

Liu Baocheng / Zhang Mengsha

Philanthropy in China

Report of Concepts, History, Drivers, Institutions

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Globethics.net China Ethics

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Liu Baocheng / Zhang Mengsha, *Philanthropy in China, Report of Concepts, History, Drivers, Institutions*

Geneva: Globethics.net, 2017

ISBN 978-2-88931-177-4 (online version)

ISBN 978-2-88931-178-1 (print version)

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Managing Editor: Ignace Haaz

Assistant Editor: Samuel Davies

Globethics.net International Secretariat

150 route de Ferney

1211 Geneva 2, Switzerland

Website: www.globethics.net/publications

Email: publications@globethics.net

All web links in this text have been verified as of February 2017.

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FOREWORD

Philanthropy is an inherent virtue deeply embedded in our humanistic tradition. With its crudest essence in sharing, it is different to exchange since there is voluntary giving involved. Although charity is part of philanthropy in the sense of altruism, the latter is awakened by the sense of social responsibility over sustainable advancement of human welfare. Therefore, it is far more complicated and challenging on both the benefactor and the beneficiary. It is not about throwing a dime in a begging bowl, but rather helping those in need to stand on their own feet. It requires preparation for long-term devotion and streamlining expertise, especially communication and management skills, very often, in an organized fashion. As the proverb goes, one is as miserable as he is sinful. Aside from the incidental mischief by God, the beneficiary ends up in misery largely due to problem of his own, such as myopia, ignorance, indecisiveness, inertia, laziness, poor management, or simply bad choices. Resistance to change is the gravest challenge. Monetary support is most preferred by a beneficiary, and who then often chooses to be left unbothered by any condition. Nonetheless, to effect a fundamental change in the life of the beneficiary, one must strike at the root of the problem, which calls for a decisive overhaul of poor management and lifestyle.

Good medicine tastes bitter. To begin with, one may have to sugar-coat the medicine to solicit a positive response from the beneficiary. Intervention in the process of change is critical to ensure things move on the right track.

Motives differ a great deal in philanthropic undertakings. While many seek redemption for inner peace, some are enlightened by their

own conscience. Andrew Carnegie, a legendary man who rose from rags to riches gave away hundreds of million dollars to support education in his lifetime, based on his fervent belief that "the man who dies rich, dies disgraced." Philanthropy is a business per se with its objective on social profitability. Smart philanthropists are able to leverage more resources and deploy cost-effective means to achieve a strategic goal. Warren Buffet endowed a lion's share of his fortune to the Bill & Melinda Gates Foundation for the improvement of health and education especially in underdeveloped countries. More significantly, they joined hands in the Giving Pledge to inspire the wealthy people to donate the majority of their net worth to philanthropy. Buffet creatively organizes lunch auction to amass millions of dollars from bidders around the world for Glide, a San Francisco charity that works for the city's homeless and poor residents.

I was once asked by Dr. Chen Jining, the now Chinese minister of Environmental Protection, why Singapore is unable to compete with Hong Kong in philanthropy efforts, even though they bear so many similarities in terms of income level and Chinese origin. I that found philanthropic drive is strongly influenced by political systems and, to a degree, individualism. An authoritarian government leaves little space for the voluntary initiatives by individuals, just like intrusive parenting does not necessitate sharing among siblings. Philanthropy is considered the third form of wealth distribution (private means to public ends) after market competition and taxation schemes.

Several conditions have to be met for philanthropy to thrive. (1) Paradoxically, there exists a wealth gap within the society, with surplus by one group, and with inadequacy by the other. (2) There is willingness among wealthy and capable individuals to extend their generosity. (3) There is medium of communication to bridge the needs between the haves and the have nots. (4) A liberal or more ideally an enabling political environment (e.g. taxation scheme) is available for individuals and

social organizations to take ownership in communal and societal livelihood. (5) There is a moral atmosphere (religions and cultural traditions) in which giving is generally viewed as a welcome virtue. (6) A matured market economy under the rule of law shall encourage business firms as the dominant social and economic force to compete on their corporate social responsibility besides price and quality. In addition, social catalysts such as non-governmental organizations play an indispensable role in leading the philanthropic industry onto traction of professionalism.

Philanthropy is a universal human value shared by all cultures with sympathy serving as an inexorable driver at the bottom of every human heart. Meanwhile, its notion and practice evolve and develop in response to changes in the social, political and economic environments. In consideration of its long history, Chinese philanthropy can be broadly categorized into three stages: (1) traditional philanthropy, (2) stagnation since the founding of the People's Republic of China in 1949, and (3) rejuvenation after the reform and opening up policy was launched in 1978.

In China, the confluence of Confucianism, Taoism, Buddhism and other indigenous philosophies has left a deep footprint on its perception and practice of philanthropy with benevolence, kindness and compassion, encourage mutual assistance and charitable giving. Where Confucianism has been serving as the mainstream value, benevolence (*Ren*) as its core value is rationalized by Mencius as the explicit underpinnings of sympathy, an inherent part of human nature. In contrast to Buddhism which focuses on spiritual practices for the attainment of nirvana, Confucianism as a philosophy is not satisfied with self-discipline and perfection. Its doctrine of "inner holiness and outer prowess" requests that people strive for worldly achievement, including altruistic deeds which bring honor to the family.

Nonetheless, despite the most part of Chinese history having been dominated by despotic empires in succession, while the religions played

a submissive role, philanthropic activities by local gentries, merchants and plebeians, have not been short in number. It not possible to parallel its counterpart in Europe either in magnitude or consistency. Rural life stippled by the residence control system heavily undermined demographic mobility and civic organization. Philanthropy in a mutant formula largely confined largely within kindred relations as a matter of expediency. Apart from governed administered disaster or poverty relief programs, records on philanthropic activities initiated in the private sector is considerably scanty.

Western influence during the semi-colonial period after the Opium War, in spite of the humiliation inflicted upon it national pride, brought into China organized church activities, media and the concept of social organizations when the Chinese dynasty was faltering. The Democratic Revolution led by Dr. Sun Yat-sen witnessed a climax in philanthropy when overseas Chinese mobilized generous support to promising social organizations to overthrow the tumbling Qing Dynasty. Command economy for 3 decades after the onset of People's Republic of China was aimed at an agrarian society in which virtually all resources and economic outcome were allocated and distributed by the government. When private property was reduced to the bare minimum and people were supposed to be taken care of from cradle to grave by the socialistic superstructure, there was neither incentive nor capability for individuals to engage in philanthropic activities.

The reform and open-door policy since 1978 introduced unprecedented dynamism in the course of wealth creation and accumulation. The influx of foreign capital, the policy of "letting a few get rich first", the phase-based opening beginning from the coastal regions, have acerbated wealth polarization among individuals and across regions, as witnessed by the continuous enlargement of gini-coefficient, albeit virtually every individual and district are better off than their own past. Privatization and deregulation in line with globalization allowed for the explosive

growth of civil society and the perceptual dissemination of social responsibility at both corporate and individual levels. Chinese government amid the learning curve has gravitated away from the stereotyped notion of self-sufficiency by sponsoring a slew of charity foundations such as the Red Cross, China Charity, Song Qing-ling, among others, to receive funds both at home and from abroad. Although policies toward philanthropy are still short of transparency and have wavered at different stages, its general trajectory is continued liberalization. Donation culminated during the 2008 Wenchuan Earthquake (RMB76 billion by May 2009) which exceeded the national total for the entire previous decade. Among the top 123 corporate donors (above RMB15 million), only 14 foreign companies were on the list. In stark contrast, the Tangshan Earthquake in 1976, which was far more devastating, solicited an apathetic reaction at home except for aid from foreign governments through diplomatic channels.

The surge in philanthropy, despite the disruption by a number of scandals, provides a strong verification to the conditions laid out above. As part of China's dream, the immense task remains ahead as the Chinese government that vows to lift 70 million citizens above the poverty line by 2020, in which philanthropy plays an indispensable role. On top of it, the Chinese government, companies and increasing number of NGOs hitherto are broadening their horizon to engage more proactively philanthropic undertakings beyond their national boundary, from peace keeping in South Sudan, to medical teams fighting Ebola in Sierra Leone; even fundraising for the slum in the suburb of Nairobi. With the rapid pace of outbound investment, after learning hard lessons, Chinese companies have begun to seriously embrace the idea of corporate social responsibility. Although the World Giving Index by which China has been ranked extremely low is incapable of depicting the full picture of a nation's generosity, China as the world second largest economy and top exporter with rising per capita income definitely has a long way to go

before philanthropy flourishes over its vast landscape. That requires tortuous work ahead in its institutional reform, legal construction and cultural transformation to meet those conditions laid out in the above context.

CONCEPTUAL BACKGROUND ON PHILANTHROPY

Philanthropy, as part of the humanitarian tradition, is borderless, but the notions, practices and developmental trajectories of the philanthropic sector vary between nations. The academic study of philanthropy presupposes a comprehensive definition that guides inquiry into what exactly philanthropy is and why it matters, along with the rising tide of global associational revolution.

1.1 Western Perspectives

Philanthropy is derived from the archaic Greek word “*philanthrôpia*”, literally meaning “love of humankind”. It was initially coined by the playwright Aeschylus in the tragic drama *Prometheus Bound* in the 5th century BCE to characterize the mythological divinity whose actions advance the cause of human civilization.

Based on the etymological history of “*philanthrôpia*”, Sulek (2010a) identified six modes of usage according to the nature of the primary subject to which the term refers: (1) theological, in reference to divine beings; (2) philosophical, in reference to the knower, knowledge, learning, culture, and other associated concepts; (3) political, in reference to rulers, magistrates, civic leaders, laws, and other political entities; (4) ontological, in reference to an innate affection for, or attraction to, hu-

man beings in the nature of a person or thing; (5) social, in reference to the possession of certain social graces, such as courtesy, kindness, friendliness, or gregariousness; and (6) fiduciary, in reference to financial generosity.

Sir Francis Bacon is accredited as the first English writer to employ “philanthropy” in a discernibly modern sense and to imbue it with the full depth of meaning intended by the ancient philosophers, given the opening sentences of his essay *Of Goodness and Goodness of Nature* published in 1612: “I take goodness in this sense, the affecting of the weal of men, which is that the Grecians call *philanthrôpía*; and the word humanity (as it is used) is a little too light to express it. Goodness I call the habit, and goodness of nature the inclination.” Bacon thus considered “*philanthrôpía*” to be synonymous with “goodness”, which is correlated with the Aristotelian conception of virtue, as consciously instilled habits of good behavior.

Samuel Johnson, the celebrated man of letters and lexicographer, defined philanthropy as simply “love of mankind; good nature” in *A Dictionary of the English Language* which came out in 1755. Thereafter, Noah Webster published a dictionary that more accurately reflected the word usage of American English in 1828, where philanthropy was defined as “the love of mankind; benevolence towards the whole human family; universal good will. It differs from friendship, as the latter is an affection for individuals.” Contemporarily, the lexical meaning of philanthropy is more enriched, ranging from ideal inner state of mind (the desire to promote the welfare of others) to objective reality in the world (the generous donation of money to good causes).¹

With regard to academic study of philanthropy, Miller (2006) pointed to the necessity to specify the boundaries between motives, means, and objectives that are truly philanthropic and those that are not. As he put it, any proper definition must pay attention to how the term “philan-

¹ <http://www.oxforddictionaries.com/definition/english/philanthropy>

thropy” has been applied in practice, and description alone will not suffice. By elaborating on the notions of philanthropy and cosmopolitanism, Miller holds that philanthropy as a form of love is essentially cosmopolitan, given the goodwill towards humanity expressed in activities that promote social welfare. By comparison, cosmopolitanism need not be philanthropic, considering its forms vary according to whether their grounding is primarily economic, political, or moral.

Sulek (2010b) surveyed the contemporary academic definitions of philanthropy and the underlying assumptions. As he observes, the working definition of philanthropy is largely dependent on particular interests or backgrounds of the scholar employing the term, and the focal points of contention as to the precise meaning of philanthropy include: (1) whether philanthropy is voluntary, or whether it is compelled by factors such as moral restraints, social obligations, and the like; (2) whether philanthropy serves a public purpose, a public good, a charitable need, or simply a communicated want or desire; and (3) whether philanthropy is an intent to achieve a particular aim, is the actual attainment of that aim, or is just simply a private act of giving.

For instance, Payton (1988) regards philanthropy as “voluntary action for the public good” due to the American tradition of voluntary service, voluntary association, and voluntary giving; Van Til (1990) views philanthropy as “voluntary giving and receiving of time and money aimed (however imperfectly) toward the needs of charity and the interests of all in a better quality of life”, attaching great importance to philanthropic intent; and Schervish (1998) considers philanthropy as “a social relation governed by a moral obligation that matches a supply of private resources to a demand of unfulfilled needs and desires that are communicated by entreaty”, indicating the complementary roles of philanthropy, governments, and the marketplace.

The most commonly adopted definition of philanthropy in academic circles is the one offered by Lester Salamon: “the private giving of time

or valuables (money, security, property) for public purposes; and/or one form of income of private non-profit organizations”.² In reality, the line between private and public is drawn in the water. Nonetheless, this definition synthesizes the current academic meaning and the common understanding of philanthropy by emphasizing charitable donations.

From a historical perspective, though, philanthropy distinguishes itself from Christianity-based charity by seeking to address the root causes of social problems and taking either secular or religious forms to promote social progress in ways beyond alleviating suffering (Gross, 2003). The scope of modern philanthropy may extend to include support to education, arts, culture, or any socially useful purpose. It may be focused on a local community or extend to national or global initiatives.³

The United Nations Development Program (UNDP) has identified philanthropy as an emerging contributor to development cooperation towards achieving the Sustainable Development Goals (SDGs), since it brings a complementary and beneficial set of new actors, approaches and types of funding. The contributions made by non-state actors, notably civil society organizations and the business sector, sometimes make up for the failure of governments or the marketplace.⁴

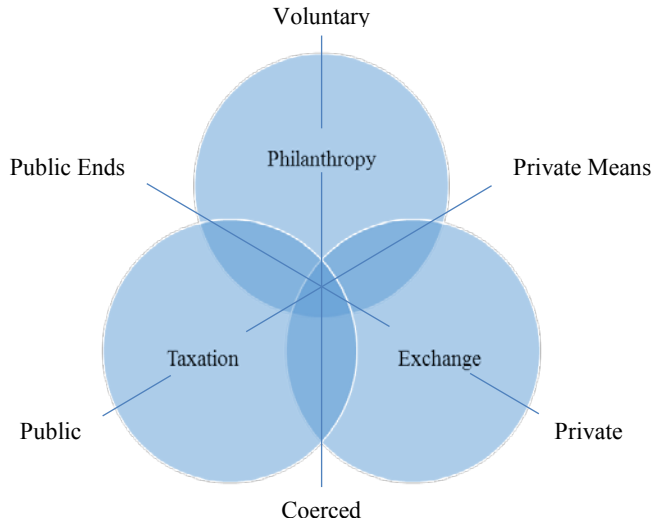
In a nutshell, philanthropy can be conceptualized as private means to public ends, and in parallel, government taxation as public means to public ends, and market exchange as private means to private ends. A voluntary-coerced axis could also be added into this schema to produce the conceptual diagram (Exhibit 1-1).

² <http://en.wikipedia.org/wiki/Philanthropy>

³ Philanthropy. (2014). Funk & Wagnalls New World Encyclopedia, 1p. 1.

⁴ http://www.undp.org/content/dam/undp/documents/partners/civil_society/UNDP-CSO-philanthropy.pdf

Exhibit 1-1 Conceptualization of Philanthropy



Source: Sulek, M. (2010). On the Modern Meaning of Philanthropy. *Nonprofit and Voluntary Sector Quarterly*, 39(2), 202.

Accordingly, the philanthropic sector, known variously as the “non-profit”, the “voluntary”, the “civil society”, the “third”, or the “independent” sector, refers to social institutions that operate outside the confines of the state and the market. It is concluded that these entities share some basic features (Salamon&Anheier, 1992; Salamon et al., 1999). In particular, they are:

- organized, i.e., institutionalized to some extent;
- private, i.e., institutionally separate from government;
- non-profit-distributing, i.e., not returning profits to their owners or directors;
- self-governing, i.e., equipped to control their own activities; and

- Voluntary, i.e., involving some meaningful degree of voluntary participation.

The International Classification of Non-Profit Organizations (IC-NPO) system sorts the philanthropic sector as defined above into 12 major activity groups (including a catch-all “not elsewhere classified” category), which are in turn subdivided into 30 subgroups. It provides an effective way of classifying the non-profit organizations in a wide assortment of countries, but the ICNPO system as currently developed does not attempt to achieve standardization at the level of activities because of the great diversity of the non-profit sector in different locales. (Table 1-1)

Table 1-1 International Classification of Non-Profit Organizations

ICNPO Groups	ICNPO Sub-Groups
1. Culture and recreation	1 100 Culture and arts 1 200 Sports 1 300 Other recreation and social clubs
2. Education and research	2 100 Primary and secondary education 2 200 Higher education 2 300 Other education 2 400 Research
3. Health	3 100 Hospitals and rehabilitation 3 200 Nursing homes 3 300 Mental health and crisis intervention 3 400 Other health services
4. Social services	4 100 Social services 4 200 Emergency and relief 4 300 Income support and mainte-

	nance
5. Environment	5 100 Environment 5 200 Animal protection
6. Development and housing	6 100 Economic, social and community development 6 200 Housing 6 300 Employment and training
7. Law, advocacy and politics	7 100 Civic and advocacy organizations 7 200 Law and legal services 7 300 Political organizations
8. Philanthropic intermediaries and voluntarism promotion	8 100 Grant-making Foundations 8 200 Other philanthropic inter- mediaries and voluntarism promo- tion
9. International	9 100 International activities
10. Religion	10 100 Religious congregations and associations
11. Business & professional associations, unions	11 100 Business associations 11 200 Professional associations 11 300 Labor unions
12. Not elsewhere classified	12 100 Not elsewhere classified

Source: Salamon, L. M., Anheier, H. K., List, R., Toepler, S., Sokolowski, S. W., & Associates. (1999). *Global Civil Society: Dimensions of the Nonprofit Sector*. Baltimore: The Johns Hopkins Center for Civil Society Studies.

The United Kingdom is considered to be the first country to enact laws on civic and charitable activities. The preamble to the Charitable Uses Act 1601, also known as the Statute of Elizabeth I, provides a rich overview of the range of philanthropy, laying a foundation for further development of this sector. According to Charities Act 2011, a “charity”

contributions but may engage in some political or commercial activities from which 501(c)(3) organizations are barred (Muukkonen, 2009).

1.2 Chinese Perspectives

China enjoys a time-honored tradition of philanthropy, and humanism as the essential feature of philanthropy is shared by all cultures (Zhou & Zeng, 2006). Historically, philanthropy is taken as the efforts made by the ancient government and the general public to succor the vulnerable group on a voluntary basis; while in the modern sense, it is often viewed as a mixed type of wealth distribution, which is donation-based and private-operated (Wang, 2008).

Chinese philanthropy evolves from the state social security system. From this lens, Zheng (2010) summarizes its six characteristics as follows: (1) benevolence is the moral basis for Chinese philanthropy; (2) the existence of wealth gap gives rise to the necessity of philanthropy development; (3) philanthropy is economically dependent on voluntary donations from the society; (4) philanthropic activities are conducted by folk organizations; (5) that the benefactor's will is fully respected is a prerequisite for philanthropy to work; (6) philanthropy cannot advance without the engagement of the general public.

Yang (2009) argues that philanthropy is a multidimensional concept containing will and act, benefactors and beneficiaries, charitable resources and related institutions. From a pragmatic perspective, philanthropy can be defined as an undertaking initiated by the civil society for the public welfare. In accordance with Article 3 of the *Law on Donations for the Public Welfare (1999)*, "public welfare" refers to non-profit activities in the following realms: (1) disaster relief, poverty reduction, assistance for the handicapped and other vulnerable groups; (2) education, science, culture, public healthcare, and sports; (3) environmental protection, and public facilities construction; (4) other activities for social progress.

The newly adopted *Philanthropy Law* expands the definition of philanthropic activities, which refer to the following public welfare activities voluntarily carried out by natural persons, legal persons and other organizations by means of donating assets, providing services, etc.: (1) alleviating poverty and helping the needy; (2) supporting the elderly, helping orphans, providing comfort for persons with serious illnesses, assisting the disabled, and giving special care to disabled servicemen and the family members of martyrs; (3) engaging in rescue and relief operations with regard to the damage caused by natural disasters, accidents and disasters, public health incidents and other emergencies; (4) promoting the development of education, science, culture, health, sports and other undertakings; (5) preventing and controlling pollution and other public hazards, and protecting and improving the ecological environment; and (6) engaging in other public welfare activities that are in compliance with the Law.⁵

Theoretically, philanthropic activities are implemented by civil society organizations, also known colloquially as “folk organizations” in China, referring to institutions that are independent of or not directly part of the government. Aside from non-governmental, these organizations are characterized by non-profit and voluntary association.

However, Chinese non-governmental organizations (NGOs) and non-profit organizations (NPOs) should not be understood in the same way as that in the West. Officially, they are restricted to the three types of civil organizations registered with the Ministry of Civil Affairs of China or its local departments based on current regulations, which include:

- Social organizations, defined as non-profit civil organizations voluntarily established by Chinese citizens for the realization of a

⁵ Article 3 of the *Philanthropy Law* (2016).

common desire of the membership in accordance with their articles of association.⁶

- Private non-enterprise units, defined as civil organizations established with non-state-owned assets by enterprises, public units, social organizations and other social entities or individual citizens for non-profit social services.⁷
- Foundations, defined as non-profit legal entities committed to the promotion of public welfare by making use of the property donated by natural persons, legal entities or other organizations.⁸

In practice, a number of folk organizations in addition to the above are actively engaged in non-profit activities. Often known as “grassroots organizations”, they are either registered as for-profit business with the Bureau of Industry and Commerce or remained unregistered due to the existent administrative system. Nonetheless, these organizations usually enjoy more autonomy and account for a substantial portion of Chinese philanthropic sector.

It is worth noting that the term “social organizations” is sometimes used in its broadest sense to refer to people’s organizations that have been led by the Communist Party of China (CPC) as links to specific social constituencies and subject to separate laws and regulations. Typically, All-China Federation of Trade Unions, the Communist Youth League of China, All-China Women’s Federation, China Association for Science and Technology, All-China Federation of Returned Overseas Chinese, All-China Taiwanese Association, All-China Youth Federation, and All-China Federation of Industry and Commerce, as members

⁶ Article 2 of the *Regulations on the Registration and Administration of Social Organizations* (1998).

⁷ Article 2 of the *Interim Regulations on the Registration and Administration of Private Non-Enterprise Units* (1998).

⁸ Article 2 of the *Regulations on the Administration of Foundations* (2004).

of the Chinese People's Political Consultative Conference (CPPCC), fall into this category.⁹

Besides, certain legally sanctioned non-profit organizations may have close ties with particular government agencies. Customarily, these organizations are called "government organized non-governmental organizations (GONGO)" and exempted from the administration of the Ministry of Civil Affairs of China. Examples include China Federation of Literary and Art Circles, China Writers Association, All-China Journalists' Association, the Chinese People's Association for Friendship with Foreign Countries, Chinese People's Institute of Foreign Affairs, China Council for the Promotion of International Trade, China Disabled Persons' Federation, China Soong Ching Ling Foundation, China Law Society, Red Cross Society of China, Chinese Society of Ideological and Political Work, Western Returned Scholars Association, Alumni Association of the Huangpu Military Academy, and the National Association of Vocational Education of China.¹⁰

Public units is a third sort of non-profit organizations that enjoys privileged status, especially with respect to taxation. They are quasi-governmental in nature, defined as social service organizations that are sponsored by state organs or other organizations with state-owned assets for the public benefit and engaged in activities in areas like education, science and technology, culture, health care, etc.¹¹, but a reform to convert them into specific categories and streamline their bureaucracy is in progress to promote the development of philanthropy.¹²

⁹ Article 3 of the *Regulations on the Registration and Administration of Social Organizations* (1998).

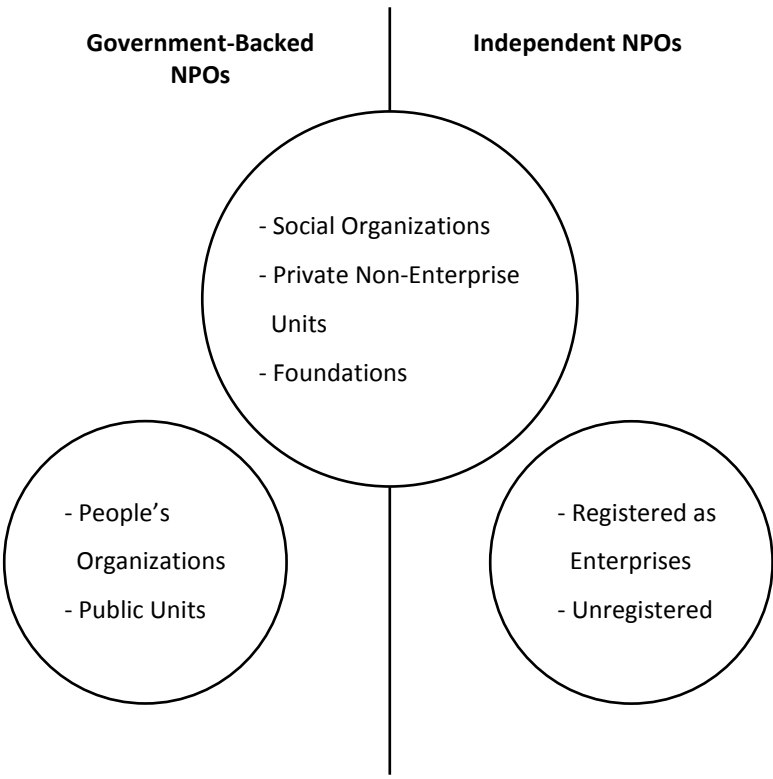
¹⁰ Article 3 of the *Regulations on the Registration and Administration of Social Organizations* (1998); *Notice of the Ministry of Civil Affairs of China on Issues concerning the Registration Exemption of Certain Organizations* (2000).

¹¹ Article 2 of the *Interim Regulations on the Registration and Administration of Public Units* (2004).

¹² *Guidelines of the Central Committee of the Communist Party of China and the State Council on Advancing the Reform of Public Units by Categories* (2011).

Chinese philanthropic sector is overall not so clear-cut, albeit transformative (Exhibit 1-2). The fact is that many officially sanctioned NGOs are government-backed with scant autonomy while grassroots NPOs may have to operate as for-profit enterprises from a legal perspective. This type of oxymoron indicates that philanthropy defined as a private initiative for the public welfare is fairly a new phenomenon in China, despite the nation's long history.

Exhibit 1-2 Chinese Philanthropic Sector



A BRIEF HISTORY OF CHINESE PHILANTHROPY

In general, Chinese philanthropy has gone through three stages: (1) traditional philanthropy, (2) stagnation since the founding of the People's Republic of China (PRC) in 1949, and (3) rejuvenation after the reform and opening up policy was launched in 1978. As the boundary between the government, market and civil society becomes clearer, Chinese philanthropy tends to be modernized.

2.1 Traditional Philanthropy

Chinese philanthropy is rooted in the traditional culture, and benefaction is usually regarded as an expression of people's inherent sense of morality. Confucianism, Taoism, Buddhism and other ancient philosophy endow philanthropy with benevolence, kindness and compassionateness, encourage mutual assistance and charitable giving, and propose people-oriented governance. While western philanthropy is derived from religions, Chinese philanthropy is largely secular, suggesting that the state as well as individuals can get involved.

Benevolent policies had been set by the ancient rulers since as early as the pre-Qin Dynasty, and further developed by the ancient Chinese governments to deal with famine, poverty, health care and other social issues. For instance, the granary system was established as a precaution

against natural disasters and a stabilizer of food prices. The surplus grain was stored during harvest years and dispensed in case of catastrophe. Besides, official institutions like poorhouses and sanatoriums were built to provide accommodation and medical treatment for the homeless, the sick and those who have no kith and kin.

Around the late Ming and the early Qing Dynasty, folk philanthropic organizations burgeoned owing to the prosperity of commodity economy and the prevalence of morality books. These organizations were independently sponsored and administrated by the populace, rather than the ancient governments. With abundant funds, philanthropic activities were conducted more frequently, and extensive strata including local gentries, merchants and plebeians were engaged in aiding the elderly, orphans, widows and others in need.

China was turned into a semi-feudal and semi-colonial society after the outbreak of the Opium War in 1840, undergoing radical changes in socio-economic, political and cultural areas. In the meantime, Chinese philanthropy manifested new features with the influence of the western ideology, which was largely spread via the missionaries, foreign newspapers, and progressive intellectuals returned from overseas.

Firstly, education was added into the spectrum of philanthropic activities to aid the deserving poor in a more positive way. For example, vagrants were sheltered and equipped with necessary skills to support themselves instead of merely receiving alms. Therefore, philanthropy functioned like a cure rather than a palliative for chronic social problems, becoming more oriented to the needs of the beneficiary. It was recognized that physical relief alone was far from enough to tackle the problem of poverty, since good will could fail if it served nothing but to morally reform the indigent.

Secondly, folk philanthropic organizations were injected with fresh momentum during the prolonged war, which drained the state meanwhile mobilized private capital. In the late Qing Dynasty, the Self-

Strengthening Movement provided a great impetus to the development of Chinese industry. At the same time, it encouraged the spread of democratic ideas and led to social pluralization. Moreover, the western model of philanthropic organizations was introduced in China, offering enlightening approaches to raising fund. It was exemplified by the Shanghai International Red Cross Society founded in 1904 - the predecessor of the Red Cross Society of China.

Thirdly, the government of the Republic of China promoted the institutionalization of philanthropy. Inspired by the idea of “welfare state” originated in the 19th century, the authority regarded social relief as not only the responsibility of the state, but also the entitlement of the citizens. Governmental agencies concerning social welfare were set up at central, provincial, municipal and county levels, while laws on philanthropic activities and organizations were also enacted. Hence, the administration and legislation of philanthropy fell under the purview of the government, but a clear line between state action and voluntary action remained.

2.2 Stagnation of Philanthropy

After the People’s Republic of China was founded in 1949, a socialist system characterized by centrally planned economy was established. Egalitarian distribution eliminated the wealth gap, nevertheless, depressed the dynamics of economic growth. Class struggle permeated all walks of life and finally escalated to the devastating Cultural Revolution (1966-1976).

Philanthropy or charity, conceived as the ideology of feudalism and capitalism, was completely excluded. According to the 1991 Chinese Encyclopedia, the term “philanthropy” was once defined as: “through sympathy, pity or religious belief, send money or material goods to those in need, or provide other practical aid to social programs [...] with

a heavy religious and superstitious hue, its aim is to do good things for good press [...] for a small number of people it is only a kind of temporary passive relief [...] the social consequences are still disputed.”

Philanthropists were labeled “pseud”, and “philanthropy” was even not allowed to be mentioned literally or orally. Philanthropic organizations established by the former government, local gentry and foreign churches were either dissolved or reorganized into official institutions subordinated to the government. Consequently, philanthropic activities voluntarily initiated by the social forces were wiped out. Poverty alleviation and disaster relief, though still alive, were almost mandated.

2.3 Rejuvenation of Philanthropy

It was not until the early 1980s that Chinese philanthropy was revived in the wake of the reform and opening up policy. The planned economy was superseded by the socialist market mechanism, contributing to not merely economic growth but also wealth discrepancy. Given that the fiscal expenditure on social security might be insufficient, private capital could fill the gap. Under such circumstances, a batch of foundations were founded, including China Children and Teenagers’ Foundation established in 1981, China Soong Ching Ling Foundation in 1982, China Foundation for Disabled Persons in 1984, the Amity Foundation in 1985, China Women’s Development Foundation in 1988, China Youth Development Foundation in 1989, China Foundation for Poverty Alleviation in 1989. Besides, the Red Cross Society of China expanded to over 87,000 branches in about 30 provinces by 1989 and extended the range of philanthropic activities to blood donation, medical training, humanitarian aid offering and so forth. However, most of these organizations were virtually backed by specific government departments due to the dormant consciousness of philanthropy.

