80% of the Wenchuan earthquake donations went into the government's fiscal accounts, only about 20% were directly donated to the affected area via enterprises, individuals, or by INGOs and local NGOs for reconstruction projects.⁸

Chart 2: Percentage of donations by organization type.



2.3 Declining of grassroots NGOs' overseas funds

As grassroots NGOs in China have difficulties obtaining legal status and lack fundraising qualifications, these grassroots NGOs in China were, at the very beginning, developed with assistance from overseas.

7 Official website of the Ministry of Civil Affairs, <http://www.cws.mca.gov.cn/article/tjbg>. Official website of China Charity & Donation Information Center, <http://www.charity.gov.cn/fsm/sites/newmain/preview1.jsp?ColumnID=423&TID=20120628115915209127610>.

8 Deng Guosheng et al., "Xiangying Wenchuan" 响应汶川 (Response to Wenchuan), Beijing University Press 2009.

1995–2000 was the first phase of the development of Chinese grassroots NGOs. Most scholars believe that the convening of the NGO Forum of the World Conference on Women in 1995 was the beginning of the development of China's grassroots NGOs.⁹ Affected by the Forum, the number of overseas NGOs coming into China reached a first climax. The main funding objective of major overseas NGOs is grassroots NGOs. Due to foreign NGOs' funding, grassroots NGOs in China had the opportunity to be established and to develop. E.g., Friends of Nature, the Global Village, Maple Women Hotline, the first generation of well-known grassroots NGOs back then, obtained 90% of their funds from overseas NGOs' funding.

2000–2008 was the second phase of the development of Chinese grassroots NGOs. Since 2000, the number of overseas NGOs providing funding in China had reached a further climax. Thus the development of China's grassroots NGOs also reached a new climax. Due to the sharp increase of the number of grassroots NGOs, however, the demand for overseas aid also increased. Fortunately, during this period local enterprises and individuals became more aware of grassroots NGOs and local resources increased as well. Nevertheless, many grassroots NGOs had no legal status or fundraising eligibility after all, so funding still mainly relied on overseas assistance.

In 2008, China hosted the Olympic Games. Marking this year, the trend of overseas NGOs' withdrawal and reducing the scale of funding was increasingly evident. In the meantime, as the grassroots NGOs played an active role in the 2008 Wenchuan earthquake relief, both the government and society changed their attitude towards them, providing the grassroots NGOs with a better environment for development. But still, under the circumstances of reduced overseas funding and the ever-increasing number of grassroots NGOs, funding issues of the grassroots NGOs suddenly emerged.

According to media reports, in February 2012, seven grassroots NGOs in West China appealed to society that more attention and funding were needed.¹⁰ These grassroots NGOs were founded in the year 2000 and were mainly sponsored by overseas NGOs. Since 2008, overseas NGOs have gradually reduced or even stopped their funding aid. In the meantime very few local funding agencies have shown concern or given support, causing these seven grassroots NGOs soon to fall into financial difficulties. E.g., the Rural Development Association in Nanbu County, Sichuan, dismissed all its full-time employees early this year [2012]. Two full-time staff of Haifu Cows Association in Yihan County, Sichuan, have not received paychecks for two years. The manager of the Ecology and Poverty Research Association in Mount Daba, Sichuan, has to maintain the survival of the institution with his retirement pay and by encouraging his family members.

In summary: After nearly twenty years of development the number of China's grassroots NGOs is increasing. Nevertheless, under China's legal environment grassroots NGOs have difficulties to obtain legal status and have no fundraising qualifications. They therefore still mainly rely on overseas NGOs' assistance. Along with the withdrawal of INGOs and reduced foreign aid, China's grassroots NGOs are facing a significant funding dilemma.

9 Deng Guosheng, "The Hidden Rules Governing China's Unregistered NGOs," pp. 183-206.

10 [Http://epaper.jinghua.cn/html/2012-02/06/content_758095.htm](http://epaper.jinghua.cn/html/2012-02/06/content_758095.htm).

Meanwhile, among the grassroots NGOs, faith-based organizations face an even worse situation. As the origin of faith-based organizations in China is still relatively sensitive, they receive even less donations.

3. Conclusion and Recommendations

Until now the total number of all types of disabled persons in China has reached 82.96 million, which is 6.34% of the total population. It is estimated that at least 50% of the needs of the population with disabilities are still not being met, especially regarding medical services and assistance. In addition, it is estimated that there are 32.50 million aged people needing long-term care of various types in China. This number might exceed 60 million after 2020. In accordance with the absolute poverty line of 1.25 USD per day per person defined by the World Bank, there are still as many as 130 million people in absolute poverty.

Even though there has been a massive growth in the Chinese economy in recent years, the gap between the rich and the poor is still significant. Especially in the Western rural areas there is hardly any social security for the rural population, thus enormous support and aid are urgently needed from NGOs. However, the grassroots NGOs are still facing many difficulties such as registration and lack of fund-raising qualifications. Therefore, in reality almost all the donations are given to the government owned NGOs and only less than 1% is actually given to the grassroots NGOs. Thus the grassroots NGOs have great difficulties in playing a useful role in helping the poor.

Since 1995, the grassroots NGOs and civil society have gradually developed with the support from International NGOs and other organizations. Up to 2012, the number of grassroots NGOs that have a certain size and popularity has grown from 300 to 5,000 which is almost 16 times more than ten years ago. The number of smaller grassroots NGOs that have less popularity has grown to a million. Nonetheless, many grassroots NGOs are fighting for their survival due to the fact of shortage of funding. Particularly after the international NGOs have been dramatically and rapidly decreasing the support and funding for the grassroots NGOs, these grassroots NGOs are forced to close down due to difficulties in immediately finding alternative resources from the local providers. The situation mentioned above not only affects the development of civil society, but also directly affects the aid to the majority of the poor population in China. Therefore, regarding the current situation, the following recommendations are raised:

First of all, there are still more than 100 million people living below the poverty line in China. Both regional disparities and urban-rural gaps are also huge. With the development of the fast growing economy of China, it is reasonable that the funding from the Western world should gradually be reduced, but not at such a quick pace. Otherwise, the help to a large section of the poor population will not be sufficient or effective.

Secondly, as mentioned above, despite the rapid growth of domestic donations in China the majority of funds are directly donated to the government or GONGOs. Only about 1.32% of the donated funds are actually given to grassroots NGOs. The environment for grassroots NGOs in China is still very miserable. It is thus necessary for the INGOs to

continue to support grassroots NGOs in China. With a significant, rapid funding reduction from INGOs in recent years a considerable part of grassroots NGOs, which have a history of struggle for more than two decades, might have to close down. According to experience, grassroots NGOs have played a much larger and more effective role in helping the poor with poverty reduction than GONGOs did. Therefore, in the next five to ten years INGOs should keep focusing on the growth of grassroots NGOs in China, increasing funding or enlarging cooperation with some of them. It is not only conducive to the growth of grassroots NGOs in China, but also beneficial to the poor population for better assistance.

corrected version as of March 18, 2013