This climate started to change in the 1990s. *People’s Daily* - the mouthpiece of the Central Committee of the Communist Party of China

(CCCPC) - published a commentary titled *To Eradicate the Prejudice against Philanthropy* in 1994, shedding light on the compatibility of philanthropy with socialism. In the same year, the first social organization in the name of “charity” - China Charity Federation - was founded at the national level, and local charity associations sprung up afterwards. Another notable issue was the 1998 Yangtze River floods, which gave rise to the first nationwide donation since the founding of the PRC. As much as CNY300 million was collected overnight after the appeal was launched via the China Central Television (CCTV). Thus, philanthropy was exposed to the citizens and justifiably spread ever since.

In the meantime, a primitive legal framework for the development of philanthropy took shape, which was comprised of the *Law on the Red Cross Society of China* (1993) and the *Law on Donations for the Public Welfare* (1999) adopted by the Standing Committee of the National People’s Congress, and a set of administrative regulations enacted by the State Council, such as the *Measures for the Administration of Foundations* (1988), the *Regulations on the Registration and Administration of Social Organizations* (1998), and the *Interim Regulations on the Registration and Administration of Private Non-Enterprise Units* (1998).

Since the dawn of the 21st century, Chinese philanthropy has been nourished in a more favorable political environment.

In 2004, the 4th Plenary Session of the 16th CCCPC decided to “improve the social security system by integrating social insurance, social relief, social welfare and philanthropy”. The State Council promulgated the *Regulations on the Administration of Foundations* (2004), granting permissions for individuals and enterprises to establish foundations for the public welfare.

In 2005, “to endorse the development of philanthropy” was explicitly put forward by the National People’s Congress and the Chinese People’s Political Consultative Conference (NPC & CPPCC). The Ministry of Civil Affairs held the first national conference on philanthropy and

issued the *Guidelines for the Development of Chinese Philanthropy (2006-2010)*.

In 2007, the 17th CCCPC acknowledged the vital role of philanthropy in improving the social security system to guarantee the basic living conditions for both urban and rural residents. The *Enterprise Income Tax Law (2007)* was newly promulgated by the National People's Congress, offering preferential treatment for corporate philanthropic donation.

Mounting philanthropic projects and donations demonstrated the headway made by the top-down reform, while the 2008 Wenchuan earthquake ushered Chinese philanthropy in an era of bottom-up driven transformation. Based on official statistics, the 8.0-magnitude earthquake that struck Wenchuan, Sichuan Province on May 12th had caused 69,227 deaths, 374,643 injured, and 17,923 missing by September 22th, 2008. The calamity touched every corner of the society with piles of money and supplies transported to the afflicted area, millions of volunteers swarming to the frontline, and blessings widely spread on the Internet. The year-round donations reached unprecedented CNY107 billion, roughly 3.5 times of that in 2007.

Since then, Chinese philanthropy tend towards civilianization. The private sector - basically civil organizations, enterprises and individuals - are taking initiatives in conjunction with the government to create a more inclusive environment for philanthropy development.

DRIVERS OF PHILANTHROPY DEVELOPMENT IN CHINA

Since the reform and opening up policy was adopted in the late 1970s, China has gotten rid of the mandatory institution, where the economy and society were once dominated by the government and no room was left for the private sector. Nowadays, Chinese philanthropy goes toward vitalization with great impetus provided by the interplay of economic, political, and social factors.

3.1 Economic Development

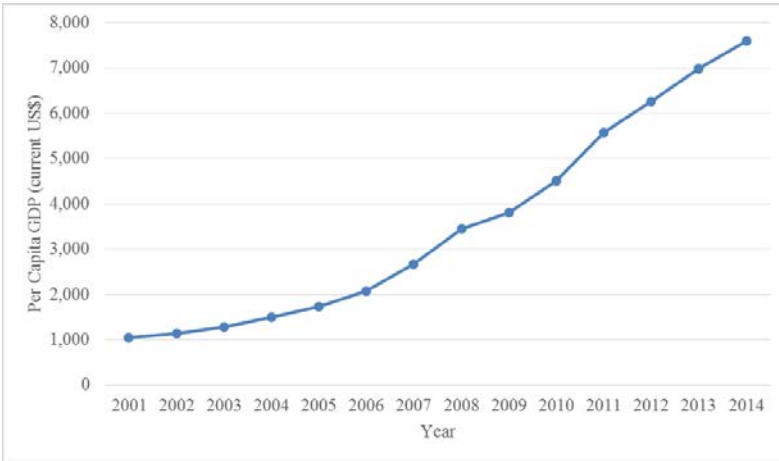
Philanthropy is sometimes seen as a mechanism of the third distribution of wealth in addition to the market and tax scheme from an economic perspective. Under the rigid planned system, the economic resources were controlled by the central government while little disposable income was left in the hands of the citizens. Philanthropy thus became a fairly remote possibility when people could barely to give, even if there was no lack of willingness.

It was not the case after China embarked on the economic reform towards a market-based system. Over the past decades, China has achieved remarkable economic growth and become the second largest economy in the world. The liberalization of resources stimulated the

market, led to the rise of private enterprises and yielded a noticeable increase of disposable income at individual level.

According to statistics from the World Bank, China's per capita GDP increased dramatically from \$1,047.50 in 2001 all the way up to \$7,593.90 in 2014 (Exhibit 3-1). However, it is in stark contrast to the fact that more than 100 million people are still struggling below the latest national poverty line - CNY2,300 (2010 constant price), referred to per capita annual net income of rural residents.

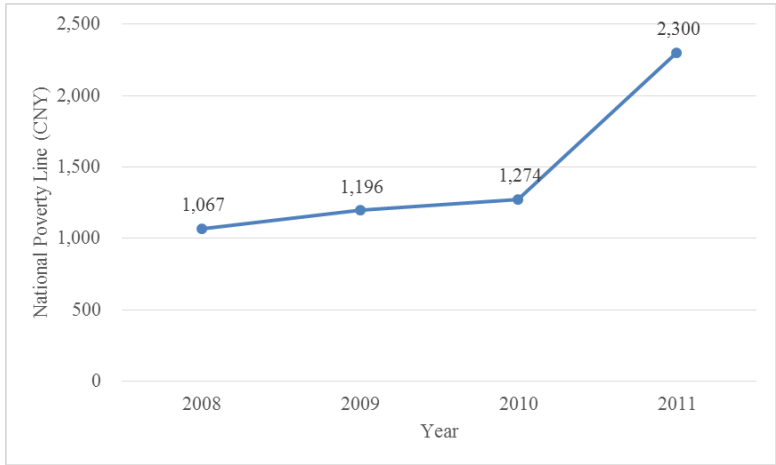
Exhibit 3-1 China's Per Capita GDP (current US\$), 2001-2014



Source: The World Bank

This standard was set in 2011, the third year in a row that the government raised the national poverty line (Exhibit 3-2).

Exhibit 3-2 China's National Poverty Line (CNY), 2008-2011



Source: http://news.xinhuanet.com/politics/2011-11/29/c_111203876.htm

Wealth polarization is another pressing issue. For more than a decade, China's Gini index has remained above 0.4, which is the internationally acknowledged warning level of income inequality. (Table 3-1)

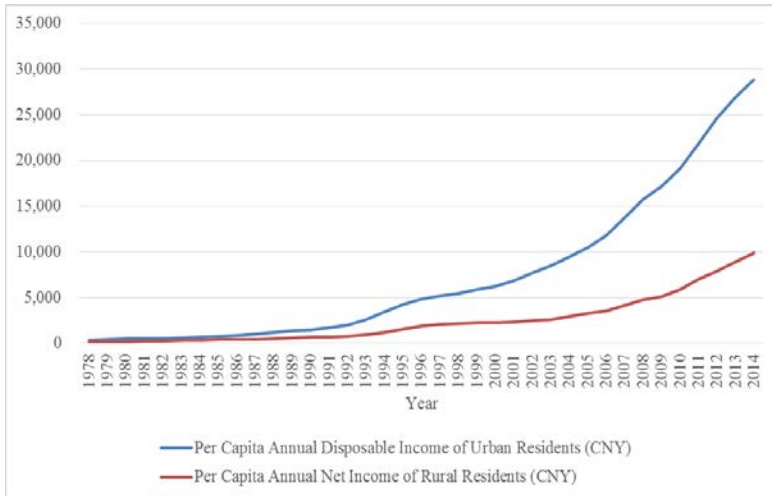
Table 3-1 China's Gini Index, 2003-2014

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gini Index	0.479	0.473	0.485	0.487	0.484	0.491	0.490	0.481	0.477	0.474	0.473	0.469

Source: National Bureau of Statistics of China

Besides, the exacerbating income gap between the urban dwellers and the rural residents also calls for a more efficient and effective mechanism of resource allocation. (Exhibit 3-3)

Exhibit 3-3 Income of Urban and Rural Residents in China, 1978-2014



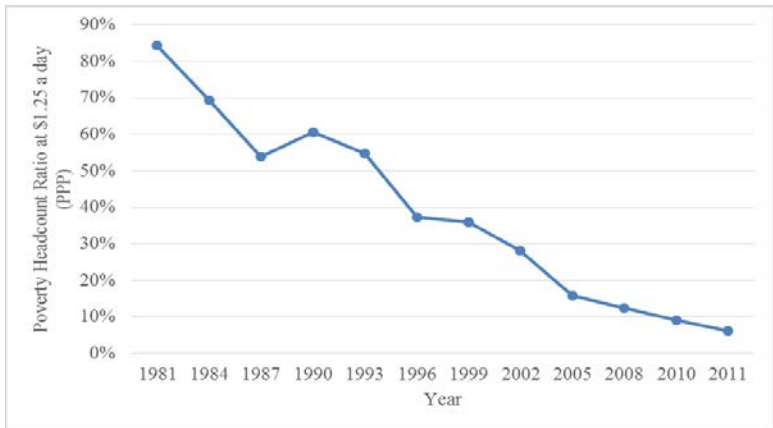
Source: National Bureau of Statistics of China

According to the 3rd Plenary Session of the 18th Central Committee of the Communist Party of China (CCCPC) in 2013, “to make all the people benefit from the development on a more equitable basis” has set the tone for the next stage of China’s socio-economic development. It was said that the tax reduction and exemption system for charitable donations would be improved so as to give full play to the positive role of philanthropic organizations in helping the poor and needy.

In fact, poverty reduction has been a top concern of the Chinese government since the reform and opening up policy was adopted in 1978. The first large-scale poverty reduction program was initiated in 1986, followed by the *Seven-year Priority Poverty Reduction Program (1994-2000)*, the *Outline for Development-Oriented Poverty Reduction for*

China's Rural Areas (2001-2010), and the *Outline for Development-Oriented Poverty Reduction for China's Rural Areas (2011-2020)*. The Chinese central government has cumulatively appropriated CNY320.1 billion in this realm from 1980 to 2013 and attracted investment to impoverished areas by providing subsidized loans. The efforts paid off, as China's poverty headcount ratio at \$1.25 a day (PPP) sharply declined from 84.27% in 1981 to 6.26% in 2011 (Exhibit 3-4).

Exhibit 3-4 China's Poverty Headcount Ratio at \$1.25 a day (PPP), 1981-2011



Source: The World Bank

In 2014, the Chinese government introduced a nationwide poverty reduction strategy of combining program of “Precise Poverty Reduction”, “Regional Poverty Reduction through Development” and “social guarantee”. According to the *Report on China's Implementation of the Millennium Development Goals (2000-2015)*, from 2000 to 2014, the Chinese central government earmarked altogether CNY296.6 billion for poverty reduction, with an average annual increase of 11.46%.

Despite the achievement, the Chinese government is acutely aware of the challenges ahead. Firstly, there is still a large population in poverty based on the latest national standard. Secondly, contiguous destitute areas suffer from harsh natural conditions, insufficient public services and endemic diseases. Thirdly, the progress may be impeded by the underlying causes of poverty. In 2015, the CCCPC and the state council issued the *Resolution on Winning the Tough Battle against Poverty*. It says that the country will end poverty by 2020, for which the government will take more targeted, precise and extraordinary measures.

Referred to the *Outline for Development-Oriented Poverty Reduction for China's Rural Areas (2011-2020)*, “development” as a more accountable and sustainable solution is given priority. In 2014, the General Office of the State Council promulgated the *Opinions on Further Supporting the Participation of All Social Forces in Poverty Reduction and Development*, suggesting the significance of government-market-society collaboration.

3.2 Political Reform

Since the 3rd Plenary Session of the 11th CCCPC held in 1978, China's political reform is generally advancing towards decentralization with the government's reorientation. As the *Scheme on Reshuffle of the State Council and Transformation of the Government Function* was endorsed by the 1st Session of the 12th National People's Congress, more actors have gained access to the public sphere with various approaches applied to the philanthropic sector.

Government procurement of services is illustrative of this trend. It aims to raise the administrative efficiency of the government and foster the development of civil organizations so as to improve the public services. Relevant policies and regulations were successively released by the Ministry of Civil Affairs, the Ministry of Finance and the General Office of the State Council. (Table 3-2)

Table 3-2 Policies and Regulations on Government Procurement of Services, 2012-2014

Promulgation Date	Title	Department
2012.11.14	Opinions on Government Procurement of Social Work Services	Ministry of Civil Affairs, Ministry of Finance
2013.9.26	Opinions on Government Procurement of Services from Social Forces	General Office of the State Council
2013.12.4	Notice on Issues concerning the Implementation of Government Procurement of Services	Ministry of Finance
2014.1.24	Notice on Issues concerning the Budget Management of Government Procurement of Services	Ministry of Finance
2014.12.15	Measures for Government Procurement of Services (Interim)	Ministry of Civil Affairs, Ministry of Finance, State Administration for Industry and Commerce

Since 2012, the Chinese central government has annually appropriated CNY200 million for services procurement from civil organizations for three executive years. The sponsorship covered development demonstration projects, pilot projects of social services contracting, demonstration projects of social work services and training demonstration projects. (Table 3-3)

Table 3-3 Appropriation of Chinese Central Government for Procurement of Services from Civil Organizations, 2012-2014^{13, 14, 15}

Year		2012	2013	2014
Development Demonstration Projects (Type A)	Number	150	200	200
	Amount for each Project (CNY1,000)	30~50	25	25
Pilot Projects of Social Services Contracting (Type B)	Number	50	100	100
	Amount for each Project (CNY1,000)	100~300*	100~200	50~100
Demonstration Projects of Social Work Services (Type C)	Number	50	80	100
	Amount for each Project (CNY1,000)	100~500**	50~200	50~100
Training Demonstration Projects (Type D)	Number of Trainees	10,000	10,000	8,000
	Number of Funded Institutions	-	50	-
	Amount for each Project (CNY1,000)	30~80***	30~50	35~50

¹³ Priorities were given to projects initiated by social organizations or private non-enterprise units concerning social assistance, poverty reduction, disaster relief, social welfare and community services, and projects funded by local governments or social capital.

¹⁴ Priorities were given to projects on social assistance for the vulnerable group initiated by foundations, social work services projects initiated by social organizations or non-enterprise units with relevant functions and experience, and projects funded by local governments or social capital.

¹⁵ Priorities were given to training projects for the directors and staff of civil organizations in impoverished Midwestern China and minority areas.

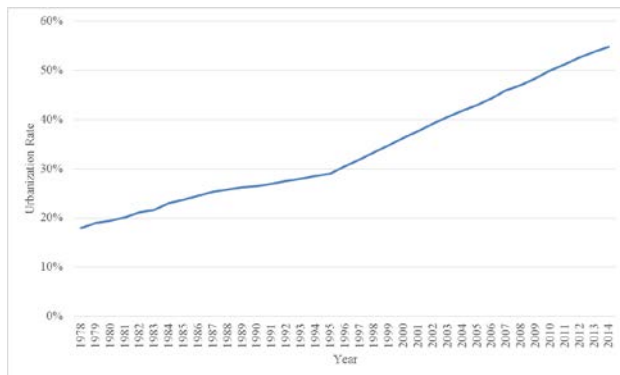
Source: Wang, Z. (2014). *Philanthropy and Social Governance: The 2013 Annual Report of China's Charity Sector*, Soc. Sc. Academic Press (China), 25.

3.3 Social Transformation

Civil organizations (known interchangeably as NGOs, NPOs, etc., as the fundamental element of civil society) are an indispensable force for the development of philanthropy. Tracing back to the early 20th century, Chinese civil organizations emerged amid the inflow of Western Civilization. The ideology of democracy and civil society was disseminated by batches of scholars returned from overseas, providing impetus to the first wave of assembly and association. Despite the 30 years of restriction, Chinese civil organizations have mushroomed nowadays. By the end of 2014, registered civil organizations topped 606,000, and the number of the grassroots ones was even higher.

China is in the midst of the largest and most rapid process of urbanization as the percentage of urban population grew from 17.92% in 1978 to 54.77% in 2014 (Exhibit 3-5). Derived demand for education, health care, social security, etc. is bound to rise, and it will probably stimulate the growth of the philanthropic sector.

Exhibit 3-5 China's Urbanization Rate, 1978-2014



Source: National Bureau of Statistics of China

INSTITUTIONAL ENVIRONMENT FOR PHILANTHROPY DEVELOPMENT IN CHINA

For a long time, there was not a specific law on philanthropy in China, but no lack of laws and regulations on civil organizations and philanthropic donation. But it is coming to an end with the *Philanthropy Law* newly promulgated in 2016, indicating that there would be a comprehensive legal framework, a sound administrative system and more favorable tax treatment for the philanthropic sector.

4.1 Legislation on Philanthropy Development

The People's Republic of China (PRC) was founded in 1949 as a socialist country with a civil law system. Before that, the Communist Party of China (CPC) announced that all the laws enacted by the former government would be abolished. Functioning as a provincial Constitution, the *Common Program of the Chinese People's Political Consultative Conference (1949)* entitled the Chinese people to the rights to freedom of thought, speech, publication, assembly, association, communication, liberty, residence, migration, religion, and demonstration (Article 5), while emphasized the suppression of any counter-revolutionary activities (Article 7).

Under this principle, the *Interim Measures for the Registration of Social Organizations (1950)* was adopted by the Government Administration Council - the predecessor of the State Council - to regulate social organizations, and more importantly, to ensure that they were put on the course of Chinese socialist revolution, which was stated in Article 4: "Organizations that threaten the interests of the nation and the people are not permitted to be established; existent organizations shall be deregistered and dissolved once they are found to be involved in counter-revolutionary campaigns."

The registration turned out to be a screening process, as non-mainstream political organizations were banned, transformed into "democratic parties", or absorbed into the existing political system, and the same happened to some nonpolitical organizations. Other registered social organizations were classified into the following categories:

1. Mass organizations engaged in general social activities, such as the Trade Union, the Peasants' Association, the Federation of Industry and Commerce, the Democratic Women's Federation, the Democratic Youth Federation, the Students' Federation, etc.
2. Public service organizations, such as the China Welfare Institute and the Red Cross Society of China.
3. Literary and art organizations engaged in literature, art, drama, and music, such as the Federation of Literary and Art Circles, the Drama Workers' Association, the Art Workers' Association, the Music Workers' Association, etc.
4. Academic research organizations, such as the Natural Science Workers' Association, the Social Science Workers' Association, the Medical Association, etc.
5. Religious organizations, such as Christian and Buddhist organizations.

6. Other social organizations that are recognized by law.¹⁶

During the 30 years from the 1950s to the late 1970s, the survived organizations were taken over by the government or politicized under the leadership of the CPC, ending up with authentically independent social organizations vanished. On top of that, legislative activities were brought to a halt by the chaos of the Cultural Revolution.

The reform and opening up put it to an end, and law and order has been restored since then. The current *Chinese Constitution* was promulgated in 1982, reaffirming that citizens of the People's Republic of China enjoy freedom of speech, of the press, of assembly, of association, of procession and of demonstration (Article 35).

Under the Constitution of the PRC, philanthropy-related legislation is embodied in three levels: (1) basic laws enacted by the supreme state legislature - the National People's Congress (NPC) and its Standing Committee, (2) administrative regulations promulgated by the State Council, and (3) departmental rules issued by the ministries, commissions, People's Bank of China and National Audit Office subordinated to the State Council, and ordinances made by local authorities.

Current laws that are conducive to philanthropy development include *Law on the Red Cross Society of China* (1993), *Law on Donations for Public Welfare* (1999), *Trust Law* (2001), *Law on the Promotion of Private Education* (2002), *Enterprise Income Tax Law* (2007) and *Individual Income Tax Law* (2011), and the newly adopted *Philanthropy Law* (2016). (Table 4-1)

As a matter of fact, a legislative proposal was first put forward by the Ministry of Civil Affairs in 2005, but the drafting and deliberation have lasted for years because of disagreements on key issues such as the definition of philanthropy, the relationship between the different agencies

¹⁶ Article 3 of the *Interim Measures for the Registration of Social Organizations* (1950); Article 4 of the *Rules for the Implementation of the Interim Measures for the Registration of Social Organizations* (1951).

regulating charitable activities, the registration of philanthropic organizations and so on. It was not until the end of 2013 that the draft law was put on the legislative agenda of the 12th Session of the Standing Committee of the NPC, and its passage has taken much longer than anticipated.

On March 3rd, 2016, the Philanthropy Law was finally adopted, which contains 12 chapters and 112 articles covering philanthropic organizations, philanthropic fund raising, philanthropic donation, charitable trust, charitable assets, charitable services, information disclosure, promotion measures, supervisory and administrative measures, and legal liabilities. It shall go into effect on September 1st, 2016. (Appendix 1)

Table 4-1 Current Laws on Philanthropy Development Promulgated by the Standing Committee of the NPC

Promulgation Date	Title
1993.10.31	Law on the Red Cross Society of China
1999.6.28	Law on Donations for the Public Welfare
2001.4.28	Trust Law
2002.12.28	Law on the Promotion of Private Education
2007.3.16	Enterprise Income Tax Law
2011.6.30	Individual Income Tax Law
2016.3.16	Philanthropy Law

There are three administrative regulations that directly govern the three types of Chinese civil organizations, specifically the *Regulations on the Registration and Administration of Social Organizations (1998)*, the *Interim Regulations on the Registration and Administration of Private Non-Enterprise Units (1998)* and the *Regulations on the Administration of Foundations (2004)*.

Besides, preferential policies on the taxation of NPOs and philanthropic donation are contained in the Regulations on the Implementation

of the Enterprise Income Tax Law (2007) and the Regulations on the Implementation of the Individual Income Tax Law (2011). (Table 4-2)

On November 24th, 2014, the State Council promulgated *Opinions on Promoting the Sound Development of Philanthropy*, which was the first programmatic document issued on behalf of the central government for the development of Chinese philanthropy since the founding of the PRC. It indicated an upcoming change in the overall institutional environment for the philanthropic sector, regarding the supervisory system, supportive policies and incentive mechanism, with aims to stimulate charitable donations and voluntary services, increase the transparency of philanthropic activities and organizations, and build an atmosphere of active contribution to the society especially for poverty alleviation.

Table 4-2 Current Administrative Regulations on Philanthropy Development Promulgated by the State Council

Promulgation Date	Title
1998.10.25	Regulations on the Registration and Administration of Social Organizations
1998.10.25	Interim Regulations on the Registration and Administration of Private Non-Enterprise Units
2004.3.8	Regulations on the Administration of Foundations
2007.12.6	Regulations on the Implementation of the Enterprise Income Tax Law
2011.7.19	Regulations on the Implementation of the Individual Income Tax Law
2014.11.24	Opinions on Promoting the Sound Development of Philanthropy

Departmental rules pertinent to the Chinese philanthropic sector are mainly promulgated by the Ministry of Civil Affairs, while other ministries especially the Ministry of Finance and the State Administration of

Taxation also play important roles (Table 4-3a, 4-3b, and 4-3c). In addition, local ordinances may apply to certain provinces and cities.

Table 4-3a Current Departmental Rules on Philanthropy Development Promulgated by the Ministry of Civil Affairs

Promulgation Date	Title
1998.6.12	Interim Measures for the Administration of Social Organizations Registered with the Ministry of Civil Affairs
1999.9.17	Interim Provisions on Social Organizations Setting up Specialized Fund Management Agencies
2000.2.23	Notice on the Reconfirmation of the Supervisory Agencies for Social Organizations
2000.4.10	Interim Measures for Banning Illegal Civil Organizations
2001.7.30	Measures for the Registration of the Branches and Representative Offices of Social Organizations
2004.6.21	Provisions on the Administration of the Name of Foundations
2005.4.7	Measures for the Annual Inspection of Private Non-Enterprise Units
2006.1.12	Measures for the Information Disclosure of Foundations
2006.1.12	Measures for the Annual Inspection of Foundations
2008.4.28	Measures for the Administration of Donations for Disaster Relief
2010.12.27	Measures for the Evaluation and Administration of Civil Organizations
2011.6.1	Interim Measures for the Preliminary Examination of National Social Organizations' Qualification for Pre-Tax Deduction of Philanthropic Donations
2012.7.29	Certain Provisions on Regulating the Behavior of Foundations (Trial Implementation)

2012.8.3	Provisions on the Administrative Penalty Procedures for the Organs in Charge of the Registration and Administration of Civil Organizations
2015.10.8	Opinions on Supporting and Guiding Social Forces' Participation in Disaster Relief

Table 4-3b Current Departmental Rules on Philanthropy Development Promulgated by the Ministry of Civil Affairs (MCA) and other Ministries

Promulgation Date	Title	Department
2007.11.21	Notice on Regularizing the Fees Collection of Social Organizations	MCA, National Development and Reform Commission, Ministry of Supervision, Ministry of Finance, State Administration of Taxation, State Council Office for Rectifying Malpractices
2008.12.31	Notice on Issues concerning Pre-Tax Deduction of Philanthropic Donations	MCA, Ministry of Finance, State Administration of Taxation
2010.7.21	Supplementary Notice on Issues concerning Pre-Tax Deduction of Philanthropic Donations	MCA, Ministry of Finance, State Administration of Taxation
2012.2.16	Opinions on Supporting and Regularizing Religious Organizations' Participation in Philanthropic Activities	MCA, State Administration for Religious Affairs, The United Front Work Department of CPC Central Committee, National Development and Reform Commission, Ministry of Finance, State Administration of Taxation

2012.11.14	Opinions on Government Procurement of Social Work Services	MCA, Ministry of Finance
2014.1.9	Opinions on Supporting Private Enterprises' Active Participation in Philanthropy	MCA, All-China Federation of Industry and Commerce
2014.12.15	Measures for Government Procurement of Services (Interim)	MCA, Ministry of Finance, State Administration for Industry and Commerce
2015.5.19	Opinions on Supporting Central State-owned Enterprises' Participation in Philanthropy	MCA, State-owned Assets Supervision and Administration Commission of the State Council

Table 4-3c Current Departmental Rules on Philanthropy Development Promulgated by Ministries except the Ministry of Civil Affairs

Promulgation Date	Title	Department
2003.3.14	Notice on Strengthening the Administration of Corporate Donation	Ministry of Finance
2004.8.18	Accounting System for Private Non-Profit Organizations	Ministry of Finance
2009.10.20	Notice on Financial Issues concerning Corporate Philanthropic Donation of Equities	Ministry of Finance
2009.11.11	Notice on Issues concerning the Tax-Exempt	Ministry of Finance, State Administration of Taxation

	Income of Non-Profit Organizations	
2013.12.4	Notice on Issues concerning the Implementation of Government Procurement of Services	Ministry of Finance
2014.1.24	Notice on Issues concerning the Budget Management of Government Procurement of Services	Ministry of Finance
2014.1.29	Notice on Issues concerning the Identification and Administration of the Tax-Exempt Status of Non-Profit Organizations	Ministry of Finance, State Administration of Taxation

4.2 Administration over Civil Organizations

In the early years of the PRC, the government monopolized all the resources so that independent civil organizations could hardly survive without necessary financial or other support. The rigid vertical administrative structure of the government grew into a comprehensive social order. Citizens' identities were based on their work assignments, while the government supervised citizens' behavior and provided a social safety net. This situation left little opportunity and incentive for citizens to form civil organizations outside the government structure.

Chinese civil organizations resurrected in parallel with the reform and opening up process. In 1978, the Ministry of Civil Affairs was set up and delegated the primary responsibility in this domain.

By the end of 1988, the number of civil organizations soared to 4,446, but the registration was rather chaotic due to scant legal guidelines. The State Council thereafter promulgated the *Regulations on the Registration and Administration of Social Organizations* (1989), which implicitly referred “social organizations” to associations, societies, federations, foundations, chambers of commerce, etc. In 1998, this regulation was revised and hitherto in effect. As defined in Article 2 of the *Regulations on the Registration and Administration of Social Organizations* (1998), social organizations are “non-profit civil organizations voluntarily established by Chinese citizens for the realization of a common desire of the membership in accordance with their articles of association”.

“Private non-enterprise units” was first coined in the *Notice on Strengthening the Administration of Social Organizations and Private Non-enterprise Units*, which was jointly promulgated by the General Office of the CCCPC and the General Office of the State Council in 1996. This kind of organizations emerged as the private sector was given permission to provide social services. More specifically, private non-enterprise units are defined as “civil organizations established with non-state-owned assets by enterprises, public units, social organizations and other social entities or individual citizens for non-profit social services”, based on Article 2 of the *Interim Regulations on the Registration and Administration of Private Non-Enterprise Units* (1998).

As the *Measures on the Administration of Foundations* (1988) implied, foundations used to be treated as quasi-financial institutions. Hence, the People’s Bank of China was assigned to be one of the authorizers until the responsibility being transferred to the Ministry of Civil Affairs in 1999. The *Measures* expired when the *Regulations on the Administration of Foundations* (2004) came into effect, where foundations are redefined in Article 2 as “non-profit legal entities committed to the promotion of public welfare by making use of the property donated

by natural persons, legal entities or other organizations”. According to Article 3, foundations are further classified into public-raising foundations and private-raising foundations based on whether they are allowed to raise funds publicly.

In short, civil organizations registered with the Ministry of Civil Affairs are classified into three categories: (1) social organizations, (2) private non-enterprise units, and (3) foundations. Currently, these organizations are generally governed by the *Regulations on the Registration and Administration of Social Organizations (1998)*, the *Interim Regulations on the Registration and Administration of Private Non-Enterprise Units (1998)* and the *Regulations on the Administration of Foundations (2004)*.

These regulations impose dual-administration, in other words, the three types of civil organizations are in the charge of supervisory agencies as well as the Ministry of Civil Affairs. As for registration process, to seek approval from a supervisory agency is the prerequisite for an organization to register with the Ministry of Civil Affairs or its local departments to gain legitimacy.

According to the *Notice on the Reconfirmation of the Supervisory Agencies for Social Organizations (2000)* issued by the Ministry of Civil Affairs, the supervisory agency refers to the following types of government agencies:

1. Ministries and commissions under the State Council and relevant departments above county level;
2. Functional departments under the Central Committee of the CPC and relevant departments above county level;
3. Administrative offices of the NPC & CPPCC, Supreme People’s Court, Supreme People’s Procuratorate and relevant departments above county level;
4. Supervisory organizations empowered by the CPC office, State Council and CPC Commissions and the People’s governments

above county level;

5. The supervisory agencies within the military system are to be determined by the General Political Department under the Central Military Commission.

In addition, 22 units were empowered as supervisory agencies for social organizations at national level. (Table 4-4)

Table 4-4 Supervisory Agencies for Social Organizations (National Level)

1	Chinese Academy of Social Sciences
2	Development Research Center of the State Council
3	China Earthquake Administration
4	China Meteorological Administration
5	China Securities Regulatory Commission
6	China Insurance Regulatory Commission
7	Party School of the CCCPC
8	Party Literature Research Office of the CCCPC
9	Party History Research Center of the CCCPC
10	Central Compilation and Translation Bureau
11	China International Publishing Group
12	All-China Federation of Trade Unions
13	Communist Youth League of China
14	All-China Women's Federation
15	China Federation of Literary and Art Circles
16	China Writers Association
17	China Association for Science and Technology
18	All-China Federation of Returned Overseas Chinese
19	All-China Journalists' Association
20	Chinese People's Association for Friendship with Foreign Countries
21	China Disabled Persons' Federation
22	Chinese Society of Ideological and Political Work

As a consequence, the civil organizations are to some extent affiliated to governmental or quasi-governmental agencies or end up as grass-roots groups without legal status. In practice, a lot of agencies are reluctant to take the responsibility, which severely hinders the development of civil organizations.

Another potential restraint is the threshold of establishment. With regard to social organizations, membership shall be no less than 50 individuals or 30 organizations. The working capital for a national level social organization is no less than CNY100,000 and for local organizations no less than CNY30,000.¹⁷ It is worth noting that the application shall be rejected when an identical or similar social organization in terms of the line of activities has already existed in the same administrative to avoid redundancy, which also applies to private non-enterprise units.¹⁸ Besides, private non-enterprise units shall not set up a branch (branches).¹⁹ With regard to foundations, there is a distinction between public-raising foundations and private-raising foundations, and the latter can be established at national or local level. Initial capital for a national public-raising foundation shall be no less than CNY8 million, for a local public-raising foundation no less than CNY4 million and for a private-raising foundation no less than CNY2 million. The initial capital shall be paid up and transferred to the account of the foundation in the form of currency.²⁰ (Other stipulations are referred to Appendix 2)

In 2013, the Ministry of Civil Affairs announced to facilitate the registration process for four types of civil organizations: (1) industrial associations and chambers of commerce, (2) science and technology socie-

¹⁷ Article 10 of the *Regulations on the Registration and Administration of Social Organizations* (1998).

¹⁸ Article 13 of the *Regulations on the Registration and Administration of Social Organizations* (1998); Article 11 of the *Interim Regulations on the Registration and Administration of Private Non-Enterprise Units* (1998).

¹⁹ Article 13 of the *Interim Regulations on the Registration and Administration of Private Non-Enterprise Units* (1998).

²⁰ Article 8 of the *Regulations on the Administration of Foundations* (2004).

ties, (3) philanthropic organizations, and (4) organizations that provide community services in urban and rural areas. Organizations that engage in poverty alleviation, disaster relief, offering assistance for the elderly, orphans, the handicapped, etc. are allowed to skip application to supervisory agencies and directly register with the civil affair departments. More than 30,000 newly founded civil organizations have benefited from this policy and more local governments are taking actions.

Furthermore, it was announced that the revision of the Regulations on the Registration and Administration of Social Organizations (1998), the Interim Regulations on the Registration and Administration of Private Non-Enterprise Units (1998) and the Regulations on the Administration of Foundations (2004) is under way, following the 3rd Plenary Session of the 18th CCCPC in November of 2013.

According to the *Philanthropy Law*, philanthropic organizations refer to non-profit organizations that are in compliance with the Law and whose purposes are to carry out charitable activities for the public. They may be established in forms of foundations, social organizations, social service agencies, etc.²¹ As to registration and identification, it stipulates that an applicant shall apply for registration to the civil affairs department of the relevant people's government at or above the county level. A foundation, social organization, social service agency or a non-profit organization of other types that has been established prior to the promulgation of the Law may apply to the civil affairs department that originally handles its registration to be recognized as a philanthropic organization.²² This suggests that the philanthropic organizations would get rid of the dual-administration.

²¹ Article 8 of the *Philanthropy Law* (2016).

²² Article 10 of the *Philanthropy Law* (2016).

4.3 Tax Incentive for the Philanthropic Sector

There is hitherto not a separate tax law for the philanthropic sector in China. Clauses pertinent to non-profit organizations and philanthropic donation are scattered in the *Law on Donations for the Public Welfare (1999)*, the *Enterprise Income Tax Law (2007)*, the *Individual Income Tax Law (2011)*, the *Regulations on the Implementation of the Enterprise Income Tax Law (2007)*, the *Regulations on the Implementation of the Individual Income Tax Law (2011)*, etc.

4.3.1 Tax Preference for Non-Profit Organizations

Non-profit organizations as legal entities are currently subjected to the *Enterprise Income Tax Law (2007)*. Overall, Article 7 provides that the following income included in the total amount of income shall be tax-free:

1. The appropriations from the treasury;
2. The administrative fees and governmental funds that are charged according to the law and fall under the treasury administration;
3. Other tax-free income as prescribed by the State Council.

Based on the 4th paragraph of Article 26 of the *Enterprise Income Tax Law (2007)*, income of qualified non-profit organizations shall be tax-exempt. As Article 84 of the *Regulations on the Implementation of the Enterprise Income Tax Law (2007)* specifies, “qualified non-profit organizations” refer to organizations that meet the following conditions:

1. Having gone through registration formalities with respect to non-profit organizations according to law;
2. Being engaged in public welfare activities or non-profit activities;
3. All income obtained being used for public welfare or non-profit undertakings approved by registration authorities or stipulated as

such in articles of association, with the exception of reasonable expenses related to said organization;

4. Properties and the fruits thereof not being used for distribution;
5. The surplus properties of an organization after deregistration, in accordance with its approved tenets upon registration or provisions in articles of association, being used for public welfare or non-profit purposes or donated by means of registration administrative authorities to other organizations in the same nature and with the same tenets, and a public announcement being made thereof;
6. The sponsor not reserving or enjoying any property right to the properties he or she invested in within the organization;
7. The expenses for salaries and material benefits of the staff being controlled within the prescribed scope, and properties of the organization not being distributed in any disguised form.

The administrative measures for the determination of non-profit organizations stipulated in the preceding paragraph shall be formulated by finance and taxation authorities of the State Council in collaboration with competent departments of the State Council.

In 2014, the Ministry of Finance and the State Administration of Taxation jointly issued the *Notice on Issues concerning the Identification and Administration of the Tax-Exempt Status of Non-Profit Organizations*, according to which organizations identified as “qualified NPOs” are those that meet the following conditions:

1. They are public units, social organizations, foundations, private non-enterprise units, venues for religious activities established or registered in accordance with relevant laws and regulations and other organizations acknowledged by the Ministry of Finance and the State Administration of Taxation;
2. They are engaged in philanthropic or non-profit activities basically within the territory of China;

3. Except for reasonable expense, all the income of those organizations is spent on philanthropic or non-profit programs as approved or prescribed by their articles;
4. The assets and fructus are not used for distribution, but reasonable payroll expenses are excluded;
5. As approved in the registration or prescribed in the Articles of Association, the remaining properties after the cancellation of the organization will be used for public welfare or non-profit making purposes, or will be given by the registration administrative authority as a gift to organizations of the same nature and with the same principles and such transfer will be announced to the public;
6. Contributor do not reserve or enjoy any right of the properties contributed to the organization. For the purposes of this paragraph, contributors shall mean legal persons, natural persons and other organizations apart from the people's governments at all levels and their departments;
7. The expenses of the wages and salaries of the staff shall be controlled at a prescribed proportion, the properties of the organization shall not be distributed in a disguise manner: the average wages and salaries of the staff shall not exceed two times the per-capita wage of the place specified in taxation registration in the preceding year. The welfare of the staff shall be provided in accordance with the relevant provisions of the State;
8. Except for the newly established or registered institutions, social groups, foundations and private non-enterprise organizations established in the current year, the review conclusions of the institutions, social groups, foundations and private non-enterprise organizations for the year preceding the application shall be "qualified".
9. The accounting of taxable income received and its related cost,

expenses and losses shall be separated from the accounting of tax-free income and its related cost, expenses and losses.

According to Article 85 of the *Regulations on the Implementation of the Enterprise Income Tax Law (2007)*, “income of qualified non-profit organizations” referred in the Paragraph 4 of Article 26 of the *Enterprise Income Tax Law (2007)* shall not include income from for-profit activities, except that it is otherwise provided by the Ministry of Finance and the State Administration of Taxation. In other words, the tax-exempt income of qualified non-profit organizations contains not-for-profit income and for-profit income exempted by specific official departments.

Based on the *Notice on Issues concerning the Tax-Exempt Income of Non-Profit Organizations (2009)* jointly issued by the Ministry of Finance and the State Administration of Taxation, the following income of qualified non-profit organizations shall be tax-exempt:

1. Endowments from other organizations or individuals;
2. Government subsidies except for “the appropriations from the treasury” as referred in Article 7 of the *Enterprise Income Tax Law*, but the income from government procurement of services shall be excluded;
3. Membership fees that are collected in accordance with the regulations issued by civil affair department and financial department above the provincial level;
4. Deposit interest from the tax-free income and the tax-exempt income;
5. Other tax-free and tax-exempt income prescribed by the Ministry of Finance and the State Administration of Taxation.

In addition to the enterprise income tax, qualified non-profit organizations may also enjoy preferential taxation policies concerning business tax, value added tax, property tax, urban land use tax, contract tax, etc. However, it is worth noting that the process of applying for the tax bene-

fit is rather complicated. Moreover, only legally registered non-profit organizations, not those registered as business, stand a chance to enjoy the tax incentives.

4.3.2 Tax Deductibility of Charitable Contributions

According to current laws, up to 12% of the taxable income of corporations and 30% of the taxable income of individuals can be deducted for charitable contributions, but only when certain conditions are met.

Based on Article 9 of the *Enterprise Income Tax Law (2007)*, an enterprise's donations for the public welfare are allowed to be deducted, provided that the donations account for no more than 12% of the total annual profit.

Article 51 of the *Regulations on the Implementation of the Enterprise Income Tax Law (2007)* specifies that the "public welfare" refers to non-profit activities in the realms defined by Article 3 of the *Law on Donations for the Public Welfare (1999)*, which include:

1. Disaster relief, poverty reduction, assistance for the handicapped and other vulnerable groups;
2. Education, science, culture, public healthcare, and sports;
3. Environmental protection, and public facilities construction;
4. Other activities for social progress.

Moreover, enterprises can only get the tax deduction if the donations are contributed to social welfare organizations or people's governments and relevant administrative departments above county level.

Article 52 of the *Regulations on the Implementation of the Enterprise Income Tax Law (2007)* further suggests that the "social welfare organizations" refers to funds and charitable organizations that meet the following conditions:

1. Legally established and having the capacity of corporate body;
2. Devoted to the public welfare causes and non-profit seeking;
3. All the assets and appreciation thereof belonging to the legal person;
4. Proceeds and operation surplus being mainly used for the purpose for which the legal person establishes the enterprise;
5. The residual properties not belonging to any individual person or profit-seeking organization when being terminated or dissolved;
6. Not conducting activities irrelevant to its purpose;
7. Establishing a sound financial accounting system;
8. The donator not being involved in property distribution of such social organizations in any forms;
9. Other conditions prescribed by the competent finance, taxation and civil registration departments under the State Council.

As to individual donations, Article 6 of the *Individual Income Tax Law (2011)* offers that individual income that are donated for educational causes and other public welfare undertakings shall be deducted from the taxable income in accordance with relevant regulations formulated by the State Council.

As Article 24 of the *Regulations on the Implementation of the Individual Income Tax Law (2011)* suggests, an individual's donations for educational causes, other public welfare undertakings and areas suffering from serious natural disasters or poverty are allowed to be deducted, provided that the donations account for no more than 30% of the taxable income declared by the taxpayer and the donations are contributed to social organizations or state organs in China.

PHILANTHROPIC DONATION IN CHINA

5.1 Amount of Donation

According to statistics from the China Charity Information Centre, the amount of donation generally went up over the last five years. In 2014, the amount of donation and quasi-donation topped CNY210.1 billion, including CNY77.9 billion donated in the form of currency, CNY26.3 billion equivalent of supplies, CNY104.0 billion lottery fund for the public welfare, and CNY1.9 billion equivalent of voluntary service.

The 5-year average donation in 2010-2014 in the form of currency, securities and equivalent of supplies amounted to CNY94.5 billion. The year-round sum was CNY103.2 billion, CNY84.5 billion, CNY81.7 billion, CNY98.9 billion, CNY104.2 billion respectively, accounting for 0.25%, 0.17%, 0.15%, 0.17%, 0.16% of GDP. (Table 5-1)

Table 5-1 Amount of Donation, 2010-2014 (Billions of CNY)

Year	2010	2011	2012	2013	2014
Currency and Securities	87.1	68.6	62.0	65.1	77.9
Equivalent of Supplies	16.1	15.9	19.7	33.8	26.3
Total	103.2	84.5	81.7	98.9	104.2
Percentage of GDP (%)	0.25	0.17	0.15	0.17	0.16

Source: Source: Peng, J., & Liu, Y. (2011-2014). *The Annual Report of China's Philanthropic Donation (2010-2013)*, China Society Press. *The Annual Report of China's Philanthropic Donation released in 2014* (<http://gongyi.sina.com.cn/gyzx/qt/2015-09-21/doc-ifxhzevf0893639.shtml>).

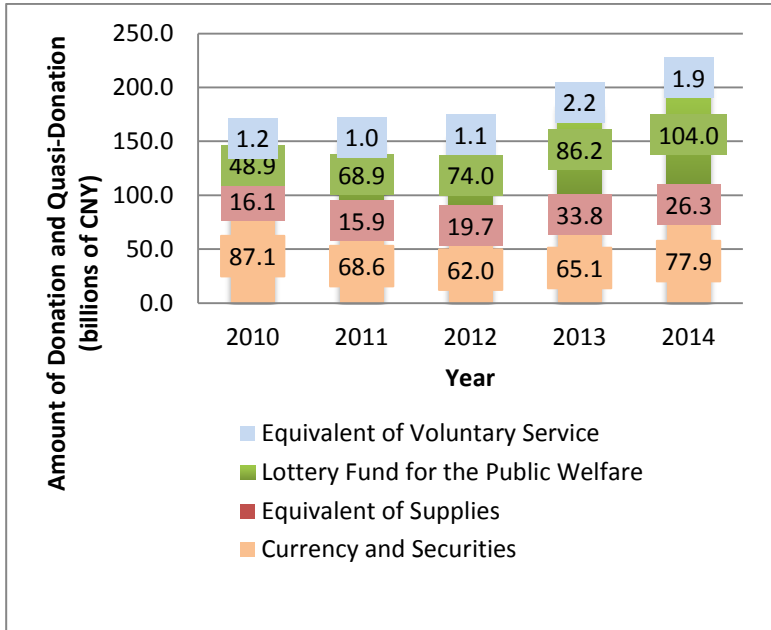
If the lottery fund for the public welfare and the equivalent of voluntary service were counted, the 5-year average amount of donation and quasi-donation reached CNY172.4 billion. The year-round sum turned out to be CNY 153.3 billion, CNY 154.4 billion, CNY 156.8 billion, CNY 187.3 billion, and CNY 210.1 billion respectively. (Table 5-2, Exhibit 5-1)

*Table 5-2 Amount of Donation and Quasi-Donation, 2010-2014
(billions of CNY)*

Year	2010	2011	2012	2013	2014
Currency and Securities	87.1	68.6	62.0	65.1	77.9
Equivalent of Supplies	16.1	15.9	19.7	33.8	26.3
Lottery Fund for the Public Welfare	48.9	68.9	74.0	86.2	104.0
Equivalent of Voluntary Service	1.2	1.0	1.1	2.2	1.9
Total	153.3	154.4	156.8	187.3	210.1

Source: Source: Peng, J., & Liu, Y. (2011-2014), *ibid*.

*Exhibit 5-1 Amount of Donation and Quasi-Donation, 2010-2014
(Billions of CNY), on next page.*



Source: Peng, J., & Liu, Y. (2011-2014), *ibid.*

5.2 Use of Donation

Donations are usually used in areas such as poverty alleviation, education, health care, disaster relief, human services, environmental protection, culture, athletics, science and technology, religious and ethnic affairs, etc.

Statistics from the China Charity Information Centre shows that poverty alleviation remained on the top concern list from 2010 to 2012 with donation respectively accounting for 9%, 29% and 22% of the year-round sum. During the same period, education - viewed as a prescription against poverty - appealed more attention with 22%, 34% and 25% of the year-round donation respectively. It is worth noting that health care turned out to be the most concerned area in the recent two years, occupying nearly 40% of the donation, followed by education

holding close to 30%. Other most concerned areas include disaster relief and human services over the past 5 years, judged by the amount of donation. (Table 5-3)

Table 5-3 Top 3 Areas of Donation, 2010-2014

Year	2010	2011	2012	2013	2014
No.1	Disaster Relief 24%	Education 34%	Education 25%	Health Care 38%	Health Care 37%
No.2	Education 22%	Poverty Alleviation 29%	Poverty Alleviation 22%	Education 27%	Education 27%
No.3	Poverty Alleviation 9%	Human Services 10% ²³	Health Care 20%	Disaster Relief 13%	Poverty Alleviation 11%
Total	56%	73%	68%	78%	75%

Source: Peng, J., & Liu, Y. (2011-2014), ibid.

5.3 Beneficiaries

Beneficiaries can be government departments such as the Ministry of Civil Affairs of China and its local departments, the Red Cross Societies, Charity Associations, foundations and other civil organizations, public units, etc. In recent years, foundations and charity associations turned out to be the most favored beneficiaries. This is partly due to some scandals that have tarnished the reputation of the Red Cross Societies and other organizations affiliated to the government. In the mean-

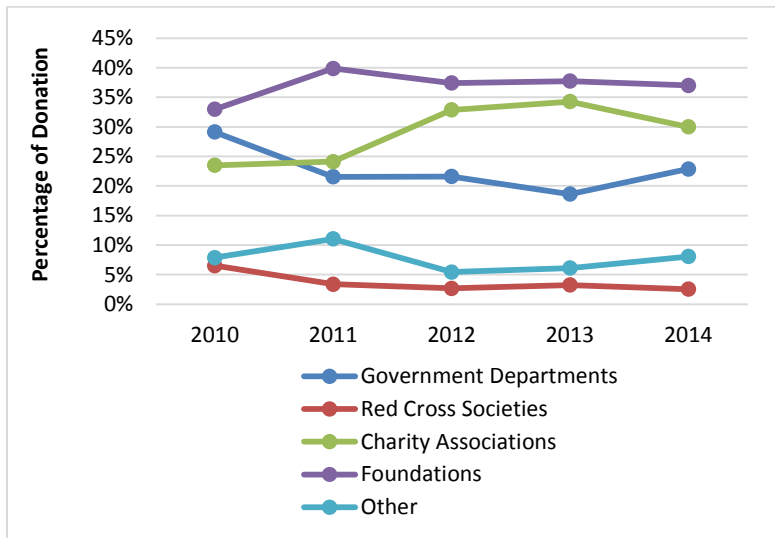
²³ Human services include services for the elderly, children, the disabled, women, the youth, etc.

time, it stimulated the institutional reform of the philanthropic sector, and transparency and accountability are attached to great significance. (Table 5-3, Exhibit 5-2)

Table 5-3 Distribution of Donation by Beneficiary, 2010-2014

Year	2010	2011	2012	2013	2014
Government Departments	29%	22%	22%	19%	23%
Red Cross Societies	7%	3%	3%	3%	3%
Charity Associations	23%	24%	33%	34%	37%
Foundations	33%	40%	37%	38%	30%
Other	8%	11%	5%	6%	8%
Total	100%	100%	100%	100%	100%

Exhibit 5-2 Distribution of Donation by Beneficiary, 2010-2014



Tables 5-3 and Exhibit 5-2: Source: Peng, J., & Liu, Y. (2011-2014), ibid.

5.4 Benefactors

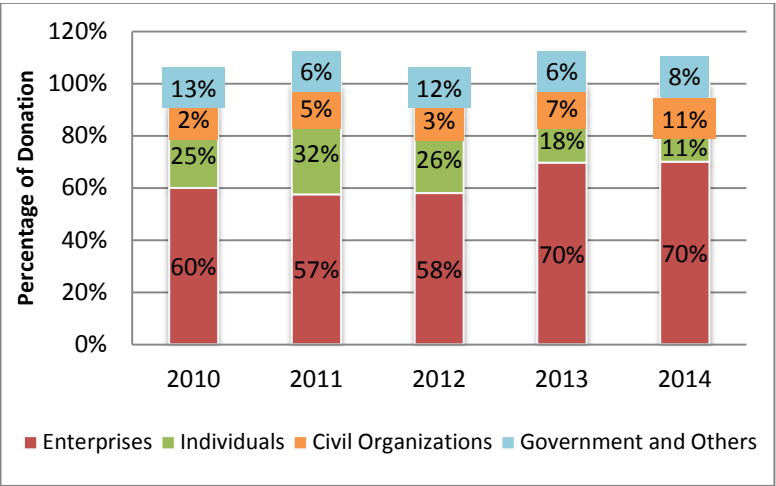
In 2010-2014, enterprises has been a pioneerin the field of philanthropic donation, comparing to individuals, civil organizations, government and other benefactors. In 2010-2012, corporate donation accounted for nearly 60% of the total each year, and the proportion grew to nearly 70% in 2013 and 2014 (Table 5-4, Exhibit 5-3).

Table 5-4 Distribution of Donation by Benefactor, 2010-2014

Year	2010	2011	2012	2013	2014
Enterprises	60%	57%	58%	70%	69%
Individuals	25%	32%	26%	18%	11%
Civil Organizations	2%	5%	3%	7%	11%
Government and Others	13%	6%	12%	6%	9%
Total	100%	100%	100%	100%	100%

Source: Peng, J., & Liu, Y. (2011-2014), *ibid.*

Exhibit 5-3 Distribution of Donation by Beneficiary, 2010-2014



Source: Peng, J., & Liu, Y. (2011-2014), *ibid.*

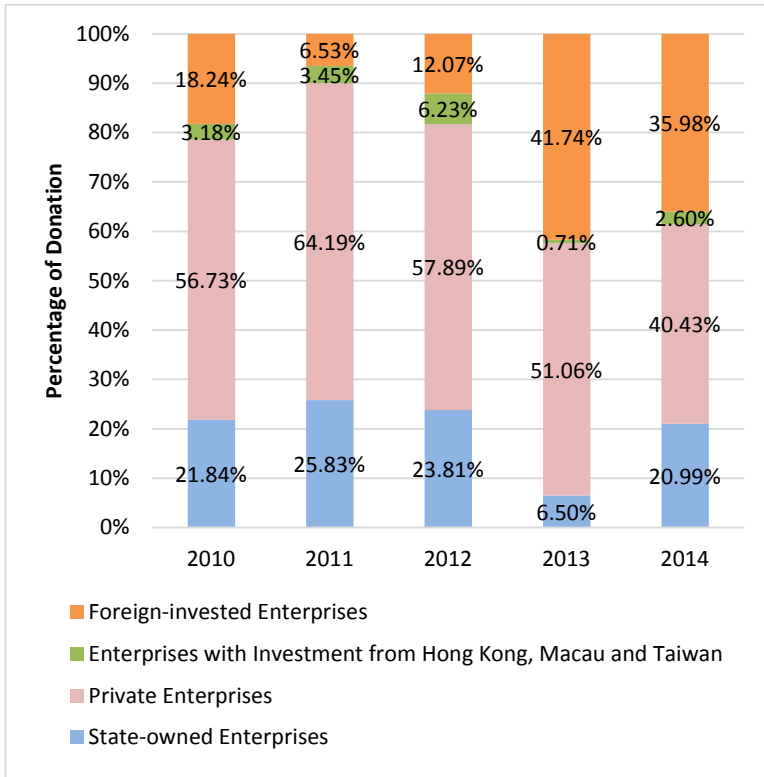
Among all types of enterprises, private enterprises stood out as the most generous benefactor in the past five years. In 2014, donation from private enterprises made up 40.43% of the amount of corporate donation, followed by foreign enterprises 35.98%, state-owned enterprises 20.99%, and enterprises with investment from Hong Kong, Macau and Taiwan 2.60% (Table 5-5, Exhibit 5-4).

Table 5-5 Distribution of Corporate Donation by Type of Enterprises, 2010-2014

Year	2009	2010	2011	2012	2013	2014
State-owned Enterprises	22.10%	21.84%	25.83%	23.81%	6.50%	20.99%
Private Enterprises	55.80%	56.73%	64.19%	57.89%	51.06%	40.43%
Enterprises with Investment from Hong Kong, Macau and Taiwan	7.50%	3.18%	3.45%	6.23%	0.71%	2.60%
Foreign-invested Enterprises	14.60%	18.24%	6.53%	12.07%	41.74%	35.98%

Source: Peng, J., & Liu, Y. (2011-2014), ibid.

Exhibit5-4 Distribution of Corporate Donation by Type of Enterprises, 2010-2014



Source: Peng, J., & Liu, Y. (2011-2014), ibid.

In 2014, individual donation only accounted for 11% of the donation, declining for the third consecutive year. One contributor may be the public's diminishing confidence in GONGOs that performed badly in terms of transparency. Besides, Chinese billionaires seem not so generous. According to Wealth-X and UBS Billionaire Census 2014, China ranked second only to the U.S. with 190 billionaires, possessing US\$440 billion in total. Nevertheless, 2014 Forbes China Philanthropy List shows that the top 100 Chinese philanthropists altogether donated CNY4.46

billion, not as much as Facebook CEO Mark Zuckerberg's donation of CNY6.35 billion.

5.5 Comparative Studies

The World Giving Index created by the Charities Aid Foundation (CAF) offers a comparative measure of generosity across the globe. It is calculated by measuring three kinds of generosity – giving money, giving time and helping a stranger, according to which China still falls behind.

Based on the report released in 2015, China ranked 144th out of 145 countries as for the overall performance, helping a stranger and volunteering time, and 136th as for donating money. Specifically, only 23% of the people investigated had helped strangers in the past month, 8% had donated money to a charity, and 4% had volunteered their time to an organization. (Table 5-6)

Table 5-6 World Giving Index - China, 2015

	Ranking	Score (%)
Overall performance	144	12
Helping a stranger	144	23
Donating money	136	8
Volunteering time	144	4

Source: CAF World Giving Index 2015: A Global View of Giving Trends.

The Center for Global Prosperity at the Hudson Institute developed the Index of Philanthropic Freedom in 2015, which scored and ranked 64 countries on their enabling environments for philanthropy or ease of giving by examining barriers and incentives for individuals and organizations to donate money and time to social causes.

To arrive the final scores, in-depth information was collected using an expert opinion survey on three main indicators: (1) ease of registering and operating civil society organizations (CSOs); (2) tax policies for deductions, credits, and exemptions; and, (3) ease of sending and receiving cash and in-kind goods across borders.

To capture these three indicators, a total of seven questions were asked in the survey:

- Q1 To what extent can individuals form and incorporate the organizations defined?
- Q2 To what extent are CSOs free to operate without excessive government interference?
- Q3 To what extent is there government discretion in shutting down CSOs?
- Q4 To what extent is the tax system favorable to making charitable donations?
- Q5 To what extent is the tax system favorable to CSOs in receiving charitable donations?
- Q6 To what extent is the legal regulatory environment favorable to receiving cross-border donations?
- Q7 To what extent is the legal regulatory environment favorable to sending cross-border donations?

According to the study, China's philanthropic environment ranked 52th out of 64, and the greatest barrier is deemed to be the country's byzantine regulatory environment, especially extensive documentation requirements, complex regulations, and uncertain legal status of CSOs in Chinese law. (Table 5-7)

Table 5-7 Index of Philanthropic Freedom - China, 2015

Overall Rank	52
Overall Score	2.7
CSO Score	2.1
Tax Score	2.4
Cross Border Score	3.5
Q1	2.2
Q2	2.1
Q3	2
Q4	2.5
Q5	2.3
Q6	3.5
Q7	3.5

Note: The Index assigns countries an overall score of between one and five, with one representing an environment that impedes philanthropic activities and five representing an environment that supports them.

Source: The Index of Philanthropic Freedom 2015.

CIVIL ORGANIZATIONS IN CHINA

The Ministry of Civil Affairs of China classifies civil organizations into three types: social organizations, private non-enterprise units, and foundations. Over the last decade, Chinese civil organizations have grown dramatically. Official statistics shows that 606,000 civil organizations have been registered nationwide by the end of 2014, more than double that of a decade ago. Specifically, there were around 310,000 social organizations, 292,000 private non-enterprise units and 4,117 foundations, an increase of 103%, 116% and 362% respectively. It is noticeable that foundations enjoyed a more robust growth than the other two types of organizations. (Table 6-1, Exhibit 6-1, 6-2)

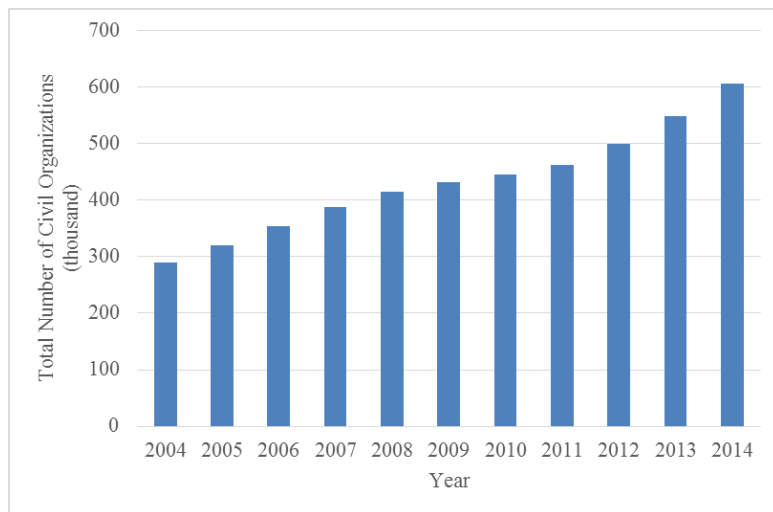
Table 6-1 Growth of Civil Organizations in China, 2004-2014

Year	Social Organizations (thousand)	Private Non-Enterprise Units (thousand)	Foundations	Total (thousand)
2004	153	135	892	289
2005	171	148	975	320
2006	192	161	1,144	354
2007	212	174	1,340	387
2008	230	182	1,597	414
2009	239	190	1,843	431
2010	245	198	2,200	445

2011	255	204	2,614	462
2012	271	225	3,029	499
2013	289	255	3,549	548
2014	310	292	4,117	606

Source: Statistical Report on Social Services Development in China, 2011-2014, Website of the Ministry of Civil Affairs of the People's Republic of China (www.mca.gov.cn).

Exhibit 6-1 Total Number of Civil Organizations in China, 2004-2014



Source: Statistical Report on Social Services Development in China, 2011-2014, Website of the Ministry of Civil Affairs of the People's Republic of China (www.mca.gov.cn).

Exhibit 6-2 Number of Civil Organizations in China by Typology, 2004-2014



Source: Statistical Report on Social Services Development in China, 2011-2014, ibid.

6.1 Social Organizations

Social organizations are “non-profit civil organizations voluntarily established by Chinese citizens for the realization of a common desire of the membership in accordance with their articles of association”²⁴. In 2006, the Ministry of Civil Affairs further categorized social organizations into 5 groups - economy, scientific research, social undertaking, philanthropy and other organizations - and 14 subgroups referred to the ICNPO system. The distribution of social organizations was identical in 2011-2014, with agricultural and rural development, social services and

²⁴ Article 2 of the *Regulations on the Registration and Administration of Social Organizations (1998)*.

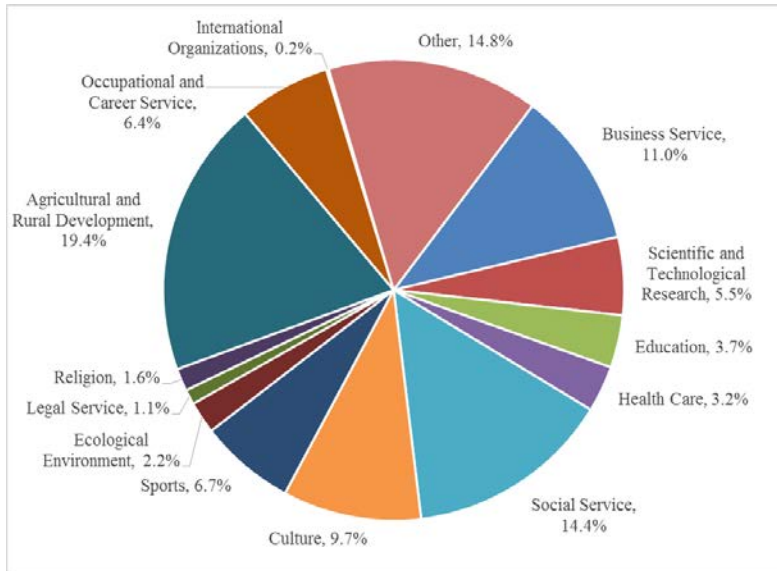
business services organizations being the top three groups.
(Table 6-2, Exhibit 6-3)

*Table 6-2 Number of Social Organizations in China by Group,
2011-2014*

Year	2011	2012	2013	2014
Business Service	24,894	27,056	31,031	34,099
Scientific and Technological Research	19,126	18,486	17,399	16,923
Education	12,491	11,654	11,753	11,412
Health Care	10,776	10,440	9,953	10,060
Social Service	33,987	38,381	41,777	44,630
Culture	22,472	25,036	27,115	30,101
Sports	13,534	15,060	17,869	20,848
Ecological Environment	6,999	6,816	6,636	6,964
Legal Service	3,148	3,191	3,264	3,270
Religion	4,650	4,693	4,801	4,898
Agricultural and Rural Development	52,105	55,383	58,825	60,202
Occupational and Career Service	17,648	18,611	19,743	19,867
International Organizations	519	499	481	516
Other	32,620	35,825	38,379	45,946
Total	254,969	271,131	289,026	309,736

*Source: Statistical Report on Social Services Development in China, 2011-2014,
Website of the Ministry of Civil Affairs of the People's Republic of China
(www.mca.gov.cn).*

Exhibit 6-3 Distribution of Social Organizations in China by Group, 2014



Source: Statistical Report on Social Services Development in China, 2014, Website of the Ministry of Civil Affairs of the People's Republic of China (www.mca.gov.cn).

According to the Annual Report on China's Philanthropy Development (2015), by the end of 2014, there were about 26,300,000 unincorporated social organizations, including nearly 300,000 registered community social organizations, 15,000 project offices affiliated to foundations, 6 million unregistered social self-organizations, and 20 million network associations.

6.2 Private Non-Enterprise Units

Private non-enterprise units are civil organizations established with non-state-owned assets by enterprises, public units, social organizations

and other social entities or individual citizens for non-profit social services.²⁵ The majority of this type of organizations were found in the education industry, accounting for 56.0% in 2014, followed by social services organizations with a proportion of 14.5%. (Table 6-3, Exhibit 6-4)

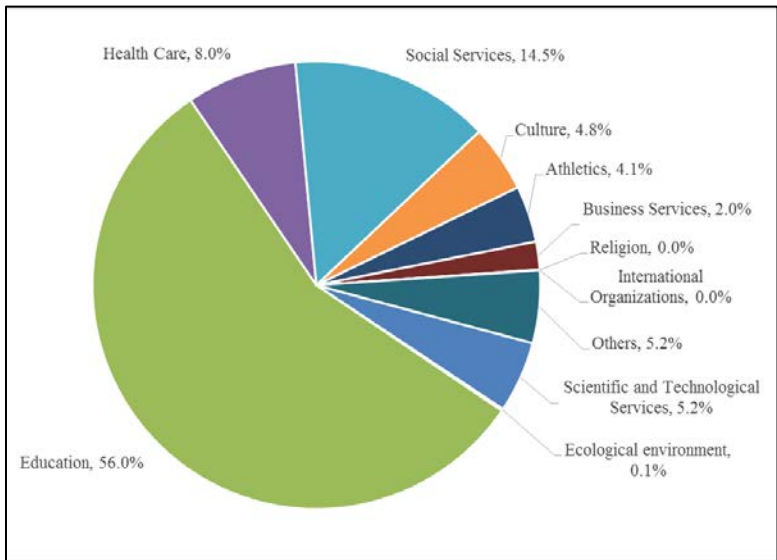
Table 6-3 Number of Private Non-Enterprise Units in China by Group, 2011-2014

Year	2011	2012	2013	2014
Scientific and Technological Service	10,956	11,126	13,729	15,110
Ecological Environment	846	1,065	377	398
Education	104,894	117,015	145,210	163,681
Health Care	21,573	20,979	21,234	23,404
Social Service	31,750	35,956	36,698	42,244
Culture	8,827	10,590	11,694	14,148
Sports	7,700	8,490	10,353	11,901
Business Service	6,897	8,717	5,625	5,915
Religion	169	132	94	82
International Organizations	36	49	4	4
Other	10,740	10,989	9,652	15,308
Total	204,388	225,108	254,670	292,195

Source: Statistical Report on Social Services Development in China, 2011-2014, Website of the Ministry of Civil Affairs of the People's Republic of China (www.mca.gov.cn).

²⁵Article 2 of the *Interim Regulations on the Registration and Administration of Private Non-Enterprise Units (1998)*.

Exhibit 6-4 Distribution of Private Non-Enterprise Units in China by Group, 2014



Source: Statistical Report on Social Services Development in China, 2014, Website of the Ministry of Civil Affairs of the People's Republic of China (www.mca.gov.cn).

6.3 Foundations

“Philanthropy” is the unique nature of foundations - though the other two types of civil organizations make no less contribution - as affirmed in the definition by law: “Foundations are non-profit legal entities committed to the promotion of public welfare by making use of the property donated by natural persons, legal entities or other organizations.”²⁶ Accordingly, the property owned by foundations should be used for the

²⁶ Article 2 of the *Regulations on the Administration of Foundations* (2004).

sake of philanthropy, which is specified in the following Articles of *Regulations on the Administration of Foundations (2004)*:

Article 27: Properties and other revenues of a foundation shall be protected by law and may not be distributed, seized, or misappropriated by any unit or individual without due authorization.

Article 33: Residual properties after termination of the foundation shall be used for the public welfare according to the Articles of Association. Where it is impossible to dispose the properties in accordance with the Articles of Association, the registration authority shall organize the donation of such properties to welfare organizations that share the same nature and purpose with the foundation.

The promulgation of the current *Regulations on the Administration of Foundations (2004)* was a milestone in that a new sort of foundation, i.e. private-raising foundations was introduced, referring to those may not raise funds from the public.²⁷ Given that most foundations were sponsored by the government at that time, this regulation intended to encourage individuals and enterprises to enter the philanthropic sector by liberalizing the flow of private capital. The threshold for private-raising foundation is thus lower - no less than CNY2 million of initial capital, in comparison to no less than CNY8 million for a public-raising foundation at national level and no less than CNY4 million at local level.²⁸

By the end of 2013, there were altogether 3,226 foundations nationwide, more than tripled that in 2003.²⁹ The number of private-raising foundations exceeded that of public-raising ones since 2011 because of the sustaining higher growth rate. (Table 6-4, Exhibit 6-5, 6-6)

²⁷ Article 3 of the *Regulations on the Administration of Foundations (2004)*.

²⁸ Article 8 of the *Regulations on the Administration of Foundations (2004)*.

²⁹ Statistics is based on annual inspection.

Table 6-4 Number of Foundations, 2003-2013

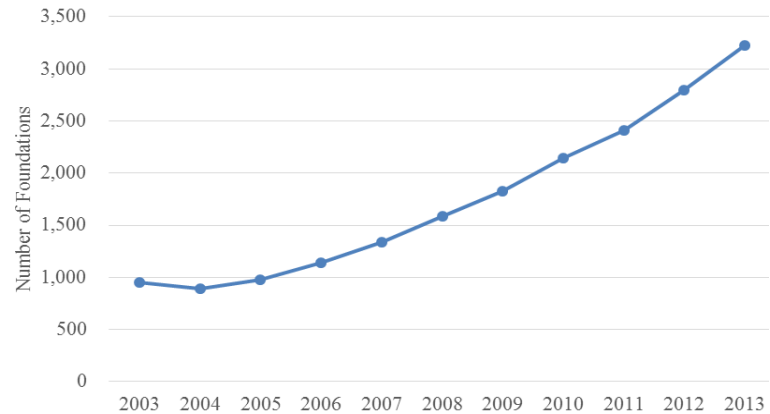
Year	Public-Raising Foundations		Private-Raising Foundations		Total	
	Number	Growth Rate	Number	Growth Rate	Number	Growth Rate
2003	-	-	-	-	954	-
2004	-	-	-	-	892	-6.50% ³⁰
2005	721	-	253	-	974	9.19%
2006	795	10.26%	349	37.94%	1,144	17.45%
2007	904	13.71%	436	24.93%	1,340	17.13%
2008	943	4.31%	643	47.48%	1,586	18.36%
2009	1,029	9.12%	800	24.42%	1,829	15.32%
2010	1,078	4.76%	1,065	33.13%	2,143	17.17%
2011	1,115	3.43%	1,296	21.69%	2,411	12.51%
2012	1,228	10.13%	1,566	20.83%	2,794	15.89%

³⁰ The decline is due to the license re-granting process for the two types of foundations.

2013	1,319	7.41%	1,907	21.78%	3,226	15.46%
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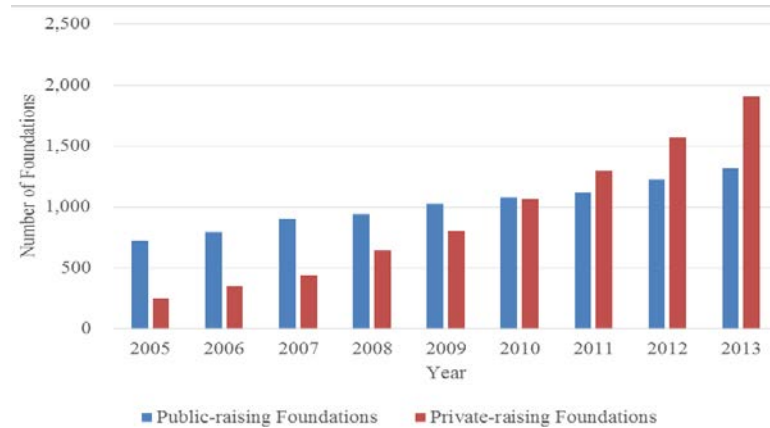
Source: Liu, Z. (2011-2015). *Annual Report on China's Foundation Development (2011-2014)*. Social Sciences Academic Press (China)

Exhibit 6-5 Number of Foundations, 2003-2013



Source: Liu, Z. (2011-2015), *ibid*.

Exhibit 6-6 Number of Foundations by Type, 2003-2013



Source: Liu, Z. (2011-2015), *ibid*.

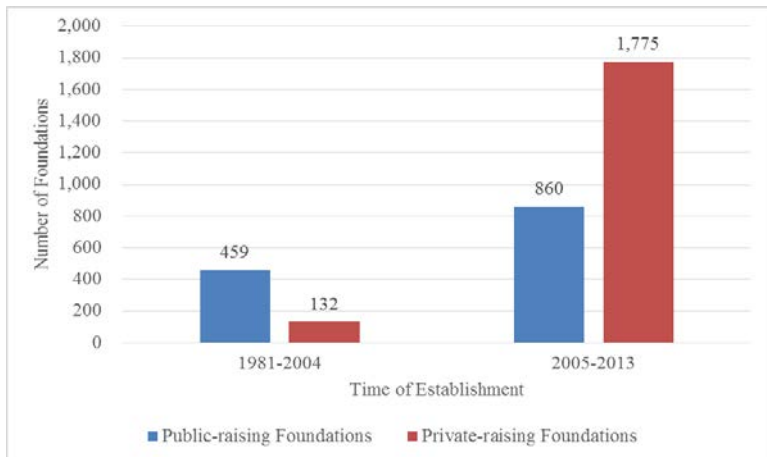
Among the 3,226 foundations that participated in the annual inspection, only 18.32% were established prior to 2004, and 81.68% were set up thereafter. This is largely driven by the soaring private-raising foundations, 93.08% of which were set up after 2004. (Table 6-5, Exhibit 6-7)

Table 6-5 Number of Foundations by Time of Establishment, 2013

Time of Establishment	1981-2004		2005-2013		Total	
Public-raising Foundations	459	34.80%	860	65.20%	1,319	100.00%
Private-raising Foundations	132	6.92%	1,775	93.08%	1,907	100.00%
Total	591	18.32%	2,635	81.68%	3,226	100.00%

Source: Liu, Z. (2011-2015), ibid.

Exhibit 6-7 Number of Foundations by Time of Establishment, 2013



Source: Liu, Z. (2011-2015), ibid.

The number of foundations was positively related with the regional economic development. In eastern China, there were 2,020 foundations, accounting for over 62% of the foundations throughout the country. In contrast, there were 607 foundations in the central part of China and 599 in the west, each occupying around 18% of the total. (Table 6-6)

Table 6-6 Number of Foundations by Region, 2013

Region	Public-raising Foundations		Private-raising Foundations		Total	
Eastern Region	721	54.66%	1,299	68.12%	2,020	62.62%
Central Region	273	20.70%	334	17.51%	607	18.82%
Western Region	325	24.64%	274	14.37%	599	18.57%
Total	1,319	100.00%	1,907	100.00%	3,226	100.00%

Source: Liu, Z. (2011-2015), ibid.

In 2013, the total initial capital of foundations reached CNY24,795 million, 47.96% of which belonged to the public-raising foundations and 52.04% the private-raising ones. The average initial capital turned out to be CNY7.686 million in 2013, 3.7% lower than that in 2012. (Table 6-7, 6-8, Exhibit 6-8)

Table 6-7 Initial Capital of Foundations (CNY10,000), 2010-2013

Year	2010	2011	2012	2013
Public-raising Foundations	-	923,944.4	1,052,397.0	1,189,100.0
Private-raising Foundations	-	906,466.0	1,175,880.0	1,290,400.0
Total	1,552,060.4	1,830,410.4	2,228,277.0	2,479,500.0
Average	728.0	759.5	798.1	768.6

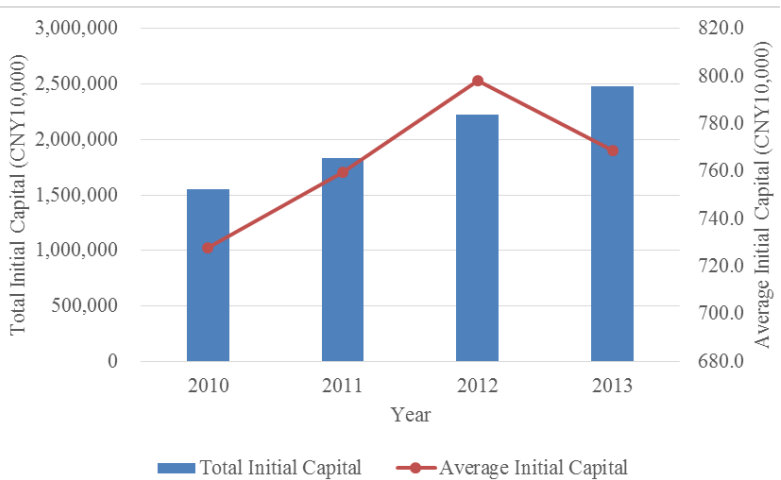
Source: Liu, Z. (2011-2015), *ibid.*

Table 6-8 Number of Foundations by Initial Capital, 2013

Registered Fund (CNY10,000)	Public-Raising Foundations		Private-Raising Foundations		Total	
	Nº	r	Nº	%	Nº	%
[0, 200]	16	1.21%	1,141	59.83%	1,157	35.86%
(200, 400]	750	56.86%	385	20.19%	1,135	35.18%
(400, 600]	272	20.62%	135	7.08%	407	12.62%
(600, 1000]	150	11.37%	87	4.56%	237	7.35%
(1000, 2000]	58	4.40%	82	4.30%	140	4.34%
(2000, 10000]	61	4.62%	68	3.57%	129	4.00%
> 10000	12	0.91%	9	0.47%	21	0.65%
Total	1,319	100%	1,907	100%	3,226	100%

Source: Liu, Z. (2011-2015), *ibid.*

Exhibit 6-8 Initial Capital of Foundations, 2010-2013



Source: Liu, Z. (2011-2015), *ibid.*

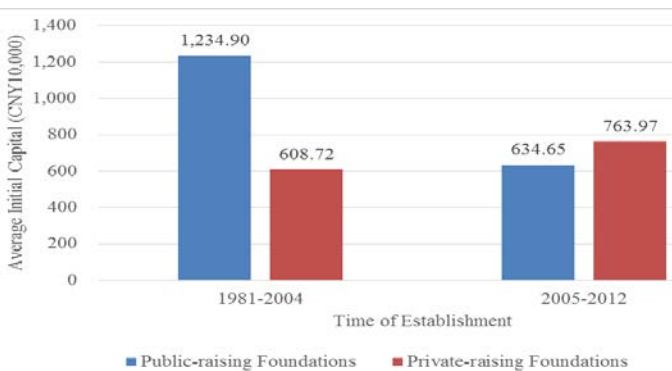
Due to sponsorship from the government, public-raising foundations established prior to 2004 were generally endowed with more initial capital, in fact doubled that of private-raising foundations. But the situation was reversed as for those set up after 2004, when more enterprises engaged in philanthropy via corporate foundations with a large amount of initial capital. (Table 6-9, Exhibit 6-9)

Table 6-9 Initial Capital of Foundations by Time of Establishment (CNY10,000), 2012

Time of Establishment		1981-2004	2005-2012	Total
Public-raising Foundations	Initial Capital	564,348	488,049	1,052,397
	Average	1,234.90	634.65	858.40
Private-raising Foundations	Initial Capital	80,351	1,095,529	1,175,880
	Average	608.72	763.97	750.88
Total	Initial Capital	644,699	1,583,578	2,228,277
	Average	1,094.57	718.83	798.09

Source: Liu, Z. (2011-2015), *ibid*.

Exhibit 6-9 Average Initial Capital of Foundations by Time of Establishment, 2012



Source: Liu, Z. (2011-2015), *ibid.*

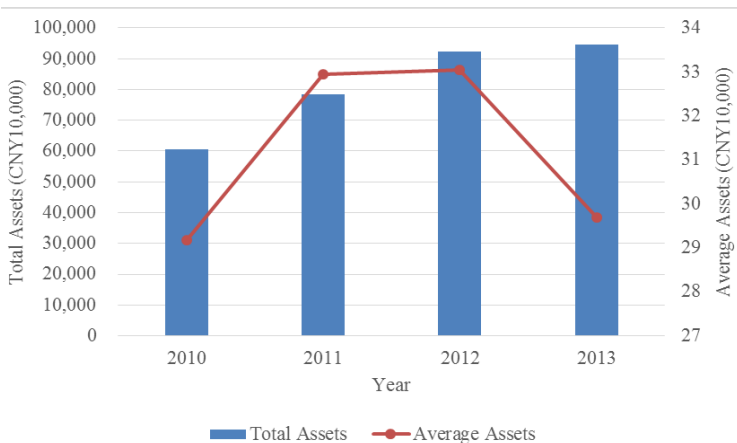
In 2013, the total assets of foundations hit CNY94,467 million, 51.65% of which was held by the public-raising foundations and 48.35% the private-raising ones. The amount of average assets appeared to be 10.10% less than that of 2012. In spite of that, the assets/initial capital ratio was 3.81, indicating a fairly active engagement of the foundations in philanthropy. (Table 6-10, Exhibit 6-10)

Table 6-10 Assets of Foundations (millions of CNY), 2010-2013

Year	2010	2011	2012	2013
Public-raising Foundations	-	44,601	48,102	48,793
Private-raising Foundations	-	33,889	44,207	45,674
Total	60,420	78,490	92,309	94,467
Average	29.17	32.95	33.04	29.70

Source: Liu, Z. (2011-2015), *ibid.*

Exhibit 6-10 Assets of Foundations (millions of CNY), 2010-2013



Source: Liu, Z. (2011-2015), *ibid.*

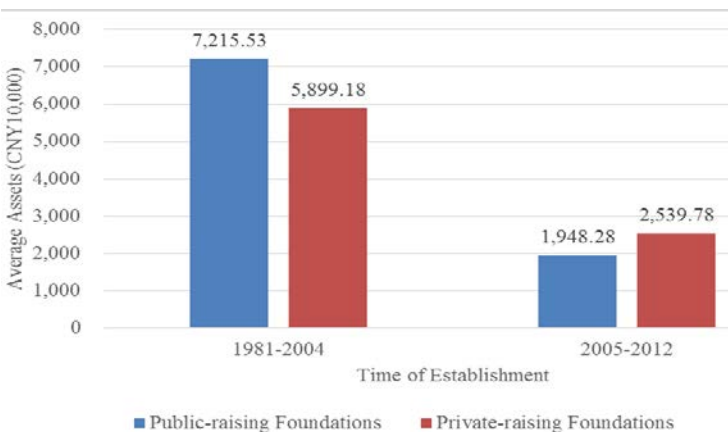
Taken the time of establishment into account, public-raising foundations set up prior to 2004 presents the highest mean level of assets. While it is a different story for those set up after 2004 with assets no more than CNY20 million on average, even less than that of private-raising foundations established in the same period of time. (Table 6-11, Exhibit 6-11)

*Table 6-11 Assets of Foundations by Time of Establishment
(CNY10,000), 2012*

Time of Establishment		1981-2004	2005-2012	Total
Public-raising Foundations	Assets	3,311,926	1,498,225	4,810,151
	Average	7,215.53	1,948.28	3,917.06
Private-raising Foundations	Assets	778,692	3,642,041	4,420,733
	Average	5,899.18	2,539.78	2,822.95
Total	Assets	4,090,618	5,140,266	9,230,884
	Average	6,921.52	2,333.30	3,303.82

Source: Liu, Z. (2011-2015), *ibid*.

*Exhibit 6-11 Average Assets of Foundations by Time of Establishment
(CNY10,000), 2012*



Source: Liu, Z. (2011-2015), *ibid*.

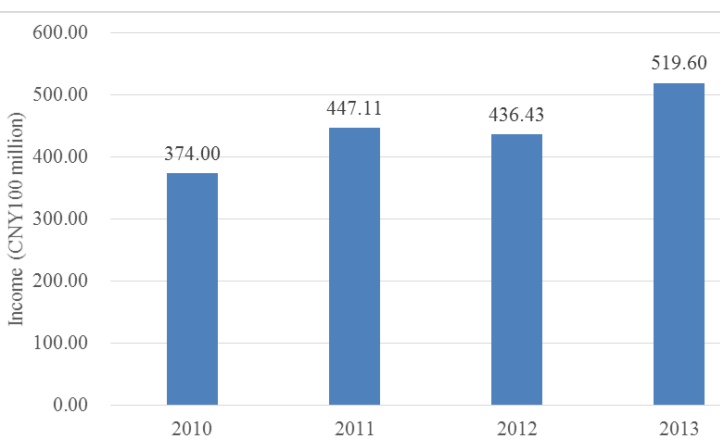
In 2013, the total income of foundations added up to CNY51,960 million, an increase of 19.06%. Besides, 63.46% of the sum was accounted for public-raising foundations, suggesting a comparatively stronger capacity of charitable collection. (Table 6-12, Exhibit 6-12, 6-13)

Table 6-12 Income of Foundations (CNY 100 million), 2010-2013

Year	Public-raising Foundations	Private-raising Foundations	Total
2010	-	-	374
	-	-	83.65%
2011	248.79	198.32	447.11
	55.64%	44.36%	100%
2012	271.87	164.56	436.43
	62.29%	37.71%	100%
2013	329.73	189.88	519.6
	63.46%	36.54%	100%

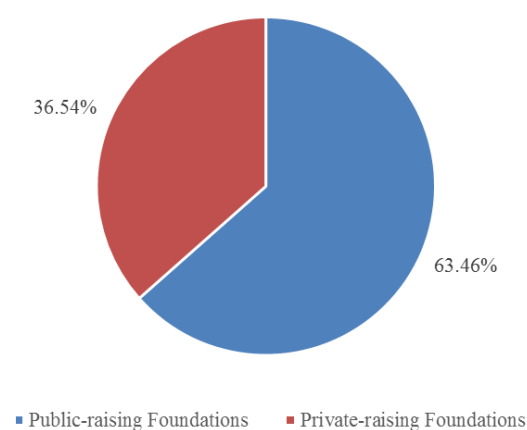
Source: Liu, Z. (2011-2015), ibid.

Exhibit 6-12 Income of Foundations (CNY 100 million), 2010-2013



Source: Liu, Z. (2011-2015), ibid.

Exhibit 6-13 Distribution of the Income of Foundations, 2013



Source: Liu, Z. (2011-2015), ibid.

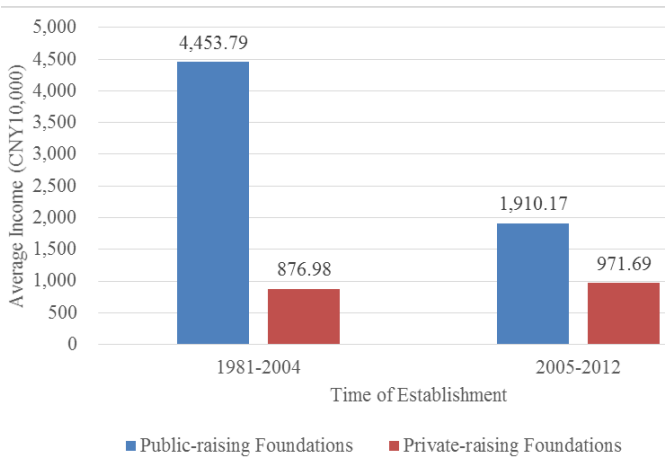
It is noticeable that public-raising foundations, no matter when was established, enjoy more advantages in charitable fund raising as exposed to a larger base of potential benefactors. Considering the experience, reputation and governance sophistication, foundations with a longer history seems more competent. (Table 6-13, Exhibit 6-14)

Table 6-13 Income of Foundations by Time of Establishment (CNY10,000), 2012

Time of Establishment		1981-2004	2005-2012	Total
Public-raising Foundations	Income	2,044,288.69	674,398.54	2,718,687.23
	Average	4,453.79	876.98	2,213.91
Private-raising Foundations	Income	252,141.91	1,393,410.49	1,645,552.40
	Average	1,910.17	971.69	1,050.80
Total	Income	2,296,430.38	2,067,808.94	4,364,239.32
	Average	3,885.67	938.63	1,562.00

Source: Liu, Z. (2011-2015), ibid.

Exhibit 6-14 Average Income of Foundations by Time of Establishment (CNY100 million), 2012



Source: Liu, Z. (2011-2015), *ibid.*

It is in accordance with the philanthropic nature of foundations that donation is the primary source of income, and in reality the endowments covered the lion's share. Meanwhile, capital operation is an essential means for foundations to sustain, but the fact is the investment returns makes up no more than 5%. (Table 6-14, Exhibit 6-15)

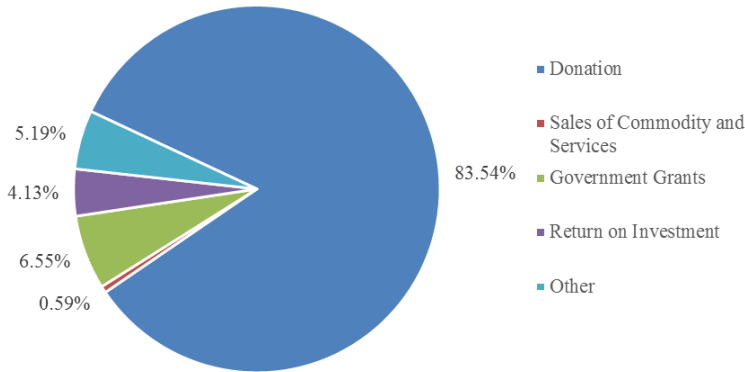
Table 6-14 Income of Foundations by Source (millions of CNY), 2010-2013

Year	2010		2011		2012		2013	
Donation	33,718	90.15%	40,067	89.61%	37,607	86.17%	43,409	83.54%
Sales of Commodity and Services	165	0.44%	193	0.43%	229	0.53%	307	0.59%

Government Grants	1,961	5.24%	2,861	6.40%	3,333	7.64%	3,403	6.55%
Return on Investment	881	2.36%	799	1.79%	1,481	3.39%	2,145	4.13%
Other	678	1.81%	792	1.77%	992	2.27%	2,696	5.19%
Total	37,403	100.00%	44,712	100.00%	43,642	100.00%	51,960	100%

Source: Liu, Z. (2011-2015), *ibid.*

Exhibit 6-15 Distribution of the Income of Foundations by Source, 2013



Source: Liu, Z. (2011-2015), *ibid.*

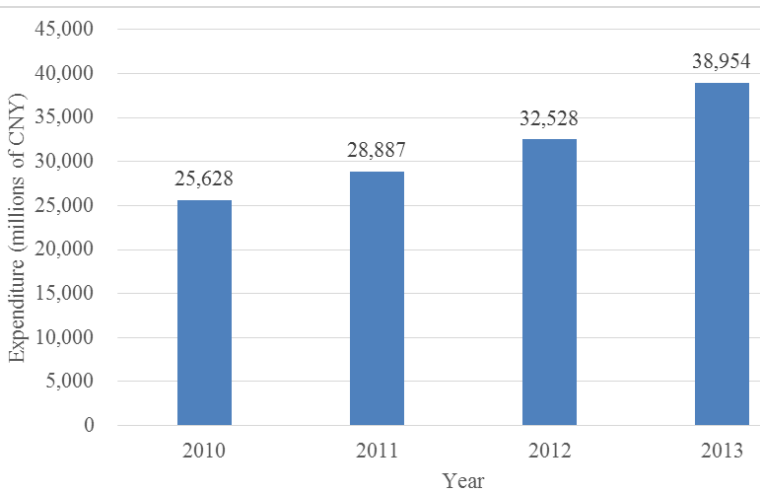
In 2013, 74.97% of the total income of foundations was used for philanthropic ends, which amounted to CNY 38,954 million with annual growth rate of 19.76%. Public-raising Foundations spent CNY29,096 million, 24.90% more than that in 2012, while the expenditure of private-raising foundations increased by 6.78% to CNY9,858 million. (Table 6-15, Exhibit 6-16, 6-17)

Table 6-15 Expenditure of Foundations (millions of CNY), 2010-2013

Year	Public-raising Foundations	Private-raising Foundations	Total
2010	-	-	25,628
	-	-	100.00%
2011	21,234	7,654	28,887
	73.51%	26.49%	100.00%
2012	23,296	9,232	32,528
	71.62%	28.38%	100.00%
2013	29,096	9,858	38,954
	74.69%	25.31%	100.00%

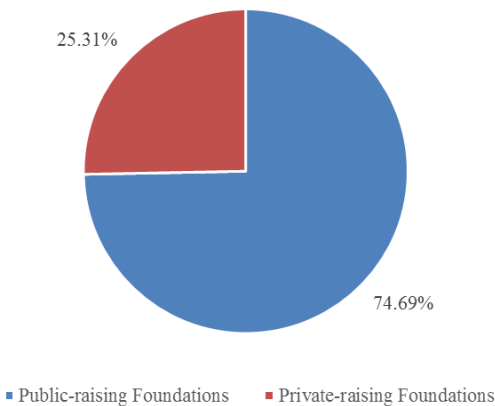
Source: Liu, Z. (2011-2015), *ibid.*

Exhibit 6-16 Expenditure of Foundations (CNY100 million), 2010-2013



Source: Liu, Z. (2011-2015), *ibid.*

Exhibit 6-17 Distribution of the Expenditure of Foundations, 2013



Source: Liu, Z. (2011-2015), *ibid.*

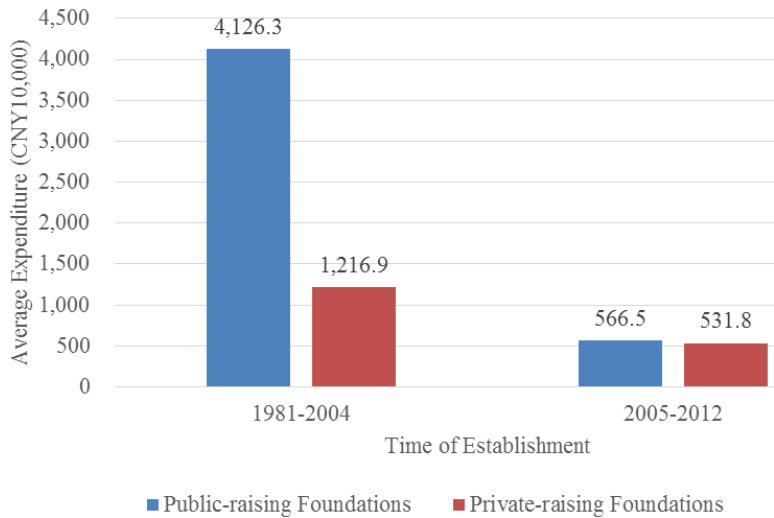
There is an evident gap between the average expenditure of public-raising and private-raising foundations established prior to 2004, implying the influence of the government. By contrast, the contribution of these two kinds of foundations set up after 2004 was neck and neck in terms of the average expenditure. (Table 6-16, Exhibit 6-18)

Table 6-16 Expenditure of Foundations by Time of Establishment (CNY10,000), 2012

Time of Establishment		1981-2004	2005-2012	Total
Public-raising Foundations	Expenditure	1,893,962.00	435,657.50	2,329,619.50
	Average	4,126.30	566.50	1,897.10
Private-raising Foundations	Expenditure	160,629.40	762,538.60	923,168.00
	Average	1,216.90	531.80	589.50
Total	Expenditure	2,054,591.00	1,198,196.00	3,252,787.00
	Average	3,476.50	543.90	1,164.20

Source: Liu, Z. (2011-2015), *ibid.*

Exhibit 6-18 Expenditure of Foundations by Time of Establishment (CNY10,000), 2012



Source: Liu, Z. (2011-2015), *ibid.*

The expenditure of foundations has to meet certain standards as required by the *Regulations on the Administration of Foundations (2004)* as follows.

Article 29: A public foundation shall spend on activities for the public welfare provided for in the Articles of Association by an annual amount equivalent to at least 70% of the previous year's overall income. A private foundation shall spend on activities for the public good provided for in the Articles of Association by an annual amount equivalent to at least 8% of the previous year's fund balance.

Salaries and benefits of foundation staff and administrative and office expenses of the foundation may not exceed 10% of the foundation's total expenditure for the concerned financial year.

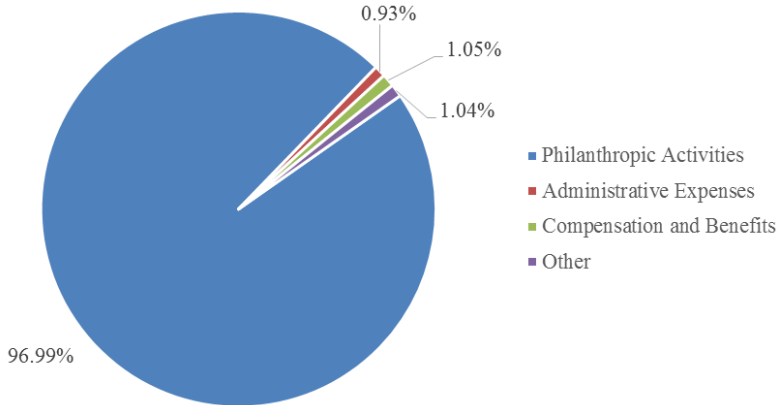
As statistics shows, philanthropic activity occupied about 97% of the total expenditure of foundations in 2010-2013, which was absolutely the chief destination of the endowments. In 2013, as much as CNY37,781 million was applied to philanthropy, increasing by 24.51% on a yearly basis. (Table 6-17, Exhibit 6-19)

Table 6-17 Expenditure of Foundations by Usage (millions of CNY), 2010-2012

Year	2010		2011		2012		2013	
Philanthropic Activities	25,006	97.57%	28,049	97.10%	31,689	97.42%	37,781	96.9%
Administrative Expenses	266	1.04%	312	1.08%	329	1.01%	360	0.93%
Compensation and Benefits	212	0.83%	287	0.99%	339	1.04%	410	1.05%
Other	144	0.56%	240	0.83%	171	0.53%	403	1.04%
Total	25,628	100%	28,887	100%	32,528	100%	38,954	100%

Source: Liu, Z. (2011-2015), ibid.

Exhibit 6-19 Distribution of the Expenditure of Foundations by Usage, 2013



Source: Liu, Z. (2011-2015), *ibid.*

In summary, the current *Regulations on the Administration of Foundations* (2004) gave birth to the private-raising foundations, primarily appealing to individuals and enterprises. It is prospective that foundations, no matter who initiated or sponsored, can be empowered to raise fund from the public, as the local governments of Guangzhou, Beijing, Xiamen, etc. pioneered. Equity donation for foundation start-up is another potential direction of reform. Abreakthrough was made when CaoDewang - the president of Fuyao Group - set up Heren Philanthropic Foundation in 2011 with 3 million shares of stock equivalent to CNY3,549 million.

6.4 Accountability and Transparency

With the rapid development of Chinese philanthropy, legislation on philanthropy supervision is stepping up rapidly. At present, laws and regulations such as the *Law on Donations for the Public Welfare* (1999), the *Measures for the Annual Inspection of Private Non-Enterprise Units* (2005), the *Measures for the Information Disclosure of Foundations* (2006), the *Measures for the Annual Inspection of Foundations* (2006),

etc. all have specific chapters with regard to in comprehensive laws and regulations, specific documents on supervision.

Besides, a number of self-discipline regulations like Self-discipline Principles of Public NPO were set out and a few self-discipline activities were carried out by many non-profit organizations. The development of civil organizations contributes to a self-discipline culture in charity organizations, improve the ability to raise funds and credibility, promote the marketization of charity organizations and change the top-down pattern of Chinese philanthropy. (Table 6-18)

Table 6-18 Self-Discipline Activities of NPOs, 2001-2010

Year	Events
2001	Information network of China Foundations and NPO was renamed China NPO Network and was registered at Beijing Administration for Industry and Commerce, becoming a corporate organization. International symposium on China's NPO integrity was hold in Beijing the next year.
2003	Credibility Standard of China NPO, drafted by China NPO Network was published in the International Senior Forum of Multinational Companies and Public Organizations.
2006	China Foundation for Poverty Alleviation, China Youth Development Foundation and the Amity Foundation launched the Self-discipline Activities of Public Non-profit Organizations and entrusted China NPO Network as the agent to carry out self-discipline activities.
2007	Self-discipline Principles of Public NPO was finalized.
2008	Self-discipline Principles of Public NPO was published officially.
2009	More than 110 non-public foundations published the Self-discipline Declaration of China Non-public Foundations, promoting the rationalization of China Non-public Foundations

2010	In response to the call of the Eleventh Five-Year Plan to improve the discipline system of civil organizations, China Foundations Center, whose goal is to discipline civil public welfare by the information disclosure of foundations in the first place, emerged online, aiming to be an information platform of public welfare industry in which donors are rational, foundations practices are transparent and public welfare organizations are efficient.
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Sources: Beijing normal university research center of Chinese Philanthropy. 2001-2011 China Charity Development Index Report, Beijing, Beijing Normal University Press, 2012

However, Chinese philanthropic sector went through a confidence crisis in 2011. A woman under the name of “GuoMeimei Baby” showed off her luxurious life on the microblog, boasting that her title was “commercial general manager” at the Red Cross Society of China, a claim that had been verified by Sina, the Internet Company hosting the microblog.

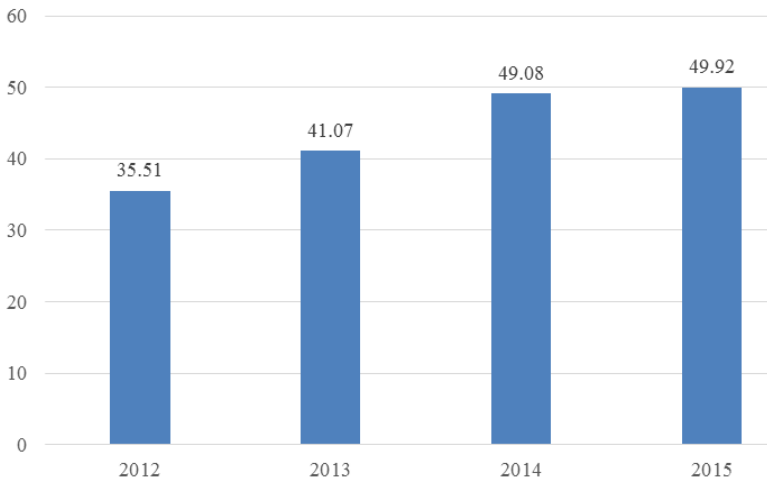
Since then, Ms. Guo and the Red Cross of China have been the most talked-about subjects on the Internet. Though the Red Cross of China has denied any ties to Ms. Guo, and Ms. Guo apologized online for her “stupid and ignorant behavior” and “made-up identity”, a lot of people feared that the scandal and the accompanying increase in suspicions of corruption in charities could deal a serious blow to philanthropy.

That fear is mostly rooted in the government’s insistence on controlling charity work and promoting its own vast organizations, while setting limits on the activities of private foundations. So large state-run charities, especially the Red Cross, are suspect in the eyes of many Chinese. When the Ya’an struck on April 20th, 2013, the Red Cross of China only received CNY140,000 by the night, while the famous private-raising foundation - One Foundation raised CNY22,400,000.

This event unveiled the problems of public trust or accountability of Chinese philanthropic organizations, particularly of those state-run non-profit organizations. Meanwhile, it may bring about a positive force to push Chinese civil society to promote more transparency.

In 2012, China Foundation Center developed the Foundation Transparency Index (FTI) to reflect Chinese foundations' disclosure about their basic information, financial condition, project management, and donation and internal governance. In the past 4 years, the average score kept rising, but there is still a lot of room for improvement. (Exhibit 6-20)

Exhibit 6-20 FTI Average Score, 2012-2015



Source: Yang, T. (2016). Annual Report on China's Philanthropy Development (2016). Beijing: Social Sciences Academic Press (China).

CORPORATE PHILANTHROPY IN CHINA DEVELOPMENT OF CORPORATE PHILANTHROPY

The spirit of benevolence has been practiced by the Chinese merchants since the late 17th century. Budding capitalism and emergent merchant gentry in the late Ming and the early Qing Dynasty fostered merchant philanthropy, founding homes, and benevolent societies, and other welfare sponsoring institutions grew large and abundant. In the early 20th century, there appeared nascent entrepreneurship which promoted a retrieval of charitable enterprise in China. Charitable spirit and practice seem to rise concurrently with societal transitions in China. This may explain some of the characteristics of the beneficent tradition in China, such as liable to society, economic constraints of the transitional society, apt to be retarded by social instability and disintegration, as well as fugitive political agendas, and the tradition has kept being reconstructed in the changing context.

Corporate philanthropy has become a new version of the tradition. Corporate charitable activities started to increase in the early 1990s in China. In 1993, the first symposium on “corporation and commonwealth” was held in Beijing representing the primary collaboration among the government, corporations, academia, and the media and aiming to promote benevolent enterprises and to make favorable policies available to corporate charitable donations. In 1994, Provisional Regula-

tions on Enterprise Income Tax was promulgated by the State Council. It stipulated for the first time fiscal incentives for corporate charitable giving. The severe flood in 1998 in China gave rise to a surge of corporate philanthropy to disaster relief, which led to the adoption of the *Law on Donations for Public Welfare* in 1999, further authorized tax breaks, and prescribed rules on the management and protection of donated assets.

The burgeoning corporate philanthropy reflected drastic changes of the social and economic landscape in China in the 1990s. Due to economic reform and the open-door policy launched in 1978, the economic structure had undergone decentralization and diversification via the surging private business and foreign investment. As a result, the government's share of fiscal revenue dropped from one third of the national income in 1978 to about one tenth in late 1990s, and the non-public sector's contribution to the GDP increased from less than 1% in 1978 to 55% in 1999 with the accommodation of the employment up to 90% of the labor market. With the erosion of the government's capacity to deal with social needs, it had to transform its role from monopolizing the conduct of affairs to turning to a more market-oriented mode. Corporate philanthropy thus turned to be a resource applicable for the public welfare enterprises.

Along with the process of reconstructing the social-economic resources, civil society emerged as public agenda in China since the late 1980s. The Party Central Committee issued a resolution in 1986, aiming to promote legal knowledge among the people and strengthen socialist civic awareness. The government published *Handbook for Citizens* in 1988 to expound on civic concepts, such as democracy, rule-of-law, citizens' rights and duties, public ethics, social discipline, right protection, etc., although universal suffrage, parliamentarianism, multi-party system and so forth were still labeled as capitalistic ideas. Nevertheless, such promotions and discussions raise the consciousness of corporate

citizenship and illustrated that there did not necessarily exist confrontation between civic power and the Chinese state.

Since the early 1990s, the concept of corporate social responsibility (CSR) prevailed in China, focusing on the environment and labor conditions. Multinational corporations (MNCs) and domestic corporations in the global supply chain started to report their codes of conduct and performance on CSR since 1997. It has been increasingly recognized since then that the answer to this challenge could only be reached by building the management capacity of the corporations and the enforcement capacity of public institutions. This cognition turned into pressure on the Chinese enterprises to a more proper behavior, for example, to get engaged in philanthropy. The pressure from the public existed as people tended to compare Chinese corporations with MNCs in China in respect of CSR performance and charitable practice, and they often conceived the former as much less satisfactory than the latter, although the former did donate more. This may show the impact of foreign direct investment on local perception and practice of CSR and philanthropy, and show that CSR must evolve beyond its roots in philanthropy and compliance. However, for many domestic corporations, philanthropic engagement might be an easier way to establish more positive public images.

Chinese corporations, especially the privately owned, had to face another reality - the accelerating development of the market economy during the 1990s shattered the old egalitarian socialism and dealt a fatal blow to its simple social structure, which boosted economic prosperity on the one hand and led to social and political changes on the other. Among the people who rapidly became rich, private entrepreneurs were beneficiaries of the government-dominated reallocation of social and economic resources. Their participation in social and charitable enterprises was sometimes interpreted as a means to maximize their economic and political interests or gain legitimacy from the society.

In brief, the emergent corporate philanthropy in the 1990s was as an outgrowth of the economic reforms. On the one hand, Chinese enterprises became increasingly autonomous from the state. On the other hand, they were also under tremendous social, economic, ideological, and ethical pressures. Corporate philanthropy at this stage was thus characterized by all these factors and became part of a new paradigm of conducts for Chinese enterprises.

It is notable that corporate philanthropy in China emerged in a particular context, which was characterized as “state retreat and civic advance” in social and economic areas. Although the situation has been different since 2000, the government reset its role in social and economic areas aiming to rebalance social and economic development, which is referred to as “state advance and civic retreat”. It is generally recognized that philanthropic enterprise has substantially progressed in China in the 2000s. (Exhibit 7-1)

Exhibit 7-1 Dynamic-multiplied Paradigm of Corporate Philanthropy in China

Economic paradigm:	State planned economy	Market Economy		
Era:	1980s	1990s	2000s	
Social-Economic Transition:	Centralized Power	Market Establishment (domestic)	Economy Transformation (globalized)	Social-economic Reconstruction (rebalanced)
Philanthropic Model:	Government-controlled philanthropic model	Cooperative model	Civil society model	
	Government Foundations	GONGOs, Private and corporate Philanthropy	GONGOs & NGOs Private and corporate Philanthropy	

Note: “GONGOs” refers to Government Organized Non-governmental Organizations; “NGOs” refers to Non-governmental Organizations

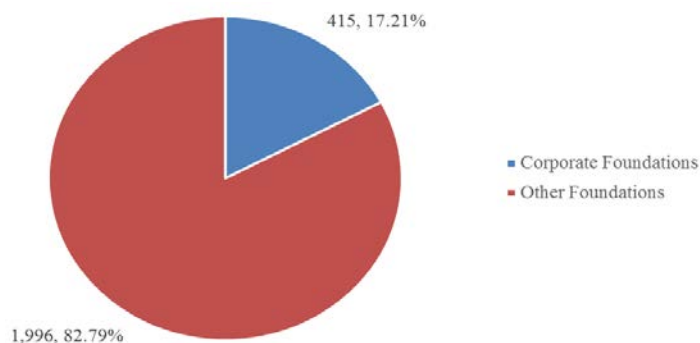
Source: Zhou, S. & Caccamo, M. (2013). Review and Revision: Theory and Practice of Corporate Philanthropy in China. Journal of International Business Ethics, 6(1-2), 49.

7.1 Corporate Foundation

Thanks to the *Regulations on the Administration of Foundations (2004)*, mounting enterprises or entrepreneurs have found a new approach to fulfill their commitment to philanthropy.

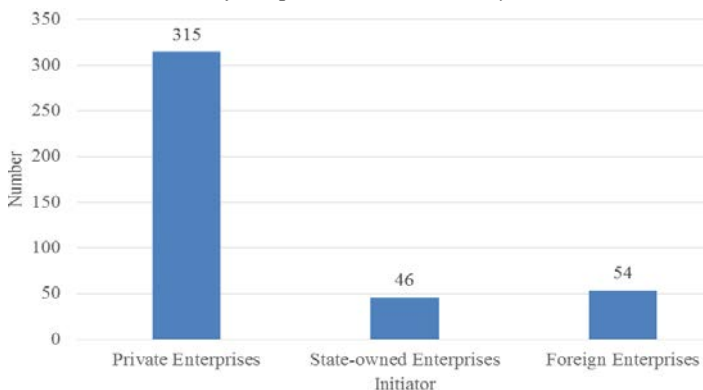
Based on the inspection data of 2011, 17.21% of the 2,411 foundations nationwide were initiated by enterprises. Private enterprises, state-owned enterprises and foreign enterprises all take a part, respectively setting up 315, 46 and 54 foundations by the year 2011. (Exhibit 7-2&3)

Exhibit 7-2 Number and Proportion of Corporate Foundations, 2011



Source: Peng, J., & Liu, Y. (2011-2013). *The Annual Report of China's Philanthropic Donation (2010-2012)*. China Society Press

Exhibit 7-3 Number of Corporate Foundations by Initiator, 2011



Source: Peng, J., & Liu, Y. (2011-2013), *ibid.*

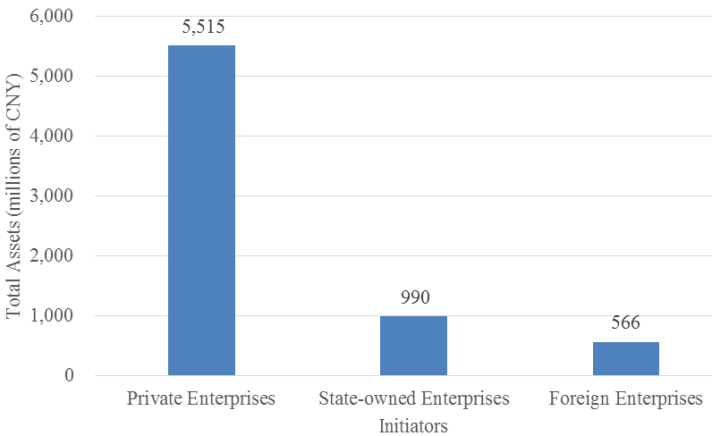
Private enterprises as the major initiator contributed CNY5,515 million, i.e. 78% of the total assets of corporate foundations, while the state-owned enterprises endowed more at average level with a mean of CNY21.52 million. Comparatively, the size of foundations set up by foreign enterprises was rather small with total assets worth of CNY566 million and CNY 10.48 million as for the average. (Table 7-1, Exhibit 7-4, 7-5)

Table 7-1 Total and Average Assets of Corporate Foundations (millions of CNY), 2011

Initiator	Private Enterprises	State-owned Enterprises	Foreign Enterprises	Total
Total Assets	5,515	990	566	7,071
Average Assets	17.51	21.52	10.48	17.04

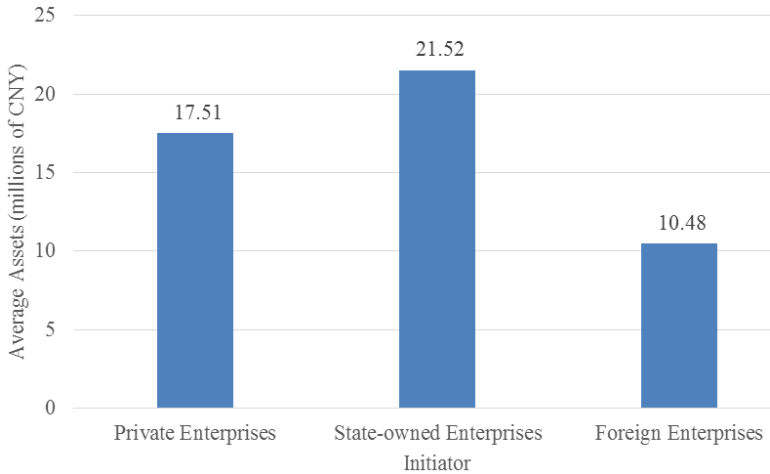
Source: Peng, J., & Liu, Y. (2011-2013), *ibid.*

Exhibit 7-4 Total Assets of Corporate Foundations by Initiator (millions of CNY), 2011



Source: Peng, J., & Liu, Y. (2011-2013), *ibid.*

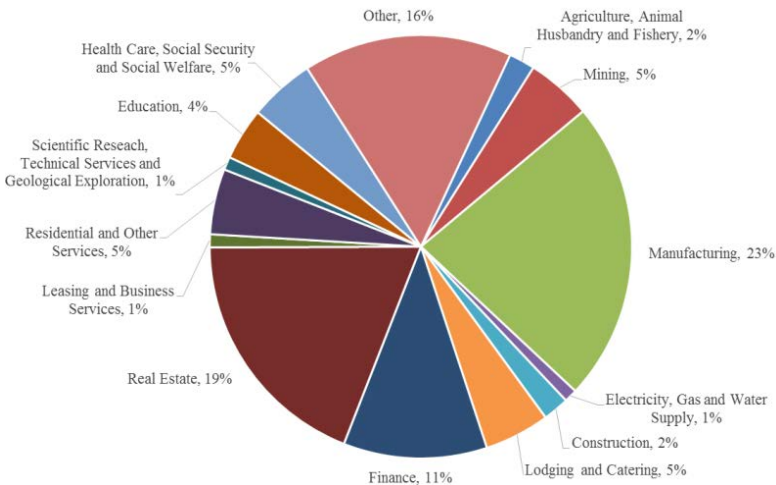
Exhibit 7-5 Average Assets of Corporate Foundations by Initiator (millions of CNY), 2011



Source: Peng, J., & Liu, Y. (2011-2013), ibid.

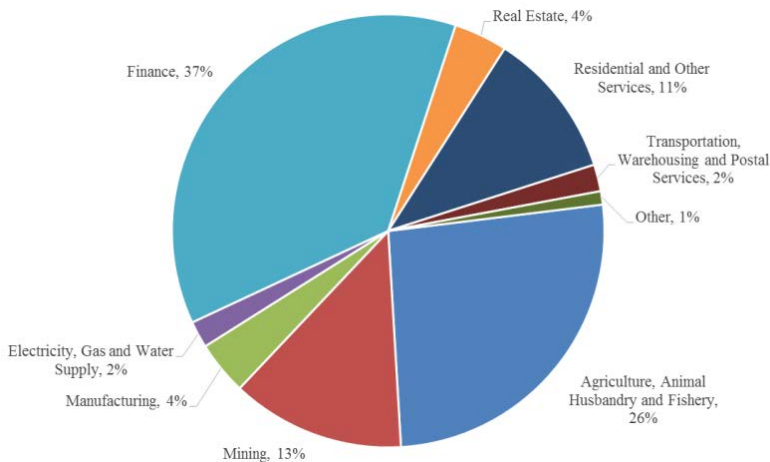
To set up foundations is prevailing among enterprises across all industries, but the distribution differs between private and state-owned ones. As for the former, it was the enterprises in manufacturing, real estate and finance industries that took the lead with a proportion of 23%, 19% and 11% respectively. As for the latter, the heads were found in finance, agriculture animal husbandry and fishery, and mining industries, respectively accounting for 37%, 26% and 13%. (Exhibit 7-6, 7-7)

Exhibit 7-6 Distribution of Private Enterprises as Foundation Initiators by Industry, 2011(on next page)



Source: Peng, J., & Liu, Y. (2011-2013), *ibid.*

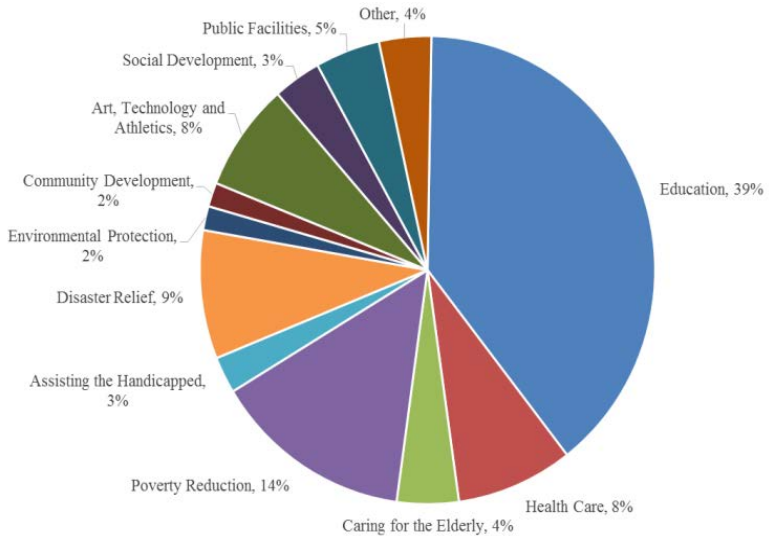
Exhibit 7-7 Distribution of State-owned Enterprises as Foundation Initiators by Industry, 2011



Source: Peng, J., & Liu, Y. (2011-2013), *ibid.*

Despite the differences in terms of size and industry, the top areas of efforts made by the three types of enterprises coincided on education. Nearly one fourth of the all the philanthropic projects focused on this issue, followed by poverty reduction, disaster relief and health care respectively accounting for 14%, 9%, and 8%. It is also notable that foreign enterprises gave more attention to art, technology and athletics as well as community development. (Exhibit 7-8, Table 7-2)

Exhibit 7-8 Distribution of Philanthropic Projects Initiated by Corporate Foundations by Objective, 2011



Source: Peng, J., & Liu, Y. (2011-2013), ibid.

Table 7-2 Top 3 Areas of Philanthropic Projects Initiated by Corporate Foundations, 2011

Initiator	Private Enterprises	State-owned Enterprises	Foreign Enterprises
1	Education	Disaster Relief	Education
2	Poverty Alleviation	Education	Art, Technology and Athletics
3	Disaster Relief	Poverty Alleviation	Community Development

Source: Peng, J., & Liu, Y. (2011-2013), ibid.

7.2 Social Enterprise

Since China began to transition toward a market-based economy and to support entrepreneurial activities in the early 1980s, there has been an explicit, albeit gradual, governmental retreat from social and economic life. Social services, such as education and health care, traditionally managed by state-owned enterprises or funded through government budgets, are now partially left to civil society.

Yet grassroots institutions are not ready to take over. They have struggled with restrictive regulations and low trust from citizens and government. Several years ago, a group of people from the social, business and government sectors started to introduce the idea of the social enterprise as an alternative solution to most NPOs' failure to address the social and environmental problems left unattended by the government and businesses.

The concept of the social enterprise - with its emphasis on applying business strategies to achieving philanthropic goals - has kept pace with the evolution of the idea in the Western academic community. As Kim Alter put it, shifting stakeholder expectations of nonprofit organizations to achieve larger scale social impact while also diversifying their fund-

ing has been credited as a major factor in the appearance of the “non-profit hybrid” part for-profit and part nonprofit. At this intersection of business and traditional nonprofit is where the social enterprise lies. All hybrid organizations generate both social and economic value and are organized by degree of activity as it relates to motive, accountability, and use of income. (Table 7-3)

Table 7-3 Spectrum of Practitioners

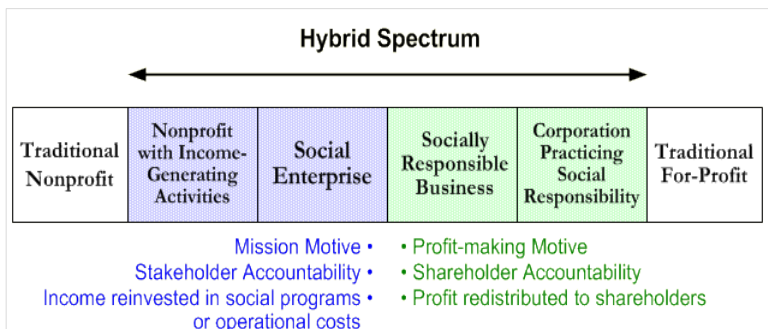
	Purely Philanthropic	Hybrid	Purely Commercial
Motives	Appeal to goodwill	Mixed motives	Appeal to self-interest
Methods	Mission-driven	Balance of mission and market	Market-driven
Goals	Social Value Creation	Social and economic value creation	Economic value creation
Destination of Income/ Profit	Directed toward mission activities of nonprofit organization (required by law or organizational policy)	Reinvested in mission activities or operational expenses, and/or retained for business growth and development (for-profits may redistribute a portion)	Distributed to shareholders and owners

Source: Alter, K. (2007). Social Enterprise Typology. Virtue Venture LLC.

The hybrid spectrum includes four types of Practitioners. On the right hand side of the spectrum are for-profit entities that create social value but whose main motives are profit-making and distribution of profit to shareholders. On the left hand side of the spectrum are nonprofits with commercial activities that generate economic value to fund

social programs but whose main motive is mission accomplishment as dictated by stakeholder mandate. (Exhibit 7-9)

Exhibit 7-9 Hybrid Spectrum



Source: Alter, K. (2007). *Social Enterprise Typology*. Virtue Venture LLC.

In China, there remains a sharp distinction between charitable and economic activities. The complexity of nonprofit registration in China adds confusion to the establishment of social enterprises. To obtain nonprofit status, a grassroots group has been required to register both at the Ministry of Civil Affairs or its local agency and at a professional supervisory agency, also a government office. This is called the “dual administration system”, which is a major barrier to nonprofit registration in China because the professional supervisory agency usually rejects affiliation requests from nonprofits. Because most grassroots nonprofits find it difficult to register with a professional supervisory agency, their only option to have a legal identity is to register as a for-profit company. This results in nonprofits that have the legal appearance of for-profit social enterprises but that usually do not have a sustainable business model.

Meanwhile, a social welfare enterprise is a long-existing entity that resembles a social enterprise. A social welfare enterprise is a for-profit enterprise that receives social welfare status from the government and hence enjoys tax benefits, government loans, and other kinds of support.

This status is granted according to the organization's mission or staff structure, such as having more than 35 percent of its employees be physically or mentally impaired. Social welfare enterprises register with the Ministry of Industry and Commerce and receive supervision from a local bureau of civil affairs. The entity therefore possesses the social and commercial features of a social enterprise, but social welfare enterprises usually have an administrative relationship with their supervisory government agency, which makes them unlike independent social enterprises.

These years, social enterprises gained more popularity given their potential contribution to addressing social problems, especially after the "mass entrepreneurship and innovation" policy was released in 2014. The identification of social enterprises was also pushed forward, as the *Measures on the Identification of Social Enterprise for China Charity Fair (Trial Implementation)* was jointly issued by Center for Civil Society Studies at Peking University, China Philanthropy Research Institute at Beijing Normal University, Narada Foundation, Shenzhen Center for China Charity Fair Development, and Social Enterprise Research Center in 2015, and 7 social enterprises got the certification taking into account their organizational objective, source of income, distribution of profit, organizational administration, and registration information.

THE ROLE OF MEDIA IN PHILANTHROPY DEVELOPMENT IN CHINA

The media plays an indispensable role in philanthropy development as it exposes philanthropy to more citizens via whether the internet, television, newspaper or magazine (Appendix3 & 4). Not only is the public sentiment increasingly positive, more actions have been taken accordingly.

Statistics shows that the number of Chinese netizens soared to 668 million by the end of June, 2015. As the basic component of online communities, they are equipped with great potential to disseminate the idea of philanthropy. (Table 8-1, Exhibit 8-1)

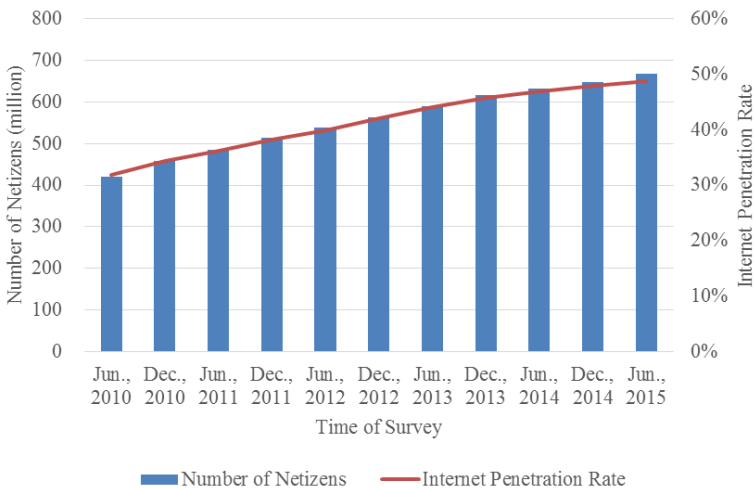
Table 8-1 Number of Netizens and Internet Penetration in China, 2010-2015

Time of Survey	Number of Netizens (million)	Internet Penetration Rate
Jun., 2010	420	31.80%
Dec., 2010	457	34.30%
Jun., 2011	485	36.20%
Dec., 2011	513	38.30%
Jun., 2012	538	39.90%
Dec., 2012	564	42.10%

Jun., 2013	591	44.10%
Dec., 2013	618	45.80%
Jun., 2014	632	46.90%
Dec., 2014	649	47.90%
Jun., 2015	668	48.80%

Source: *Statistical Report on Internet Development in China (July, 2015)*,
<http://www.cnnic.net.cn/hlfwzjy/hlwzxbg/hlwtjbg/201507/P020150723549500667087.pdf>

Exhibit 8-1 Number of Netizens and Internet Penetration Rate in China, 2010-2015



Source: *Statistical Report on Internet Development in China (July, 2015)*,
<http://www.cnnic.net.cn/hlfwzjy/hlwzxbg/hlwtjbg/201507/P020150723549500667087.pdf>

“We media”, represented by Weibo or microblogs, social networks, video sharing websites, blogs, etc., converges public opinion from all walks of life. Tencent Weibo and Sina Weibo, the most popular

Weibo operators in China, has aggregately attracted 147,420 users concerned for “public welfare” and 40,069 for “philanthropy” by the end of 2013. Millions of webcasts were set up with pertinent themes. (Table 8-2)

Table 8-2 The Influence of Weibo on Philanthropy, 2013

Indicator	Tencent Weibo	Sina Weibo	Total
Webcasts of “Public Welfare” (million)	5.70	232.26	237.96
Users	40,288	107,132	147,420
Authenticate Users	6,804	15,368	22,172
Webcasts of “Philanthropy” (million)	1.48	67.33	68.81
Users	13,276	26,793	40,069
Authenticate Users	1,005	3,908	4,913

Source: Report on Dissemination of Philanthropy via Chinese Media (2013),
<http://www.bnu1.org/uploads/soft/140120/2-140120112216.pdf>

WeChat, a mobile text and voice messaging communication service developed by Tencent, has 650 million active users by August, 2015, 70 million of which are outside of China.³¹ It is by monthly active users the largest standalone messaging app, which is available on Android, iPhone, BlackBerry, Windows Phone and Symbian phones.

Hundreds of WeChat public accounts could be found by searching with the key word of “public welfare” or “philanthropy” by the end of November, 2013. Given the mounting mobile netizens in China, WeChat is probably a power platform in the area of philanthropy. (Table 8-3, Exhibit 8-2)

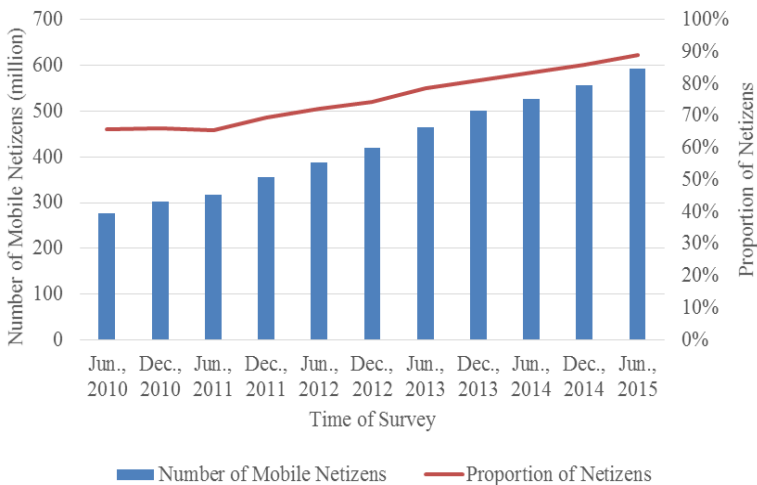
³¹<http://en.wikipedia.org/wiki/WeChat>

Table 8-3 Number and Proportion of Mobile Netizens in China, 2010-2015

Time of Survey	Nb. of Mobile Netizens (million)	Proportion of Netizens
Jun., 2010	277	65.9%
Dec., 2010	303	66.2%
Jun., 2011	318	65.5%
Dec., 2011	356	69.3%
Jun., 2012	388	72.2%
Dec., 2012	420	74.5%
Jun., 2013	464	78.5%
Dec., 2013	500	81.0%
Jun., 2014	527	83.4%
Dec., 2014	557	85.8%
Jun., 2015	594	88.9%

Source: Statistical Report on Internet Development in China (July, 2015), <http://www.cnnic.net.cn/hlwfzyj/hlwzxbg/hlwtjbg/201507/P020150723549500667087.pdf>

Exhibit 8-2 Number and Proportion of Mobile Netizens in China, 2010-2015



Source: Statistical Report on Internet Development in China (July, 2015),
<http://www.cnnic.net.cn/hlwfzyj/hlwzbg/hlwtjbg/201507/P020150723549500667087.pdf>

Many a little makes a mickle. Contrasting with the glaring “Bazaar Charity Night” - a philanthropic auction featured by celebrity effect and large donation (Table 8-4), micro philanthropy is now prevailing.

Table 8-4 Overview of “Bazaar Charity Night”, 2003-2014

Time	Theme	Donation (CNY)	Use of Donation
2003	Philanthropy, Who Needs Whom?	167504	Disaster Relief, Health Care
2004	Make Philanthropy a Fashion	680,000	Health Care
2005	Make Philanthropy a Custom	1,724,600	Education
2006	Make Philanthropy Change Our Life	3,518,439	Education
2007	Make Philanthropy Our Dream	7,538,888	Education
2008	Make philanthropy an Action	12,520,000	Disaster Relief
2009	Make Philanthropy a Power	31,000,000	Health Care
2010	World Expo, Chinese Love	18,828,887	Disaster Relief, Environmental Protection
2011	Make Philanthropy a Hope	32,630,000	Health Care
2012	Make Philanthropy Influence China	46,735,550	Poverty Reduction, Health Care

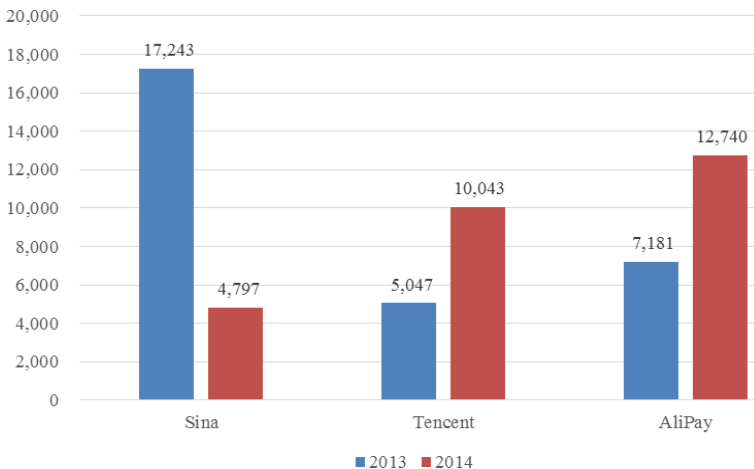
2013	Philanthropy, Chinese Dream Inspired	62,221,925	Poverty Reduction
2014	Philanthropy: Practical Action, No Publicity Stunt	51,310,000	Health Care, Education

Source: <http://www.trends.com.cn/hot/20140917/#F>

Triggered by the 2008 Wenchuan earthquake, it has proliferated at a striking pace as Tencent, PayPal, Taobao, Sina, etc. successively launched online platforms for donating. By September 10th, 2013, more than 560 Chinese netizens had the experience of online donation and the accumulated sum roughly exceeded CNY520 million, an impressive demonstration of the civilianization of Chinese philanthropy.³²

In 2014, CNY428 million was donated via the biggest three platforms - Sina, Tencent and AliPay - and Taobao charitable shops, an increase of 42.7% from a year earlier. Furthermore, 68% of the benefactors prefer donating through microblog and WeChat than through personal computers, marking Chinese philanthropy's entering the wireless era. (Exhibit 8-3, 8-4)

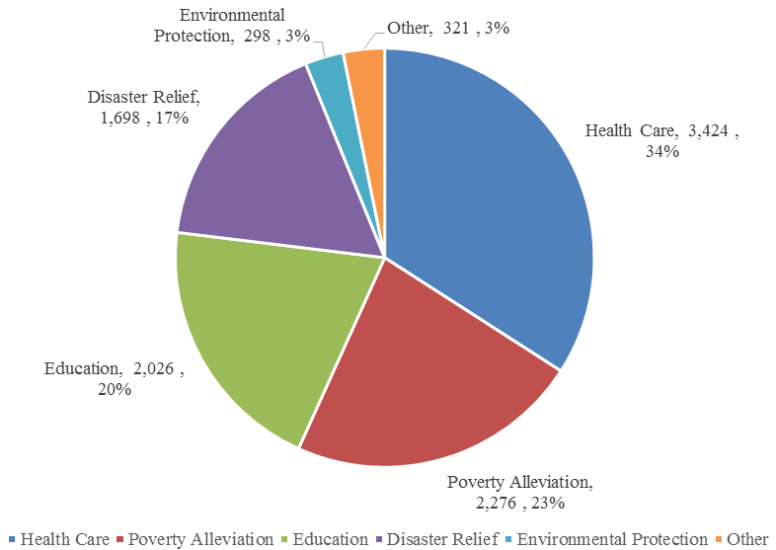
Exhibit 8-3 Online Donations through Sina, Tencent and AliPay, 2013-2014



³² <http://crm.foundationcenter.org.cn/html/2013-10/706.html>

Source: <http://news.mydrivers.com/1/447/447613.htm>

Exhibit 8-4 Use of Donations via Tencent Platform, 2014



Source: <http://news.mydrivers.com/1/447/447613.htm>

CASE ILLUSTRATIONS

9.1 Case 1 Chang Hai Quan Fu Aquatic Products Company Limited

Dalian Chang Hai Quan Fu Aquatic Products Company Limited, formerly known as Chang Hai Xiao Chang Shan Village Quan Fu Marine Products Company (1996), was founded in Chang hai town's Xiao Chang Shan Island near the north-eastern city of China called Dalian on 24th April, 2006 by Ms. Xuqing Li. Xiao Chang Shan Island is known to be the best fishing island in the Yellow Sea (Huang Hai) owing to its rich resources of marine products. The company was registered with a capital of 5 million Yuan and now has its total assets reaching more than 122 million Yuan with a debt ratio below 35%. At present, the company has an area of 1333 Hectares of pollution-free waters in the Yellow sea for their businesses.

The company's main businesses are shellfish aquaculture, fishing, etc. The shellfish aquaculture breeding industry has more than 3000 sets of rafts; with a staff of 180 they mainly breed Giant Ezo Scallops, the Spear Scallops, Sea Cucumber, Abalones, Burnt Endark, Mussels and other products. Their processing base for the breeding of aquatic products is abundantly organic and is maintained at the standards of environmental protection. The fishing industry has more than 800 fish tanks, with a staff of 200 people. They fish mainly Yellow Croaker, Black

Carp, etc. In order to broaden the development channel and to ensure the sales of the surrounding seedling and breeding farmers, more than 22.2 million Yuan has been invested to build the aquatic product factory employing seasonal workers of more than a 1000. Their products are mainly exported to South Korea, Japan, Malaysia, and Taiwan and to other international markets.

Since its inception, the company has been adhering to the concept of "Integrity Management and Social Contribution" as their business philosophy for the sustainable development of Marine resources in order to ensure that no part of the marine environment of the island gets polluted, and the company has also been working towards the development of large-scale breeding of various kinds of Marine products.

Besides, the company has also many accreditations such as the ISO 22000, HACCP food safety certification, the food quality and safety (QS) certification, organic food certification etc., and is evaluated many times as the state-level pollution-free aquaculture base and achieved the status of "China's AAA grade credit enterprise", "AAA grade customer satisfaction enterprise", and in 2011 the China Enterprise Culture Research Association gave the title of "China's excellent enterprise culture construction unit". In 2012-2013 the company was rated with AA credit by the Agricultural Bank of China, and in 2011 the company was awarded the title of "The Famous Brand of Liaoning province".

At present, the company's flagship store, where the brand "Chang Hai Quan Fu" marine products was founded, is located in the busy street of "Huang he" in the downtown of Dalian. Other stores are located at various shopping malls of Dalian. They set up a sea cucumber zone at the wholesale market of aquatic products in Dalian to develop their seafood wholesale base. Now, the company has opened its franchises in Beijing, Henan, Heilongjiang, Wenzhou, Shenyang, Xinjiang, Hebei, and other areas selling their products of "Chang Hai Quan Fu" brand to the market by broadening the channels.

9.1.1 Ms. Xuqing Li, Chairman of Dalian Chang Hai Quan Fu Aquatic Products Company Limited

Today, I, being a member of the National People's Congress standing committee, started my speech with a quote from one of Rockefeller's letters to his son – "a person's destiny is shaped by his actions but not by his birth".

-Ms. Xuqing Li, Chairman.

(Interview transcript Pg.17; Ms. Li,

June 26, 2014 Thursday dinner,

Chang Hai County, Xiao Chang Shan Island)

Xuqing Li, born on November 12, 1965, is the chairman of Dalian Chang Hai Quan Fu Aquatic Products Company Limited. Ms. Li hails from a poor farming family and is not educated, as she couldn't afford to continue her education beyond primary school. She was 16 when she convinced her mother to give her just five Yuan, which she used to buy sea clams from the middlemen and sold them to the customers in Dalian. At first, she experienced failure, as she didn't succeed as much as other who was in the same business as she was in, due to lack of experience and the means to succeed. Later she learned the knack of the business she got into and started to buy the clams from the wholesalers instead of the middlemen and this way she started to make profits. At the age of 23, she got married and they started to run Ms. Li's business together.

The second milestone of Ms. Li was when she entered the Chang Hai County of Xiao Chang Shan Island and started the wholesale and retail business of frozen seafood. It was in 1996, the third stage, when she started to buy and sell fresh seafood. Her fourth milestone, after a great deal of struggle, was achieved when she successfully contracted 1,000 mu (mu is traditional Chinese unit of measurement, 1 mu=666.66 Square meters) of the Sea area at the Chang Hai County's Ba Shao Island from the government for the purpose of deep-sea fishing. Currently,

her company has been contracted an area of 20,000 mu of the Yellow Sea for their businesses.

Ms. Li is a woman who firmly believes in Christianity and follows the norms of the religion. In one of our interactions with her she said,

‘For the sake of a harmonious society and social development we must promote faith...a person is always born for the sake of others, for the society, for China, and for the human race. Enterprises will be successful, when they work for the society, then the society will also favor those enterprises, and blessings will come’.

(Interview transcript Pg. 1, 2; Ms. Li, on June 26, 2014
on Thursday morning, at Dalian)

Her enterprise has started their philanthropic deeds since 1998 and they are still continuing to engage in such activities, which, according to Ms. Li, is because of her perseverance and insistence. She says, she gets moved and does a lot of philanthropy because she can never forget her roots and the hardships of her life before she reached such a position in her career. In 2007 she was elected as the Changhai County’s CPPCC member, and in 2008 was elected as the Liaoning province’s People’s congress and she gives the credit of such achievements to her efforts of philanthropy.

The enterprise culture of Chang Hai Quan Fu is inspired by Ms. Li’s family culture. She had a very good relationship with all her family members, especially her mother-in-law, and hence, she says she learnt how to maintain harmonious relationships within her company and as well as with the Government and the society.

Ms. Li has been awarded a number of titles and awards for her contributions to the society and some of which include the “advanced individual” title in 2001-2003 for poverty alleviation in Dalian; won the honorary title of "wealth by science and technology" in 2004; special

contribution award again in 2004 for the social public welfare undertakings in Dalian; won the honorary title of “Model Worker” in Dalian in 2005 and also the title of "China's Charity Ambassador" of honor.

Now, Ms. Li continues to work as the chairman of Chang Hai Quan Fu with Ms. Guo, the managing director, who is the person second in charge after Ms. Li to take care of the activities of the company.

Ms. Li's importance of maintaining good relationships resulted in fruitful consequences for her company and as well as the society she worked for through philanthropy in a two-way beneficial channel:

As an entrepreneur Ms. Li strived to get the support of the Government for the success and growth of Chang Hai Quan Fu. During the Fourth stage of the evolution of the company, as mentioned earlier, Ms. Li settled the payment of another businessman in the same business at Chang Hai who owed the Government and as well as to Ms. Li. The Government was about to auction off the sea area contracted to that man to anyone who one the bid but was reluctant to contract the sea area to Ms. Li even though that man who defaulted owed Ms. Li also a huge some of money. Ms. Li, after having to struggle and paying the Government the amount owed by that man to them, got the contract of that sea area. Here, with her brave move to take risk she realized how important it is to be in the good books of the Government.

At first, the local Government of Chang Hai and the people of Chang Hai were not very happy with mainland people coming to Chang Hai and exploiting their resources. Ms. Li faced the same challenges when she first came to Chang Hai County and she worked hard to get them all to trust her. One of the ways, she tells, she earned their trust was through her philanthropy deeds.

She earned the trust of the Government by prepaying taxes and then later on when she was approached by the Government to reconstruct an old age home and she did as she was asked by the Government despite getting into losses due to many such philanthropic undertakings by her

company. When Chang Hai County held its first charity fundraising conference, Ms. Li donated one million Yuan to lead the fundraising, and everyone at the conference applauded along with the leader of the County. They were all very moved and the people of Chang Hai, along with the Government, applauded and appreciated her. During that time, Chang Hai Quan Fu Company only had five million out of which one million was donated.

Chang Hai Quan Fu employed the locals as well as immigrant workers from other provinces in the mainland. Ms. Li and her company was acclaimed high for their interest in the welfare of the society of Chang Hai County and Chang Hai Quan Fu successfully established their foundation and earned a good reputation by employing a corporate culture that is highly appreciated and accepted by its employees.

‘Our Company has good reputation and received the blessings of people. It is my responsibility to resolve the unemployment problem and other problems of the society. If I solve these problems, I will have a good influence in this district and I can become a model personality for CPPCC. We do Philanthropy to have a positive impact on the society and this shapes the corporate culture within our company. Keeping the business alive is much harder than to start the company and hence I have to appreciate Ms. Guo’s effort as the manager and hope my daughter will try her best to manage the company in the future and let the company live longer satisfying and serving the needs of the people’, said Ms. Li during a meeting.

*(Interview transcript Pg. 17; Ms. Li, on June 26, 2014 on Thursday
Dinner, at Chang Hai County of Xiao Chang Shan Island)*

Now, talking about corporate culture, Ms. Li asserts that corporate culture of a family run company is inspired by the family culture. Chang Hai Quan Fu runs with a corporate culture where all the employees and

employers feel like they are part of one big family. All the employees have expressed their support to the philanthropy deeds of Chang Hai Quan Fu.

Ms. Li recalled about the nature of the relationship she had with her mother-in-law and her family. They shared a very close and responsible relationship, and Ms. Li had taken care of her mother-in-law as if she were Ms. Li's own mother. This intimate relationship between her and her mother-in-law taught her how to maintain a harmonious relationship with others. The lessons learnt from the family relationships have inspired Ms. Li to do Philanthropy, as she can never forget her roots.

9.1.1.1 A Brief Account of the Philanthropic Deeds Done by Ms. Li

For many years, she has been actively engaging in Changhai Li Xuqing public welfare undertakings such as actively participating in donating money for construction of roads, poverty alleviation, and other charity activities such as finding foster homes for orphans. Li Xuqin's social public welfare donations exceed a total of more than 30 million Yuan.

Her major deed was the gestation of providing a place to stay and live comfortably during their final years of many deprived old people. An Old age home that covers an area of ten thousand square meters was constructed in 2008 with 27 million Yuan and provides them with the best possible facilities and health care.

The old people in that home were provided with sea cucumbers, which are very expensive and highly nutritious. They are provided with sea cucumbers everyday during winter and also offered fruits, which the old people might have tasted for the first time. The old people are also provided with new clothes three times in a year. Nutritious meals are provided to them 3-5 times (*Interview with the Old lady, June 27, 2014, Friday morning*) a day.

The main body of the building consists of five layers and is built to star hotel standards. The old age home has 34 rooms, consisting of 68 beds. There is a restaurant on the second floor that has 18 private rooms, two halls, with a capacity of more than 300 people to dine at a time. The management and service staffs of the old age home are about 60 people.

Apart from the above, since the early years of the inception of her company Ms. Li also did many other philanthropic contributions such as,

In 2002, when she learnt that the local Government was facing difficulties gathering capital for new development projects she donated twice an amount of 3.4 million Yuan each. She offers help without even before being approached for help.

In 2006, she donated 1 million Yuan from her personal account for charity. Her employees say that she does charity whenever any unfortunate situation moves her.

In August 2004, Li Xuqing learnt that Changhai county high school from the Changhai news show that there are about 10 students belonging to poor families have got admission in the university but have no money to pay for the tuition. She was very much moved and hence, she decided to help them and so far has come up with more than 200 thousand Yuan to sponsor these children through college.

Every year, 10% of the profits go into the charity fund organized by the company and this is approximately about 1 million Yuan a year.

When there were funding shortages in the renovation of the “zhuquan” highway by the Government she donated about 170,000 Yuan for it.

Donations of 10000 Yuan for lighting up the streets with street lamps, 10,000 Yuan for the construction of the Bashao school building, 300,000 Yuan for the township’s Women’s Federation for the welfare of women, and another 300,000 Yuan to help families come out of poverty were also a part of her contributions.

She gave interest free loans of 22,000 Yuan to a horticulture farmer named Shu-qin Sun and helped this woman to prosper. At the same time she also lent to around five individual households of farmers an amount of 200,000 Yuan to buy seeds.

She has been helping a family of two disabled people by developing inshore fishing, to solve the problem of employment for the disabled and more than 30 families financially with donations of 60,000 Yuan.

A woman named Ding Yuying who lost her husband 18 years ago was supported with 100,000 Yuan and helped her to send her eldest son to go to school by Ms. Li. She took care of the woman and her child like they were Ms. Li's own people and also later let the son work in her business after finishing his studies.

Other small accounts of support and sponsorship activities included the sponsoring Wang Junrong, a disabled woman for the cure of her eye disease, sponsoring with 400,000 Yuan for the living expenses of 28 economically backward university students.

For the development of the economy at the same time, she also paid attention to improve enterprise culture, formed teams of literature and art for performance. She not only enriched the cultural life of the workers, but also contributed to the entire town through the construction of spiritual civilization (promotion of culture and ethics).

Chang Hai Quan Fu Aquatic Products Co. Ltd. bore the expenses of all the celebrations of Women's Day, National Day etc. every year and has accumulated about 8 million Yuan for the social and public welfare charity donations.

9.1.1.2 The Motivations behind the Philanthropic Activities Presented in Facts

Ms. Li quoted Dr. Cui, the head of Kingdom Business College and also a religious personality. He said "God used me to bless others; a person is always born for the sake of others, for the society, for China, for the human race. All the enterprises will be successful when they

think about others, then others will also think about you, and blessings will come". (Interview transcript Pg. 1; Ms. Li, on June 26, 2014 on Thursday morning, at Dalian)

She further said that for the sake of a harmonious society and for the sake of social development, we must promote faith. She said that one can use ten million at once or use it slowly in parts of small amounts for charity, but the main aspect is that how does that effect sustainable development. She also said that this might influence the company temporarily for a while through losses, but will boost the enterprise to become evergreen and rich in terms of cultural heritage. (Interview transcript Pg. 1, 2; Ms. Li, on June 26, 2014 on Thursday morning, at Dalian)

Ms. Li believes that the family culture and enterprise culture are connected, and that the corporate beliefs are abstracted from the core values of family, which are the main sources of talent and this applies to the corporate culture of her company. (Interview transcript Pg. 2; Ms. Li, June 26, 2014 on Thursday morning, at Dalian.)

She also said "I always do charity because I know my roots". Earlier it was presented about how she strived to maintain a good relationship with her mother-in-law and that this is also a way to do things in a harmonious way and this helped her learn a lot and do things do promote harmony in the society. (Interview transcript Pg. 2; Ms. Li June 26, 2014 on Thursday morning, at Dalian)

On a certain instance Ms. Li asserted that "I believe that God is the one who gave me life, so I should live for god". She says that all her money is God's money and that she can only do good with that money and she built the church for social harmony and joy, which play a big role in the society's well being and went on saying that CSR is very important and her charity deeds are a part of CSR(Interview transcript Pg. 8; Ms. Li, June 26, 2014 on Thursday morning, at Dalian)

Ms. Li emphasizes on spiritual education and not on materialistic education because she believes that the mind influences our actions and

the goal of our actions is to satisfy our mind. Hence she does charity because her mind's goal is to do charity. Why should one believe in Christianity? According to her it is because if one believes in Christianity, he/she will dare not to cheat others and be lazy as Christ is always watching over you and controlling you. If one tries their best to do something good he/she will be rewarded. (Interview transcript Pg. 10; Ms. Li, June 26, 2014 on Thursday morning, at Dalian)

The philosophy that Ms. Li truly believes in is "Practice what you preach to others and let your efforts help others to realize their dreams. Light leads people, and salt adds taste to our food. We must be like light and salt helping others more than ourselves". (Interview transcript Pg.11; Ms. Li, June 26, 2014 on Thursday morning, at Dalian)

She further explains her philanthropic activities by saying she wants to realize the meaning of life and that the actions of a person shapes or determines the personality of person. She quotes Rockefeller in one of her speeches and says that a person's fate is determined by their actions and not entirely decided by his/her birth. (Interview transcript Pg.17; Ms. Li, June 26, 2014 Thursday dinner, Chang Hai County, Xiao Chang Shan Island)

Finally, explaining the motivations behind her philanthropic deeds, Ms. Li said "I heard many examples and words of God from the bible and even received Chinese cultural education so I can express my feelings in any situation clearly and frankly. So, I have the power to influence others and live a valuable life. Our Company has a good value and received the blessings of people because of our charity deeds. It is my responsibility to resolve the unemployment problem. If I solve these problems, I will have a good influence in this district and coz of this I can become the model personality for CPCC. We should do these things that have a positive impact and this shapes the corporate culture within our company" (Interview transcript Pg.17; Ms. Li, June 26, 2014 Thursday dinner, Chang Hai County, Xiao Chang Shan Island)

The Philanthropic actions led to some effects that could be stated as below:

Ms. Li came up a long way from being suspected by the local Government and the public initially to now being a member of the two prestigious political entities of China. She attributes all of her success to her hard work and philanthropy deeds. She got selected as member of local C.P.P.C.C (Chinese People's Political Consultative Conference), as a member of N.P.C (National People's Congress) and earned good reputation from the government and the public by achieving many honors from the government at various levels.

“I am the member of NPC and CPPC and this gives me certain privileges and also with power comes higher responsibilities. Educated people should work for the society and if they don't they are worthless. God will not appreciate that and he did not make a person to watch him become a person without compassion. I heard many examples and words of God from the bible and even received Chinese cultural education so I can express my feelings in any situation clearly and frankly. So, I have the power to influence others and live a valuable life. Our Company has good value and received the blessings of people. After the speech the audiences praised me for my speech. It is my responsibility to resolve the unemployment problem. If I solve these problems, I will have a good influence in this district and coz of this i can become the model personality for CPCC. We should do these things that have a positive impact and this shapes the corporate culture within our company. Keeping the business alive is much harder than to start the company and hence I have to appreciate Ms. Guo's effort as the manager and hope my daughter will try our best to manage the company in the future and let the company live longer satisfying people”.

-Ms. Li

(Interview transcript Pg.17; Ms. Li, June 26, 2014 Thursday dinner,
Chang Hai County, Xiao Chang Shan Island)

Tangible effects of the philanthropic deeds of Ms. Li resulted in the following for the society:

- Infrastructure Development

The Local Government received help from Ms. Li in the development of the infrastructure and this was good effect on the community because there was a lot of development of roads, street lighting, and other projects with Ms. Li's contributions.

- Enrichment of the Local People's Leisure-time Activities

There was an impact even on the development of the leisure time activities of the people of Chang Hai because Ms. Li even contributed to the field of sports, theatrical performances etc.

- Poverty Alleviation and Improvement of Employment Opportunities in the County of Chang Hai.

Many people got either employed by Ms. Li or got self-employed by starting/surviving their own businesses with the help of the interest free loans from Ms. Li.

Summing up, the philanthropic deeds, which were the actions inspired from the lessons learnt from her entrepreneurial endeavors, religion, culture, and familial ties of Ms. Li as she explained or by the motivation transpired due to the desirable effects of such activities, be it whichever, has definitely lead to desirable effects for the Society, and also for Ms. Li and her company.

9.2 Case 2 Liaoning HuaFu

9.2.1 Group Company Background

Liaoning HuaFu Group is the key high-tech enterprise of National Torch Program (NTP) awarded by the Ministry of Science & Technology. HuaFu was established in 1993 by Mr. Li Guihai and his wife after they were graduated from the department of Energy of Zhejiang University in 1990. They started their business in instance because they were confronted with turmoil at that time. (Guihai Li, 2014, p.4) Liaoning HuaFu was specialized in R&D, consulting, procurement, manufacturing, engineering and BOT investment in the areas of heavy oil recovery, wastewater treatment and energy conservation from different industries. The group was constructed based on the amalgamation of several companies, including Liaoning HuaFu petroleum Hi-tech Corp. Ltd , Liaoning HuaFu Environmental Engineering, Liaoning HuaFu-Andmir Environment Equipment, Shandong HuaFu petroleum & Environmental, and PanjinHuaFuLengJia Wastewater Treatment Plant, etc. (Liaoning HUAFU Group, 2009, Company Profile)

9.2.1.1 Petroleum High-Tech Co. Ltd

Established in 1994 and developed during solving the different kinds of difficulties from crude production and transportation, Liaoning HuaFu Petroleum Hi-Tech Co, Ltd (LHPH) is a technology-oriented Hi-Tech enterprise engaged in R & D, equipment fabrication, chemical supply and technical services, etc. in the oilfield industry. The “Hollow Suck Rod Electric-heating Lifting Apparatus” (HSRELA), wholly developed and owned by LHPH, has successfully solved the world-level technical difficulty of by passing the pump and lifting to the surface for heavy oil production, which has technically led the foundation for the heavy oil production in Liaohe, Xinjiang Shengli Oilfield, etc. Besides, LHPH also possesses core products and technologies in the area of chemical-

aided oil production, screw pump oil production, thermal transportation of heavy oil, natural gas processing and oil well detecting, etc. Based on flexible contract models, LHPH has installed about 4000 oil production equipment (mainly HSRELA), completed dozens of EPC projects and conducted about 10 thousands of onsite technical services in all over the Chinese oilfields. LHPH is now one of the leading enterprises of heavy oil production, chemical-aided production and crude oil transportation in the Chinese Oilfield industry. (Liaoning HUAUFU Group, 2009, *Group Structure*)

9.2.1.2 Environmental Engineering Co. Ltd

Established in 1998, Liaoning Huaifu Environmental Engineering Co, Ltd (LHFEE) is engaged in technical consulting, engineering design, construction and installation, after-sale or operation service, and BOT investment, etc. in the environmental pollution control industry, with key clients from oilfield, petrochemical, metallurgic, municipal and industrial park, etc. Starting from the single business of produced water treatment, LHFEE has now evolved to become one of the core enterprises in the Chinese oily water pre-treatment and reuse industry, and has also successfully extended its service area into treatment of different kind of wastewater from a variety of industries including petrochemical, metallurgic and food processing, etc. Based on flexible contract models, LHFEE has completed hundreds of references in the above mentioned industries with turnover about 300 millions in recent years. LHFEE is now one of the leading enterprises of wastewater treatment and reuse in the oil production and petro-chemical industry. (Liaoning HUAUFU Group, 2009, *Group Structure*)

In 2003, a registered capital of \$5millionUSD was injected into the joint-venture enterprise, hence forming the Liaoning Huaifu ANDMIR Environmental Equipment Co. Ltd. The ANDMIR Environmental Group was established and is currently comprised of seven world-class

Canadian companies, creating a dynamic consortium at the forefront of Canada's produced wastewater treatment field. ANDMIR's main focus is centered on the development of surface construction and environmental projects for the oil and gas industry. As part of a strategic marketing decision to expand our international presence, a joint-venture manufacturing base was set up with China's Liaoning Huaifu Group and through the joint-venture project, ANDMIRs' goal is to combine advanced Canadian technology with cost-effective Chinese manufacturing conditions could be realized, thus further increasing our effectiveness to serve the escalating Chinese and international markets. Using sincerity, innovation, quality, cost-effectiveness as the cornerstones of our business, ANDMIRs' main commitment is to uphold high-customer satisfaction while establishing key long-term business relationships with all current and potential future clients worldwide. (Liaoning HUAFU Group, 2009, Strategic Alliances)

Persisting in the tenet of "Survive based on technology, and development based on innovation" and by means of self- R&D and cooperation, Huaifu Group has innovated and developed some 300 different advanced products and technologies, all of which have been widely used in the fields of oil recovery and water treatment industries from those oil magnates including Sino-pec, CNPC and CNOOC, etc. The Research & Design Institute of Huaifu annually undertakes and completes over 10 different R&D tasks. By now, the group owns 45 national patents, of which 5 are national invention patents. (Liaoning HUAFU Group, 2009, Company Profile)

Treating oilfield sewage problem is like treating a patient. It needs to be solved systematically, but not only focus on the superficial symptoms. Through ten years of development, our company established a system of process services: sewage diagnosis is like measuring body temperature and analyzing conditions; design is like a prescription; manufacturing facilities is like making tablets; Construction is like hav-

ing an intravenous drip; After-sales service is like clinical caring. This is our core competitiveness. What we are seeing now is the “tablets” workshops, which is one of the four operations of a business.

“Love My motherland forever and always behave honestly” is the soul of Huaifu’s culture. The group has been doing its best to build up a “love” cultural atmosphere-love work, lovefamily, love colleague, love company, and love society. In the meantime, the group actively promotes “honestly credit” operation concept, trying to establish credit among staff, customers and society to build good corporate image and social reputation, and have been widely accepted among the industry and society that Huaifu has engaged in. (Liaoning HUAFU Group, 2009, CompanyProfile)

9.2.2 Guihai Li Profile

Guihai Li, born July 25, 1968, is the president of Liaoning Huaifu Engineering Co. Ltd. who lives in Xinmin County Jinwutaizi Town Liangsanjiazi Village in Shenyang of Liaoning Province. In 1990, he was graduated from Zhejiang University with the major of cryogenic refrigeration. (Wang Hanshuang, 2009) He experienced a lot of failure and got deceived before he become this successful, it started from September 1990, he was assigned to Liaohe Oilfield for work, but only seven days later he left there, and then he started to sell TV remote control, carpets and so on, and after that he went for Liaohe oilfield work for another two months but later on he left again. On July 28, 1993, Guihai Li incorporated “Anshan Huaifu Company” in Anshan City. October 14, 1995, the company moved to Xinglongtai Industrial Development Zone of Panjin City, transformed into “PanjinHuaifu Electrical Appliance Co. Ltd.” During the year of 1993-1997, the oil company grew rapidly, his technique resulted in two million tun oilfield in Liaohe, and output value reached to one hundred million, but he realize that in

the future he might across many difficulties in operating Private enterprises, so he decided to go to Canada in 1997 to study more and there he was attracted by Christianity. (Ning Li, 2014, p.9)

Mr. Li is a man who really cares about others; he will do everything not only for his benefits company but also for the employees; he also believes and has a strong faith in Christianity.

“Our Company won’t allow any staff to die from money.”

– *Guihai Li (Guihe Li, 2014, p.7)*

“We have not thought so much when we start our business, we will not do these things (build staff dormitory and entertainment areas with high quality) if only for the sake of our benefits.....We could make more money if we invest in the fields other than the manufacturing industry. Manufacturing industry is too difficult; we have to carry on researching as well as promotion. Just because we are not for benefits, we adhere to the present. If I do not have faith in Christ, I will not invest on building these plant areas. If I take the costs into consideration, I will not do this.”

(Guihai Li, 2014, p.4)

Ning Li, manager of water business division in Environmental Engineering Co. Ltd said “Li Guihai had many opportunities to make more money from other industries. For example, the city government found him to do real estate a long time ago, but he would not like to do speculation. So far he has been doing something about the ecological humanities. Because of that, a lot of loyal followers gathered around him.”(Ning Li, 2014, p.9)

Huafu established labor union and began to practice philanthropy in 1997, but the earliest philanthropic deed is on September 18th, 1998. Mr. Li Guihai donate 100,000 Yuan to build hope primary school for 12 Tai

Zi Village, he also selected as chancellor of this school. Until now this company is still continues to engage in such activities, most of the contributions comes from charity foundation. Most of the philanthropic deeds they did were for helping employees and helping the disaster's victims. (Huafu Dream, 2012)

Mr. Li has been repeatedly chosen as provincial and municipal outstanding youth, outstanding entrepreneurs, and celebrity entrepreneurs, etc. In late 1999, Mr. Li was selected in Panjin City (2000-2005) as National People's Congress Standing Committee. (Wang Hanshuang, 2009) Mr. Li still continues to work as a president of Liaoning Huafu groups and now he is preparing for IPO. (Guihe Li, 2014, p.7)

9.2.3 Corporate Relationships and Culture

“Andmir is named after my son and daughter, stemming from love, and transliterated into Andmir. It indicates that I will love the company like my own children.”

(Guihai Li, 2014, p.3)

As an owner of Liaoning Huafu group, Guihai Li put so much attention to his employees. It can be seen by what he is doing, he built staff activities area, such as chess room, gym, children's park, church; and provided 98 residential for those who do not have the ability to buy a house in the company. He also provides a temporary accommodation to colleagues coming from headquarters. When mention what is the driving force to encourage shareholders to invest money to build such a large-scale plant areas for staff, Guihai Li said if he took the cost into consideration, he will not do this. Moreover, he said if he does not have faith in Christ, he will not invest to do this either. Meanwhile Guihai Li thought it is another way to attract talent, an easy way to recruit a new talent, like doctors and masters who just graduated. (Guihai Li, 2014, p.4)

However Guihe Li, the general manager of Petroleum High-Tech Co. Ltd, whose elder brother is Guihai Li, said investing money to build staff activities area is not only a way to dedicate to staff but also to create value for the society. (Guihe Li, 2014, p.7)

We also can see this company somehow affected by Christianity; the companies build their own church and also established a “Love Fund” foundations base on Christ. Guihai Li said it does not mean that only Christians can come to our company, we have a lot of executives who have different faiths. He also said they have fellowship and prayer for those people who believe in the Christ on Sundays, the employees did not force to attend, he said that his employees basically have accepted Christianity even those who do have different faith will not rejected. In addition he stated that the company did not force the employees to believe in Christ however if it is about to use biblical principles to run a business they have to participate since it is kind of corporate training. (Guihai Li, 2014, p.4-5)

In the eyes of employees, Guihai Li is someone who does not work for benefits; he always chooses to do something about ecological and humanities, he gains a lot of loyal followers around him. He is also someone who has a big heart.

According to the statistics, the staff average wages in Huafu is 40,080 yuan per year and there were 43 employees left and the average numbers of Huafu Group were 750 in 2013. Thus it can be seen that Huafu Group staff turnover rate is 6.85%. Energy and chemical industry staff turnover rate is were 11.8% by the research report from Beijing human resources service provider released in 2014. (Huafu Personnel Department, 2014)

“After I got sick, the company paid much attention to me. Because few people got this disease in the whole society, the company called for everyone to donate.”

(Ying Tong, the staff who got leukemia and has received more than 800 thousand Yuan donation from Huafu Group; Ying Tong, 2014, p.11)

President donated more than three hundred thousand for Ying Tong, Guihe Li contributed more than ten hundred thousand, employees and the “Love Fund” of church donated more than ten thousand. (Ying Tong, 2014, p.11)

“When I feel a little better, I also told my friends, for my company donations, it mainly because of the church and Christian, helped me selflessly. My two sisters are affected by my faith..... I thought my life is for my Lord, thanks god, and thanks the company leadership and staff. Unless the Christian faith, the company will not donated to me so much.” – Ying Tong

(Ying Tong, 2014, p.13)

When Ying Tong propose to return to work considering perfectly recovered from his illness, but President rejected and appease him to rest more. In addition Guihe Li had one more task for Ying Tong to do. Guihai Li inadvertently heard of that there is a six year old girl got leukemia that does not has relationship with the company. To support that child in personal, Guihe Li let Ying Tong to help the child go to Beijing and see the doctor. (Ying Tong, 2014, p.12)

Guihai Li was not merely contented with make money, but contribute to the community, so he put eyes on the environmental protection which relying on the Liaohe Oilfield, because then Panjin, Asia's largest wetland, dirty oil can be seen everywhere.

“He had many opportunities to do other industries, to make more money. For example, the city government found him a long time ago to do real estate, but he would not like to do speculation, so many years and he has been doing something about the ecological humanities.” –Ning Li, manager of water business division in Environmental Engineering Co. Ltd.

(Ning Li, 2014, p.9)

“... [T]o realize sustainable development not only in the terms of the company, but also from the perspective of the society. Firms definitely want to make profits, but it is much better if the firm could do some meaningful thing for the society and the humankind. I am very proud of the fact that Huafu could treat the sewage well, which is very meaningful. ” – Guihe Li, general manager of Petroleum High-Tech Co. Ltd

(Guihe Li, 2014, p.7)

9.2.4 Philanthropic Deeds

In the year of 1997, Hua Fu started establishing labor union and began to practice philanthropy. Guihai Li, the president of this company, donated 100,000 RMB to build hope primary school for “12 Tai Zi Village” on 1998 and was selected as the chancellor of this school due to his personal donation. On the following month, Hua Fu donated 14 tons of coal to “Da Wa Tian Zhuang Tai” nursing home in order to help them live through winter. Afterwards, money amounted to 20,000 RMB, 1,000 cotton quilts and 50 bedspreads were given to charity organization of Pan Jin to help the flood-affected area. All of these goods cost 120,000 RMB. Six years later, in the year of 2004, the members of the company donated 28,000 RMB to one of the employees that suffered from a severe illness. There was also a company driver that was helped

by Hua Fu company amounted to 20,000 RMB. In 2007, the mother of an employee suffered from a brain tumor and the company donated up to 9,690 RMB to her. Their good deeds continued as they helped the victims of earthquake that happened on Chuan Wen financially and materially. In the same year, once again the company donated to an employee's child that summed up to 18,300 RMB.

On January 2009, the President of HuaFu Company, Guihai Li established the Hua Fu love fund or also known "HuaFu Charity Foundation" which aims to help those people who need helps. The charity was held twice a year in order to bring together the collective and social forces to help people around. The foundation got their money from three resources, the company, staff contributions and the offer from the church, managed by the charitable fund committee; the raising and spending were implemented by the openness and transparency principles, with the wide supervision of the worker. The contributions are voluntary, no competition, and with the "love donation box" which are visible and popular. In the meeting, Guihai Li said: charity comes from the inside, HuaFu employees, not regarding on how long they have work, the contribution, all are brothers and sisters, when they encounter difficulties. We must help each other. (Liaoning HuaFu Group, 2014) In the same year of 2009, the company has helped more than 62 people with the total of more than 220,000 RMB.

The foundation developed rapidly that in 2010, by that fund the company obtained numerous funds compared to the previous years, it shows by helping the victims of 7.1 magnitude earthquake happened in Yushu, Qinghai province. Same with the previous year, the company also annually give the donation to their employees this year with the totaled of 350,000 RMB, the president of the company and his brother also gives a personal donation. With the development of their company in Panjing, the company shows their social responsibility and help to support the poverty in those areas by giving 300,000 RMB donations in

2011 and 2012 to the government. In the first month on 2014 we found that the company charity foundation has helped 26 persons in total and in the first half of the year the company has donated the money with the total more than 200,000 RMB.

By now, the money collected from the fund was donated to 4 people with the total of more than 15 million RMB. Below is the detailed:

- Xiaoping Sun, one of the company plant turners, since October 2012 she was diagnosed with the kidney failure. The medical expenses were 10 million RMB, and in order to treat her, her elderly father has to sell the house. Now she needs to do dialysis at least twice a week, in a month she needs to spend 2,500 RMB so that she can maintain normal body functions. Meanwhile, her husband suffering a brain hemorrhage, he has difficulties to move the right side of the body and muscle atrophy, and his life basically rely on relatives and friends. After heard about it, the President donated 50,000 RMB funds, and choose company leaders to increasing the home visit in order to encourage his confidence and also to look for a kidney donor, the company also said they will provide further assistance.
- Zaiyan Li, the temporary engineering department, in August 2013, Huafu. In October suddenly he got cerebral hemorrhage, he spent 40,000 RMB for the treatment. After the treatment, the doctor said that in the future he can no longer engage in the labor, moreover on the other hand, he still have a wife with poor health and low income. The company donated the 20,000 RMB predicaments for him and his family.
- Bo Xu, a service department employees, in February 2014 because of the physical discomfort, he go to the hospital to check, finally it come out with the advanced lung cancer. His wife does a home farming, he also has 2 children, and he also owed a lot of money from family, friends and relatives. Unfortunately Xu Bo

dead, after the death, the managers visited the home again, and brought 20,000 RMB for the relief funds, and promised in the future will bear a son and daughter of Xu Bo study costs. The company also sent a 10,000 RMB "love fund" for the two children in 2014 for their study.

- Qingtao Fan, the company sales staff, in March 2014 diagnosed with a brain tumor, and immediately went to Beijing for treatment. His parents are farmers, he also has non-working wife. President understands the situation, immediately arrange "Huafu love fund" to help, he give the donation 50,000 RMB to be emergency treatment, and promised contributions in accordance with the progression. Currently, Fanqing Tao is in Beijing for treatment, the tumor gradually reduced, the condition has improved significantly.

According to Ning Li, one of the employee, the president is a really nice person, even though he had many opportunities to do other industries, to make money, he prefers to spend his money by donation and helping people. (Ning Li, 2014, p.9) There is a story about he was helping an 8 years old girl who suffered Leukemia, he also helped by sent this girl to Beijing for treatment. At first he just over overheard about this girl who didn't have money for the treatment and finally he decided to help this girl even though she is not part of the company. (Ying Tong, 2014, p.12)

The Huafu philanthropic deeds are not only involving through donation to natural disaster' victims or donation to help employees and social responsibilities, Liaoning Huafu Environmental Engineering Co, Ltd (LHFEE) is also engaged in technical consulting, engineering design, construction and installation, after-sale or operation service, and BOT investment, etc. to control or decrease environmental pollution industry, with key clients from oilfield, petrochemical, metallurgic, municipal and industrial park, etc. Starting from the single business of produced water

treatment. (Liaoning HUAFU Group, 2009, *Company Profile*). Moreover, the company now is also implementing a green marketing to put an end the bribery activities.

9.2.5 The Motivations behind the Philanthropic Activities of Huafu Company

Doing philanthropic deeds for maintains the good images of the company or to maintain a good relationship with employees, government, environment, and social is not an easy choice. It was really hard for some people, considering to the amount of money the company need to spend. At this point, here are some motivations that keep Huafu Company to do philanthropic deeds.

For Guihai Li, the President/the founder of Liaoning Huafu Group, his motivations of these philanthropic activities are because he has a strong belief and faith in Christianity. (Guihai Li, 2014, p.4) He also has a commitment in his life that he got since his study about the maxims in university, he commits to maintain his loyalty and patriotism to China, and he commits to always being honest and trustworthy in every aspect of business and personal endeavors. (Liaoning HUAFU Group, 2009) he said that he will not do things, if it is only for the sake of his benefits. He pledged that he will end up his business in China if it is only for the business' profits. (Guihai Li, 2014, p.4)

Same as a characteristic, a different person will has different motivations, for Guihe Li, the general manager of Petroleum High-tech Co. Ltd. who is also a younger brother of Guihai, he realize that sustainable development is not only in the terms of the company, but it also important for the social perspective. He said that the company definitely wants to make profits, but it is much better if the company also do some meaningful things to the society and humankind. He believes it will be very meaningful if the company can help a lot of people, in fact the company could have been treating the sewage and pollution to save the

environment. He also said that when someone was doing good thing as a happy thing, you will get a lot of blessings, so he believes it is really important to do a good thing not only for your own but also to a person and don't forget to pray for your enemies. (Guihe Li, 2014, p.8)

The motivations to build staff club rooms are because he wants to dedicate to his staffs; he said *"If you are not willing to dedicate to your own staff, it was just like a guy do not give thanks to his/her parents, then who you should give thanks to?"* (Guihe Li, 2014, p.7) The Huaifu' president also said that *"In Huaifu, we cannot allow any staffs die from money"* (Guihe Li, 2014, p.7) which motivates Guihe Li to care more about his staffs.

He said the company never practices fraud because they believe that there is a heavy punishment if you do bad, so delisting costs very high. For example President said to our IPO agency at the meeting: "Don't consider Huaifu do delisting, we will not cheat. Just do whatever you want if you need to deal with when report with the CSRC, but Huaifu won't. I'd rather give a high commission, but it wasn't me, you did." (Guihe Li, 2014, p.8) "Huaifu has the Enterprise belief: "华夏吾之家必爱之, 孚信人之本必行之 (China is our home and we must love it, credit is the nature of people and we must get it ", the word "孚" in the 《易经》 (<The Book of Changes>) means "credit" or "honest". (Guihe Li, 2014, p.8)

9.2.6 The Overall Effects of Huaifu's Philanthropic Deeds

Since its establishment, Liaoning Huaifu has gained dozens of national, provincial and municipal level awards and has also been authorized as "Liaoning Outstanding Hi-tech Enterprises", "Doctorial Research Base", "Chinese Top-100 Environmental Enterprises" in 2003, etc. Besides that Huaifu is now one of the leading enterprises of wastewater

treatment and reuse in the oil production and petro-chemical industry. (Liaoning HUAFU Group, 2009, *Group Structure*)

By doing philanthropic deeds, the company has acquired a lot of benefits not only for the company itself but also for the president's of the Huafu. The effects for the company are the good image and company reputation in society. The company has now evolved to become one of the core enterprises in the Chinese oily water pre-treatment and reuse industry, and has also successfully extended its service area into treatment of different kind of wastewater from a variety of industries including petro-chemical, metallurgic and food processing, etc. Based on flexible contract models, Huafu has completed hundreds of references in the above mentioned industries with turnover about 300 millions in recent years. Featured as a technology-oriented enterprise, LHFEE has insisted on innovation and market transfer of updated environmental technologies. (Liaoning HUAFU Group, 2009, *Group Structure*)

There are also some tangible effects of the philanthropic deeds of Huafu Company and Mr. Guihai Li resulted for the society. The infrastructure development and poverty alleviation in Panjin areas, the thankfulness and happiness of the natural disaster's victim that got help by Huafu Company, which also help the victim to overcome difficulties. The company has also received many silk banners from those employees who got helped by the foundation; approximately the fund has helped more than 100 employees since 2009 to 2014. In addition, the employees also spoke very highly of Guihai Li. Furthermore, He also has been chosen to be a member in National People's Congress Standing Committee, selected in Panjin City year of 2000-2005 (Wang Hanshuang, 2009) and he also was selected as Chancellor of a hope primary school for "12 Taizi Village".

In recent years, China is cracking down corruption in energy industry, since the company has been implementing green marketing for three

years, so it helps the company avoid some risks of bribery and corruption.

9.3 Case 3 Cao De-Wang: Chinese Top Philanthropist Company

9.3.1 Background

In 1984, during travelling in Wu Yi Mountain, Cao De-Wang bought a walking stick to his mother. When he helped his mother holding the stick to get on a Japanese car, the driver warned him by saying,

“Be careful! Don’t break the car-glass, it has been imported from Japan and is worth several thousand Yuan!”

That was the one of the beginning moments of Mr. Cao De-Wang’s in the field of Auto-glass manufacturing. When the driver warned him to be careful not to break the window shields of the car, Mr. Cao’s immediate thoughts were moved onto wondering if the cost of this car-glass in truth is only 50 Yuan, why it worth several thousand Yuan? After backing to home, he made a market research and found the car-glass really need several thousand Yuan, this information made him unhappy and exciting; unhappy because he thought the foreign countries take advantage of china’s weakness in producing auto-glass, and exciting because it could be a good opportunity to help china strengthen this industry.

Before this striking experience of Mr. Cao, in April 1983, Cao De-Wang contracted his hometown’s glass factory, which had operation problems during that time. On account of Cao’s experience and hard work, the factory made Water gage glass specially and earned 200,000 Yuan that year. And after the encounter with the car driver and the incredible truth behind his warning, Mr. Cao began to schedule for producing car-glass in his contracted glass-manufacturing factory. In 1987,

Cao De-Wang signed a technical exchange deal with Shang Hai Yao Hua glass factory, and this cooperation is quite significant for the establishment of Fu Yao, and this was one of the notable stepping-stones of the beginning of Fu Yao's era.

Fu Yao's history began from 1987, and since then, Fu Yao kick started its high-speed development period until 2007. The reason we define it as high-speed development period is that the company helped China to catch up with the rest of the world in the automobile industry. In 1993, Fu Yao became Fu Jian province's first company to enter China's stock market. Stock issuance promotes Fu Yao's development rate, and on the other hand, they also entered the American market at the same time that laid a good foundation for Fu Yao's international strategy.

Fu Yao experienced a steady development from 1997 to 2007, with the help of its strategies of internationalization and grouping, which the management system of Fu Yao had built.

In 2007, Mr. Cao had already foreseen the downturn of the world's economy and wrote an article named "how to deal with the winter of economy" in Fu Yao company's journal. After that, he took a series of measures to prepare for the downturn, include optimizing the industrial structure, closing extra product line and introduction of internationally well-known experts to train employees; Launch a new mode of production called "small batch and many varieties"; initiated the giving away of "innovation prizes" to encourage employees to get innovative. In 2008, when the financial crisis really hit the world, the world's major car factory's output fell sharply, the world's largest automotive companies decreased their needs from suppliers. Owing to the farsighted preparedness of Mr. Cao, Fu Yao tackled this crisis efficiently. By 2010, Fu Yao had already become the world's second largest professional supplier of automotive glass products; their buyers include Bentley, Mercedes-Benz, BMW and other famous car producers.

9.3.2 Cao De-Wang and Fu Yao's Corporate Culture

In the early days, Mr. Cao De-Wang made living through farming Tremella, working as cooker and as a repairman, and selling fruit plant seedlings. He strived until he was 30 years old and until he made possible any successful businesses. Although most of them were small business, he worked cautiously and conscientiously. It is because of his hard life that he earned rich experiences and principles about doing businesses. Mr. Cao De-Wang achieved many honors in his 30 years of career. Among them, he treasures Ernst & young global entrepreneur award as the most valuable one.

Mr. Cao De-Wang's personality has been combined with Fu Yao. For instance, Cao's family believes in Buddhism, and as a leader of company, he also uses Buddhism thought principles to manage his company.

Mr. Cao De-Wang quoted Peter Drucker and said, "*effective managers are not to work for work, but work for results*"...

Philosophically, one of Mr. Cao De-Wang's achievement was manufacturing a piece of glass for Chinese, and this piece of glass has been used to represent the nation's image and its emerging power to negotiate in the world, expressing the wisdom of the Chinese people. According to Mr. Cao, this means that managers need to constantly improve management methods, absorb more advanced management experiences, and hence rectify their own management techniques for the purpose maintaining the wisdom of the Entrepreneurship in Fu Yao and therefore in China.

By extracting management thoughts from Chinese culture and mixing them with western management techniques, Fu Yao's development path was and is an integration of Chinese and Western management principles.

Mr. Cao focused on connecting the practicality of Zen and Buddhism principles with their theories and used those principles in the company's

operations. By relying on Chinese culture, Fu Yao has gradually formed management techniques that are unique to Fu Yao.

In order to decrease his importance and influence in the company, Mr. Cao let his elder son Cao Hui to manage this company and began to focus on the enterprise strategic research. Mr. Cao has a dream to operate a “century-old shop” and his inspiration is Toyota, and Fu Yao’s methods of operation and management are also inspired by Toyota, wherein the Toyota family holds only 1% of the company.

Once a man consulted Mr. Cao concerning the wisdom of the enterprise management to which Mr. Cao expressed his thoughts by saying, *“intelligence can help us understand questions clearly, but enlightenment can help us find ways to solve problems”*. Here it is evident that Mr. Cao’s management principles have been inspired by and is a mixture of Zen Buddhism and Confucianism.

For laying the foundation of a successful enterprise culture, Mr. Cao introduced the publication of “Fuyao people” (the company journal), which also works as bridge of connection between the management and the staff.

9.3.3 The Benevolent Loves Others

Fu Yao’s development has been attributed to the social power rather than to that of a family power. Mr. Cao never always led his company to focus on the importance of the following norm as a part of their corporate culture,

“Culture is the root of company, and it brings power for us”

Although he views making money as basic character of businessmen, he also indulged in philanthropy. At the beginning, the way he practiced philanthropy was by donating money; he donated nearly 5 billion Yuan to the society. But, during the recent times he developed

his own views towards philanthropy and considers it to be a means to help small-scale companies solving problems.

On a certain occasion a person, who was consulting Mr. Cao, asked whether the wisdom of doing business should not be considered as similar to the principles of doing business. Cao De-Wang replied that these are two very different things: the aim of operating company is making money, because only a profitable firm can make any contribution to society.

Mr. Cao's charitable act, along with his entire business career, started as early as 1983, when he donated new desks and chairs to his alma mater before earning money. Since then his charity footprint has been found in the fields of education sponsorship, disaster relief, poverty alleviation, religious establishments, and medicine and in other fields. He invested a lot to build temples, where people place their faith and belief. Lingshi Temple is the one that Mr. Cao helped construct with most importance. From 1988 even when he did not have much money he donated 20 million Yuan for the construction, and now he gives a considerable amount for its maintenance.

Fu Yao is generous to the employees who encounter difficulties. In 2007, there was an intern who had leukemia in Fu Yao Beijing Company; Mr. Cao individually paid more than 1 million Yuan for that intern's medical expenses. Mr. Cao said:

“I told the head office manager not to ask for instructions when you find employees having significant difficulties. Any difficulty needs to be solved so just help him solve it. We can't let the society solve the problems of the employees. Of course, rescue can't be happening every day. Millions of Yuan are enough to solve in one year and we can afford it.”.

Currently, Mr. Cao donated to build Chong'en Temple next to Mr. Cao De-Wang's middle school in his hometown, and he hopes to satisfy the desires of fellow-townsmen to worship the Buddha

In May, 2010, Mr. Cao De-Wang donated 200 million Yuan to poor families in five southwest provinces through China Foundation for Poverty Alleviation (CFPA). Talking about the donation, Mr. Cao De-Wang said emotionally:

“Southwest region experienced severe drought, people were living hard. When I was young, I suffered a lot of pain, and know that feeling very well. For some farmers in mountainous areas, 2 thousand yuan is their hope.”

In the donation agreement, Mr. Cao De-Wang conditions were very “strict”: Poverty Alleviation Fund should distribute 200 million Yuan donations to 100 thousand households within six months, the error rate must be no more than 1%, the foundation will pay for the breach of the contract; management fee is not more than 3% of the donation, while the “Industry regulations” says 10%. To ensure that each person received the money, without being intercepted Mr. Cao has established a dedicated oversight committee, and invited the media to supervise, and asked the foundation to submit project's progress report in detail to him every 10 days. Such harsh conditions are undoubtedly challenges for the current donation system. It also set a standard for Chinese donors to be the accountable with regard to public welfare donations.

After that, he created a precedent for the benefit of the Chinese public: Established He Ren Foundation to do charity in the form of donating stock. Mr. Cao donated a stock of worth 300 million Yuan, which is jointly owned by his family to establish this foundation.

In a recent speech, Mr. Cao referred to future development strategic positioning for He Ren Foundation: Firstly, every year the Foundation invests 40% of fund for the purpose of basic research and development strategy for small and medium enterprises, and there are a few key uni-

versities to bear this responsibility. Secondly, donates some money to Chong'en Temple charitable Foundation in order to finance poor children to go to school. Thirdly, in the aspect of welfare salvation, he decided to mainly donate to the people who have congenital diseases, such as congenital heart disease and cataracts.

Contributions towards accountability and the construction of the He Ren Foundation, to a large extent, set up the blueprints for the good development of philanthropy in China. What Mr. Cao wants to see is more people doing charity and help those who need help within one's power.

In addition, he is also doing "skills donation", which means he shares his management experience with those who carry entrepreneurial dreams, and help them avoid detours. Most recently, he was helping a female entrepreneur to understand the plights she faced in her business.

This young female entrepreneur texted Mr. Cao during the end of 2012, and it was mainly about how she dreams her company to become entrepreneurs' spiritual pillar, and also hoped to get support from Mr. Cao De-Wang. Mr. Cao was still in Hong Kong when he received the message, and he called her after came back, and regarded her with a good heart of compassion and explained told her the effects of mixing charity with business.

“Doing business is not a charity. First of all, making profit is the purpose. My philosophy is to make a lot of money, I like to make money but not for the sake of money. A man who can make big money, but doesn't love money is considered to be a hero.”

Later, he helped her make a profitable business plan.

Fu Yao people assume a wider range of social responsibility. This responsibility can be categorized with respect to: help more people realize their dreams - - the dream to go to school, to be healthy, to eradicate

poverty, to carve out their futures... Fu Yao Group is committed to making the world better under the leadership of Mr. Cao De-Wang.

Someone asked Mr. Cao: "What is the best thing in the last ten years? And what is the most reluctant to recall?" He replied:

"The best thing is to donate a large amount of money successfully. The most reluctant thing to see is others praise me for more than I deserve to be praised".

He does not like people calling him "China's top philanthropist", nor to be considered a saint. He went to Warren Buffett and Bill Gates charity dinner, and when he heard Buffett say: "The first time you make money, you should buy a house for wife; the second time when you make money, share it to your children; and do charity at last." Mr. Cao deeply agreed with that. He believes that charity done by entrepreneurs should not affect the quality of life and his undertakings.

Mr. Cao De-Wang is a businessman, and hence over the years he abided by commercial ethics. He believes that commercial ethics are about benefits and righteousness: benefit of doing business is to make money and gentleman make money in proper way; meanwhile a gentleman should assume social responsibility, which is righteousness. Mr. Cao De-Wang has emphasized:

"I'm not deliberately doing charity, and charity does not mean just to donate money, in fact, charity is the establishment of traditional morality. Man proposes and God disposes. I started to do charity even when I had very little money, we must inherit the spirit of social responsibility of entrepreneurs". He said: "There is a very classic saying, entrepreneurs do not just provide the society with high quality products and excellent service, but also focus on the development of the society all the time; which is more critical."

According to Mr. Cao thinks what charity really needs is not money, but a compassionate heart. In addition, for people who are doing business, he also wants to pass the idea of "Four Virtues". He believes that the entrepreneur who wants to build a good corporate brand needs to follow "Four Virtues". Firstly, character: one must have an excellent character, sincere motivation, kind heartedness and ethics, and as a result the companies are worth respect no matter how much it has earned. Secondly, production: a complete feasibility investigation must be done before starting production. We must ask ourselves a lot of questions harshly and then answer them one by one. Thirdly, taste: taste is corporate culture, which can show how the company works for the community, not simply for money but in the aspect of enterprise construction, recruitment, remuneration, and publicity. *"You have culture and knowledge, and also can speak out what the merit of production is. This is the taste."* Fourthly, quality: we must guarantee stability of product quality, which is very difficult to ensure.

There is another idea of "Three moralities" that Mr. Cao De-Wang believes in, which is an important factor to be successful. Firstly, ancestral morality: the positions of predecessors affect business of younger generation. Secondly, industry morality: companies need a long time to accumulate; meanwhile, entrepreneurs must have a comprehensive competence and a variety of philosophical ideas to use. Thirdly, ethics: every industry needs ethics, entrepreneurs must obey business ethics, which means observing law and discipline, paying tax, credit management, treat all employees and customers well.

Another idea is "Three principles for Immortality". [Note: "Three principles for Immortality", a proposition of intellectual history]. Shu Sunbao, a senior official named: "morality", "contribution", and "speech" as the "Three principles for Immortality" in the spring and autumn period. "Morality" means set up the noble morals; "contribution" means to give contribution for country and people; "speech"

means propose insightful speech. It is said that in the history of our country only two and a half can achieve” Three principles for Immortality”, they are Confucius, Yangming Wang and Guofan Zeng (half)]. For this ancient proposition, Mr. Cao De-Wang has his own understanding. He believes that entrepreneurs take morality as priority, then speak carefully, make a contribution according with conditions. One should regard “Be good on your own when you are poor, and share with others when you are rich” as a standard. “You know I was born very poor. On any occasion I give very frank speeches, which is not easy.”

Fu Yao people know and follow the norm “develop one self and work for the benefit of all the people in the world”, and they honestly practice it. They have the spirit of self-responsibility, corporate responsibility, social responsibility, as clean streamlet in the middle of chaos, cleanse pollution in the Chinese business community, and also influence changes on the concept of corporate social responsibility.

9.3.4 Charity Footprint

- 1983, donated a set of desks and chairs, which is worth more than 2000 yuan. He started charitable activity.
- 1988, started funding Ling Shi Temple repair work, so far he has invested more than 20 million Yuan.
- 1996, donated 3 million Yuan to establish a “Fuyao Xiamen University Education Development Fund.”
- 1998, donated more than 4 million to Yangtze River flood disaster.
- 2001, donated 1 million Yuan to Fuqing Typhoon “Swallows”.
- In 2002, establish “Next Generation of Fuyao -- Student Subsidies” and subsidize 20 students per year; to 2007, invested 4.2 million Yuan totally.
- 2003, 2.4 million Yuan donation assisted Pingtan villages where grows no grass in migrating to suitable residence.

- 2005, donated 6 million Yuan to build Keji road of Gaoshan high school in Fuqing city; donated 5 million Yuan to build Wu Ma Shan Park in Fuqing city.
- From 1992 to 2006, donated nearly 29 million Yuan to build Fuqing city and the surrounding highway, national road, express way.
- 2006, donated nearly 17 million Yuan to the construction of Jiuhua Mountain Kumbu Stupa; donated 2.47 million Yuan for assistance devastating floods in northern Fujian Province.
- 2007, donated 1.5 million Yuan each year to set up "Dewang Cao Scholarship" in the Northwest Agriculture and Forestry University, directional quota contributed for 10 years totally 15 million Yuan; invested 5 million Yuan to improve drinking water and solve education problems in Wenchang City, Hainan Province; invested 50 million Yuan to build the pagoda in Mount Putuo.
- 2008, during the Wenchuan earthquake, went to the disaster area many times and has donated 13 million Yuan.
- Fuyao donated 2 million Yuan to snow disaster relief through Chinese Enterprises Association; donated one million Yuan for the post-earthquake reconstruction project by Fujian Provincial Red Cross donation.
- 2009, Mr. Cao De-Wang, and his father Hui Cao, donated 10 million Yuan to the compatriots affected by Taiwan typhoon "Morakot".
- 2010, donated 10 million Yuan to subsidize people's political consultative newspaper office for published literature and data collection of historical accounts of past events in minority areas.
- Mr. Cao De-Wang and his father donated 1 billion Yuan, including a donation 200 million Yuan to poor families in Yunnan, Guizhou and other five southwest provinces by China Foundation

for Poverty Alleviation (CFPA); 100 million Yuan to Yushu earthquake stricken area; 400 million Yuan to Hai Xia Library in Fuzhou city; 300 million to Fuqing public welfare program.

- Fuyao signed a 20 million Yuan donation agreement in Chongqing for the "Greening of the Yangtze River, Chongqing Action" project, and has been credited 9.5 million.
- 2011, donated Fuyao shares which is worth 3.549 billion Yuan to set up "He Ren charitable foundation"; donated 10 million Yuan for disaster relief in Fujian Province.
- 2009 ~ 2011, donated 3.07 million Yuan to arrange for orphans, old and homeless, and the disabled in Fuqing City.
- 2012, 2 million donation for "Building Forest" project in Pingtan.

9.4 Chen Guangbiao: China's Controversial Philanthropist

Chen Guangbiao, a Chinese billionaire and philanthropist, is famous for his high-profile but questionably motivated charity drive. He said that his motivation is quite simple: "When I was eight years old, I was always starving. My brother and sister died from starvation. One summer vacation I carried water to the town market to sell it and I used some of the money I made to help a neighbor. It was the first time I'd helped someone and it made me feel happy."

9.4.1 Profile of Chen Guangbiao

In July 1968, during China's "Great Proletarian Cultural Revolution", Chen was born to a farming family in Sihong County in east China's Jiangsu Province, where agricultural conditions were poor. His brother and sister starved to death, and at the age of 10 years, Chen began supporting his family by selling water in the local village. Chen managed to earn a daily profit of 0.3 yuan (US\$0.04), which was equivalent to near-

ly half of an adult's daily wages at that time. Chen claimed in a 2009 profile for the Beijing Review that he paid for his own tuition, as well as making tuition contributions to help other children in his village, with the money he earned. At the age of 13 years, Chen began selling frozen food products and then started a “foodstuff” business at the age of 17 years.

Chen commenced studies at the Nanjing University of Chinese Medicine in 1985, after graduation, he worked at the No. 2 Hospital affiliated with the university, Jiangsu Academy of Social Sciences, and then Hongguang Medicine Company in Nanjing. In 2003, Chen enrolled at the business school of Nanjing University, earning an MBA degree in 2005. He also studied at the Guanghua School of Management of Peking University.

Chen's first fortune was attained after graduating from Nanjing University of Chinese Medicine in the 1990s, as he patented and sold his invention: a “low-radiation ear acupuncture point illness probing and curing apparatus”. Chen received the patent in 1994 and claims that the device can detect diseases and determine the sex of a fetus; however, one of Cheng's assistants informed a journalist in 2011 that Cheng is the only person capable of operating the machine.

Chen then became involved with a building demolition project in 2003 and, after discovering that he could resell the iron from the project, gained a considerable financial profit. His success with the 2003 project led to the establishment of Jiangsu Huangpu Renewable Resources Co. Ltd., Chen's privately owned recycling company that works with construction waste. Chen explained in 2009 that building material, such as red brick and building blocks, could be produced with the use of additives. In October 2009, the Beijing Review stated that the company employed 4,000 people, had expanded to seven other locations and generated annual sales worth 13.3 billion yuan (US\$1.95 billion). In March 2011, the company's headquarters was in the city of Nanjing. It was

reported that the company was worth US\$810 million in 2013, according to the rankings of the Chinese wealth research firm, Hurun Report; although, Forbes estimated his wealth at US\$400 million in January 2014, while the Associated Press published an estimate of US\$750 million in June 2014.

Chen's business card was highlighted in a January 2014 Quartz article, which labelled the card as "ridiculous". The article features an image of the card, on which a photograph of Chen is accompanied by a list of titles, including: "Most Influential Person of China", "China Moral Leader", "China Top Ten Most Honorable Volunteer" and "Most Charismatic Philanthropist of China."

9.4.2 High-profile Philanthropy and Controversies

Chen Guangbiao became known as a big giver after the devastating Sichuan Earthquake in 2008. He rushed to the scene with a fleet of 60 cranes and trucks in 36 hours, rescuing survivors and handing out cash to the homeless villagers. He spent 54 days in the quake-hit zone and donated more than 100 million yuan (US\$15 million) for post-quake construction. His chivalric behavior, made known via TV programs, was applauded nationwide and won him the title of "China's top philanthropist". He is also nicknamed "Brother Biao".

Yet people soon suspected that the widely-acclaimed philanthropist's generosity was a publicity stunt. A highly circulated photograph of him posing behind his donation of a wall of thousands of 100-yuan banknotes in Nanjing drew heavy criticism. He thrust cash to the palm of the needy and took photos with them, but required the beneficiaries to raise the RMB he had given out. However, Chen seemed unfazed by the social pressure. He insisted on his "violent charity" and said his high-profile show was to attract other wealthy to emulate. "I have never thought about promoting myself," he said, "The world needs a person

like me so that many other rich people will be able to follow my role model. If they do, many poor people will be helped."

In February 2010, Chen commissioned the construction of a wall made of 100-yuan bills, worth 15 million yuan (US\$2.28 million), which was a portion of more than US\$19 million in cash and goods donated by Chen and 90 other entrepreneurs. The entire amount, including the wall structure, was donated to the poorest areas of the Guizhou, Sichuan and Yunnan provinces of China. In January 2011, Chen was responsible for donating 13,000 parkas to people in three regions of China, an exercise that he also informed the media about.

In an open letter to Warren Buffet and Bill Gates, he pledged to donate all his fortune to charity after his death. The duo made a trip to Beijing to talk about their Giving Pledge campaign, during which they asked the U.S.'s richest to pledge half their wealth to charity either during or after their lifetime, and help China start its own philanthropy community. Chen wrote to Buffet and Gates that it would be a shame to hoard his wealth, and he was pleased to accept the invitation.

Chen has also attracted attention for his publicity exercises involving environmentalist politics. In December 2012, covered by a sheet of wood and steel, Chen allowed two cars to drive over him to demonstrate that the world would be better without cars. The following month, in January 2013, Chen distributed cans of fresh air in China to raise awareness of the air pollution problems in the country. Chen explained to the media: "If we don't act in the next 10 years, our descendants will have to carry oxygen tanks and wear masks all the time."

On Dec. 24, 2013, Chen decorated a temporary television studio in Nanjing with 16 metric tons of 100-yuan notes to promote the upcoming national economic census. The cash was transported to the studio in the provincial capital of Jiangsu province in a large truck and it took 20 people five hours to decorate the tent-turned-TV-studio with the cash.

Chen said: “I regret nothing ... I am not afraid of what people say about me. I have not done anything that harms anyone. I think society needs diverse innovation. I will keep on giving positive energy through my creative solutions for problems.”

9.4.3 Reference

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9.5 Case 5 Nestlé’s Coffee Bean District: Pu’er, China

9.5.1 Nescafe and its Development History in Yunnan

In 1988, Nestlé China decided to support coffee cultivation in Yunnan province.

In 1992, Nescafe established a department in the area for agronomic services. During the same year, Nestlé and the Pu’er local government signed a 14 year collaboration agreement.

In 1994, the department of agronomic services began implementing projects for coffee development, with a focus on providing training and skills assistance.

In 1997 Xishuangbanna coffee testing and farming demonstrations were established.

In 2002, all Arabica coffee beans grown in the area were directly procured from the Simao procurement Station in Pu’er city.

In 2011, Nestlé initiated a worldwide coffee development program. During the same year, Nestlé and the local government signed a memorandum of understanding, and distributed a “Coffee Cultivation Hand-

book” to all coffee farmers. The handbook was written by agricultural experts at Nestlé.

In June 2012, on the eve of the United Nations Summit on Sustainable Development in Rio, Nestlé was awarded the “2012 World Business and Development Award” for its coffee development project in Yunnan, as well as the “2012 Global Chinese Contract and Best Practices” award from the United Nations.

In January 2013, Nestlé’s Pu’er coffee sourcing station received certification from the international 4C organization (Command Code for the Coffee Community, common management rules coffee community), becoming a 4C certified unit. Nestlé Pu’er coffee received the 4C supplier qualification after providing training to its first batch of 46 registered coffee suppliers.

In January 2013, Nestlé announced to the public that as of 2013, 100% of its Arabica coffee beans will be selected locally from Pu’er, and label Pu’er as their origin.

In April 2013, Nestlé announced its investment in the coffee industry in Pu’er, Yunnan. To enhance the brand influence of its Pu’er coffee, training and infrastructure were provided to its coffee farmers through large-scale projects as part of the “Nescafe Center”. The “Nescafe Center” includes the Nescafe cultivation training center, modern integrated storage and testing facilities, as well as a “Nescafe” consumer experience center.

In May 2013, a team of coffee experts from Nestlé (in Yunnan), provided free training for nearly 1,800 local coffee practitioners to help them attain 4C sustainability standards. Nestlé also set up a “4C Innovation and Shared Values Fund Award”.

In July 2013, the second batch of 775 coffee farmers obtained the international 4C certification.

After one year and half difficult negotiations, Nestlé and Dongguan Sugar Alcohol and Tobacco Company reached a joint venture agree-

ment, with 60% shares of Nestlé and 40% of Dongguan Sugar Alcohol and Tobacco Company. The joint venture factory started its operation in 1992, with its main products of Nescafe, Coffee Mate. Six years later, nestle acquired the 40% shares from Dongguan Sugar Alcohol and Tobacco Company and made Nestlé Dongguan a wholly-owned company of Nestle China.

In the primary stage of joint venture, coffee beans were often in short supply. Aiming at reducing its dependence on imports, nestle signed a cooperation agreement for coffee cultivation with Pu'er government, with assistance from its partner, Dongguan Sugar Alcohol and Tobacco Company.

Tea has the absolute status in China, and at that time, few people knew about coffee. Due to a limited market, farmers were hardly interested in coffee cultivation. By contrast, the local government of Pu'er had higher enthusiasm for the project. However, there were mainly three concerns. First, coffee trees could not bear fruits until the third year, which indicated farms would have to live through the first three years without returns. Second, the local terraces could not meet the requirements for coffee cultivation and much human resources were needed. Third, selling was the very, or even the most important issue. Naturally, coffee the initial investment ofgrowing coffee by farmers needs to have a commitment bygovernment and Nestlé.

Nestlé Dongguan and Pu'er government signed a contract, which stated that Nestlé committed a certain amount purchase every year. Price, quality, payment, and shipment were also agreed in the contract. Besides, Nestlé would pay the interests of the loans, using for land clearing and payment to farmers in the first three years. This sale contract referred to anything but agricultural assistance. Because the local government believed that local agricultural experts could solve the future difficulties. Pu'er promised to provide certain amount of coffee beans, from 200-300 tons in the first year of harvest to 5000 tons three years

later. However, lack of both technology and management resulted in only one tenth accomplishments in the first three years of harvest, and what's worse, the quality could hardly reach Nestlé's requirements. Nestlé Dongguan still had to rely on imports for coffee beans.

So far, there were two options for Nestlé: the first was to continue importing coffee beans, since the market in China had a high uncertainty; the second was to send experts to farmers and offer technical assistance, so as to help improve both the quality and the quantity of coffee beans in Pu'er.

In short, China's conditions in 1980s were much beyond what Nestlé had known. So to speak, it was a risky decision as well as a dramatic start for nestle to enter China's market. Besides factory and markets, Nestlé had to build coffee bean district, which was consisted of family oriented small farms, different from the large farms controlled by industry capital in western countries. To some extent, Nestlé had to both integrate and compete with Chinese tradition.

What are the new challenges for Nestlé when the coffee farms have reached a certain scale?

9.5.2 China: 1988-2013

Nescafe entered the Chinese market in the late 1980s. Introducing coffee into a country with a strong tea culture, this was considered by many very challenging undertaking, and a dramatic start was very much expected. Why? Everyone in business understands that after China opened its "doors" to the world in the early 1980s many western companies were keen to enter the new market, Coca-Cola came in with its top-secret recipe, while Volkswagen brought in its technology manuals and car components. But what about Nestlé? Not only would it need its own recipe and technical manual to stand its ground in China, but would also

need to build production and commercial bases in order to satisfy the need for a whole industry chain from “the field to the table”.

In 1988, Nestlé established its first coffee plant in Dongguan.³³ However, its support of the coffee cultivation industry in Yunnan (China) started in 1988. Similar to its dairy business, Nestlé hired low-income farmers to cultivate its coffee. Yunnan's climate is similar to Colombia, perfect for Arabica coffee cultivation. Prior to this in the 1960s, a Yunnan coffee “Lu Jiang 1” entered the London market and was classified as a first grade coffee. The reform and opening up of China has promoted the progression of market-orientation, and the development of coffee plantations in terms of scope after the 1980s. A quarter of a century has passed, Nestlé instant coffee products occupy an 80% share of the Chinese market. In 2013, Nestlé invested 145 million US dollars (8.8 billion Yuan) in its second coffee factory located in Laixi, in the province of Qingdao. In March 2012, the whole ready-to-drink coffee production line (PET packaging) was transferred from their Dongguan factory to Yinlu³⁴ (Xiamen, China). One year later, coffee sales exceeded 1.6 billion dollars (10 billion Yuan), with a production increase of nearly 10 times that in 2009. Nestlé's careful and meticulous manner in the selecting and purchasing of their raw materials failed to go unnoticed having a deep impact on the surroundings. “Nestlé has introduced new varieties of coffee bean into Yunnan and promoted new technology, also introduced a pricing and purchasing mechanism, which in turn increased production. Everyone could see these.” said Li Gongqin, Deputy Secretary-General of the Yunnan Coffee Industry Association to the media.

³³ In 1988, Nestlé and Dongguan Sugar Alcohol and Tobacco Company in Guangdong province signed a joint venture agreement to establish Nestlé (Dongguan) Ltd., conducting instant coffee processing business. In 1998, Nestlé acquired the shares of Chinese joint venture partner to become sole proprietorship enterprises

³⁴Yinlu Corp. Ltd., acquired by Nestlé in April, 2011, is a food company, whose major products are canned food and beverage.

9.5.3 Nestlé and the Global Industry of Coffee Cultivation

Nestlé Coffee originated in 1930s. A well-known expert in the field of coffee, Max Morgenthaler, and his team of researchers had spent seven years of hard work in the laboratory researching how to make instant coffee, whilst still maintaining the authentic taste. After World War II, there was a rapid development in the instant coffee industry. Nestlé, a Swiss company created the ultimate instant coffee, and its products quickly spread over every corner of the United States, Europe, Latin America, Oceania, Asia and other parts of the world. In 2013, its world sales revenues of Powdered and liquid beverages (mainly consisting of instant coffee and liquid coffee) reached 22.2 billion dollars (20.5 billion Swiss Francs). As a globally leading coffee brand, Nestlé has established more than 80 global sourcing bases, with an annual world coffee procurement of 10% -12%, and occupies an important position in the whole industry.

Based on the coffee cultivation risks mentioned above, Nestlé has not only completed its procurements in developing countries, but also improved its farming practices through technical support, loans, training programs, promoting certifications etc. This way, Nestlé can ensure abundant and high quality raw material supply. The farmers also have more financial benefits. In addition, good cultivation and processing practices means protecting environmental resources such as water, soil, etc., in order to achieve sustainable development.

9.5.4 Nestlé Great China Region

By 2013, Nestlé China was operating 33 factories, four research and development centers and three Nespresso boutiques. Nestlé China has a total of fifty thousand employees, including those in its joint ventures and global management operations, such as Nestlé Professional Catering, Nespresso, and Nestlé Waters.

Nestlé entered China as part of a joint venture with Chinese enterprises. At that time, foreign staffs were appointed to manage the company (From 1990 to 2005, the company hired foreign staff to hold the position of general manager, but later localized, using domestic personnel). Their next target was to set up factories. The process of building factories, marketing, advertising, as Nestlé well as the training of employees, was all planned and implemented by Nestlé's joint venture partners. Nestlé provided technical assistance concerning the manufacture of products and operations management. Their raw materials, additives, bottling, packaging, equipment, and transportation, were all procured locally.

9.5.5 Pu'er, in Yunnan Province

In 1892, a French missionary brought coffee to Yunnan, China and started growing coffee in the Lancang and Jiangcheng regions of Pu'er City, marking the beginning of local coffee cultivation, but the practice died out and lay dormant for centuries. Until in 1987, the World Bank, United Nations Development Programme (UNDP) and other international organizations encouraged developing countries with suitable conditions and poor farmers to participate in coffee cultivation. UNDP launched a financial support project in the Pu'er region of Yunnan (Puer area is under the administrative jurisdiction of the Yunnan Province) and Nestlé was also involved in the planning of the project by providing consultation and implementation, deploying agricultural experts to the area.³⁵ In 1988, Nestlé's coffee business officially entered China, at that time, the most suitable regions for coffee cultivation included Yunnan,

³⁵ In 2012, Nestlé won the "2012 World Business and Development Award" from UNDP, for outstanding contributions to the field "creating shared value and sustainable development" in coffee cultivation.

Hainan and Guangdong.³⁶ Presently, only the Yunnan Province has a large-scale cultivation. The Pu'er area is a low-latitude region, with a climate similar to Columbia's, and was evaluated as the best place to cultivate Arabica coffee.³⁷ Unlike the plains of Brazil and Colombia, Pu'er is a typical highland with many hills and mountains, not suitable for large-scale cultivation and intensive management. However there are more suitable ways of cultivation, which vary from small farms of only a few acres of land of several hundred acres, but farms of between 30-50 acres are thought most appropriate. When Nestlé officially entered the coffee cultivation region of Pu'er, the region had a very poor economy, consisting mainly of ethnic minorities with an average of only 1.7 years of education. Pu'er was one of the poorest areas in China. Chinese describe the place with only two words, "Tea" and "Poverty". It was not an easy thing to convince local farmers to give up to their tea cultivation and start cultivating coffee, which can only harvest after three years of growth.³⁸ Nestlé signed an agreement with the local government to win the farmers trust, and struggled to convince them to turn to coffee cultivation. (Table 2: History of Nescafe in Yunnan)

In terms of techniques, farmers had difficulties while cultivating coffees due to improper cultivation methods. For example, in an attempt to increase their harvests, farmers used only a space of 1 meter between coffee trees instead of 1.5 meters. Some farmers cleaned their ground using the method they used for cultivating tea, burning trees to have free

³⁶ There used to be Robusta coffee in Hainan and Guangdong, however no more left in Guangdong till 2009 and only 2600 acres, or 440 tons/year in Hainan now.

³⁷ There are more than 100 kinds of coffee bean, of which Arabica and Robusta are common in terms of commercial value, and the former occupies 60%. Arabica, which is more labor-intensive in its cultivation and is grown at higher altitudes, produces a milder, more aromatic and more complex coffee than Robusta. Coffees made from the hardier Robusta tree have higher caffeine content and a stronger taste.

³⁸ In 1980s another instant coffee brand Maxwell House also came to Yunnan for investigation, but took no more move.

land. Coffee trees require shade from trees in their growing process. In order to discourage the farmers burning their lands, Nestlé sent its agricultural experts to convince the farmers to re-plant new trees. In terms of funding, many poor farmers could not afford to invest in growing coffee, since harvesting is only done after three years of planting the coffee trees. At the beginning of introducing coffee plantation, every 0.1 hectare need an investment of two to three thousand Yuan, equivalent to 240-320 US dollars. The investment included coffee seedlings, fertilizers, pesticides and the cost for water. And when it is time to harvest, they also needed to spend money on obtaining harvest machinery. In 1994, Nestlé started offering loan services to coffee farmers. At the beginning, Nestlé purchased coffee beans from only 12 farms. In 1989, Nestlé's joint factory was established, but the Arabica coffee beans did not meet the procurement standards of Nestlé, and the coffee cultivation in Yunnan was slower than Nestlé expected. Nestlé had no other choice but to rely on importing coffee to meet its production needs.

Not until 2002 did Nestlé really begin bulk buying Yunnan coffee beans. Farms growing coffee have increased in number to 200. Between 2002 and 2003, Nestlé purchased an amount of 4,020 tons of coffee beans, accounting for 20% and 36% of the production in Pu'er and Xishuangbanna areas of Yunnan with farmer's income totaling 10 million dollars. Between 2012 and 2013 Nestlé bought 11,050 tons, accounting for 30% and 18% of the coffee produced in the Pu'er and Xishuangbanna regions (Table 3: Coffee production in Yunnan and Pu'er region, and purchase to Nestlé). Until 2013, Nestlé established trade relations with more than 2,000 farmers.

9.5.6 Training and Technical Support

Wouter De Smet is a legend in the coffee industry in Yunnan. Local farmers gave him the nickname "Mr. Coffee", his colleagues from the agronomy department call him "boss". "Mr. Coffee" has a height of

1.93m, slightly shy. He spent 15 years with his father in Burundi, Africa, studying how to grow coffee, and later returned to Belgium. After graduating from university he worked in Tanzania for three years, training farmers in the field of agriculture. Wouter's father, Ahmadi was among the fourth batch of technical experts sent to Pu'er by Nestlé. After Ahmadi retired, Wouter took his father's place and came to Pu'er in 2005. During these 9 years, he spent most of the time driving a green Grand Cherokee from countryside to countryside, and is well liked by all the local farmers. Wouter is the manager of Nestlé's agronomy services department. The Nestlé Agricultural Service (hereafter referred to as NAS) was founded in 1992. And is the core department of the Yunnan coffee-growing base, headquartered in Yunnan in the Pu'erSimao area (Simao is an administrative jurisdiction of the Pu'er region), it is also part of Nestlé Dongguan Ltd. (hereinafter referred to as "Dongguan Nestlé"), and reports to the Nestlé China Technical Department, but is also indirectly managed by Nestlé's (Switzerland) Agronomy Department headquarters. The NAD consists of three divisions: Purchasing and warehousing, technical training and support, testing and demonstration farms. The Simao Coffee procurement station is located in Pu'er to store grains. The experimental and demonstrational farm division is located in the Xishuangbanna Dai Autonomous Prefecture (Xishuangbanna Dai Autonomous Prefecture in Yunnan Province is an administrative region). In 1992, Nestlé's Agronomic Services officially transferred to the Pu'er area of Yunnan, today it has 17 employees. Foreign agricultural experts and local Chinese agronomists work together to train coffee farmers on planting techniques, pest control technology, high technology and improving productivity as well as soil and water conservation, giving them environmental protection knowledge "I love my job" said Mr.HouJiazhi, who has been working for 17 years, having served as assistant to Wouter, and to other four foreign experts.

The Nestlé agronomy department considers its coffee-growing farmers as partners. Training and technical assistance are given free of charge, with a policy of uniformity and non-discrimination, no matter whether the farmers are suppliers to Nestlé or not., Nestlé provides technical training and assistance unconditionally. Until now, Nestlé has provided direct or indirect technical training and assistance to between 14,000-19,000 farmers. In fact, Nestlé put the prosperity of the whole industry in a key position, and even provide training for the growers who supply its rival companies. Nestlé's agronomy department has developed two sets of training materials: one for agricultural technicians, including theoretical knowledge and specific operations; and one for coffee-growing farmers, mostly image-based, which is easy to understand.

Nestlé training to farmers is not limited to coffee plantations alone. The Agronomy Department also support farmers on how to plan ahead, providing production forecasts of various planting areas, provide cost analysis of medium and small-scale coffee farmers, minimizing the risk of farmers. An important feature of the coffee-growing industry is price volatility, which makes farmers final income very uncertain. (Table 4: Price fluctuations and the income disparity they cause) Nestlé teach farmers how to access the internet in order to view the Intercontinental Exchange and view coffee futures prices, and guide them on how to become a more rational supplier: in choosing to enter the coffee-growing industry, you are not just dealing with Nestlé, but with the entire coffee industry. In 2002, coffee prices were as low as 1.1 dollars per kilogram (7 Yuan per kilogram), coffee farmers began to panic, and some even cut coffee trees and started replanting tea. However, after receiving training from Nestlé, in the 2012/2013 purchasing season, when the prices fell again, coffee farmers were calmer, because they understand that prices are always fluctuating.

9.5.7 Direct Procurement

The coffee supply chain typically includes: coffee growers - brokers or traders - Coffee Factories / roasting suppliers. Globally, Nescafe has two sources of raw materials, Nescafe traders and growers. In the past, Nestlé mainly relied on traders, but later gradually shifted towards direct procurement, the purpose of this was to establish a direct contact with the farmers to achieve sustainable development.

In 1986, Nestlé officially implemented direct procurement policies, and became the world's largest direct buyer. In some countries where direct purchase is not possible, Nestlé will try to reduce as much as possible the number of intermediate traders. Direct purchase of raw materials is only one of the methods used by multinational companies; MNEs are not likely to completely abandon all their intermediate traders in the global market. For instance, the United Kingdom is a country in which it is impossible to achieve direct procurement, and coffee beans are mainly purchased through traders, but Nestlé will often visit farmers still. To establish direct contact with the coffee farmers is an important direction as part of Nestlé's procurement policy. Without an intermediate, Nestlé can establish direct relationships with coffee farmers to help them improve the quality of their coffee, and using the direct procurement approach contributes to the sustainable development of those societies relying on coffee cultivation. Nescafe's direct procurement model is generally established in the coffee growing region's sourcing base, along with the agronomy department, and a deployed team of experts. Through different methods such as technical training, that help local farmers to improve the productivity and quality of their coffee in turn raising the revenue of the coffee farmers, Nestlé can benefit from high-quality coffee beans.

In some countries, Nestlé has a high proportion of direct procurement. China (Yunnan), Thailand, Philippines, Vietnam and other 10 countries are areas where Nestlé promotes its direct procurement policy.

In these countries, coffee bean yield is relatively lower, not enough to form large-scale traders or cooperatives. Thus direct procurement policy could save intermediate links and raise profits for both Nestlé and farmers. For example, in the Philippines, farmers deliver coffee beans directly to Nestlé's sourcing base. In 1998, the rate of Nestlé's direct procurement from farmers accounted for over 90% of the total procurement for both of Nestlé's Philippines based instant coffee factories. In Thailand, since 1991, Nestlé started direct purchasing from farmers and established more than six procurement bases in coffee growing areas with a direct purchasing power of 34,000 tons of coffee beans per annum. According to Nestlé's annual social responsibility report, in 2012, more than 133,000 tons of coffee beans were sourced from Nestlé farmers (or those directly connected with farmers), about 15% of total global sourcing.

The Nestlé coffee beans acquired by the coffee station, part of the agronomy department in Yunnan, comes directly from the farmers who are planting the coffee, without any intermediate suppliers. Each coffee grower has a file registered with Nestlé. In Pu'er, 99.5% of Nestlé suppliers are farmers, 80% of whom own less than 3 hectares (50 acres) of land. There is a large disparity between the coffee types planted by farmers, some have more than 6,000 trees, the smallest consist of 8 types of tree, the highest purchase order is of 420 tons, and the lowest is only a few kilograms. Farmers will conduct the pretreatment of the beans themselves, including stages such as wet processing, selection - peeling - desizing - drying - shelling just to name a few. Once put through the initial processing stages the coffee beans are delivered to the collection stations. Nestlé splits large supply companies and small farmer's supplies into two channels of procurement, thus avoiding a low intake of small grower's coffee adding to a large supply of coffee from companies, thus improving the efficiency and fairness of the procurement

process. After passing through excess moisture, defect rates and a cup of product testing, the coffee is then qualified to enter storage.

9.5.8 Certification Standards

Globally, there are many different certifications for coffee, such as the Rainforest Alliance certification, Fair Trade Certification, and Organic Coffee Certification. Different certifications have different standards and objectives. Currently, only 30 percent of the world's coffee beans can have Rainforest Alliance labeled on the product package due to strict requirements. Fair Trade Certification is designed to help coffee farmers enjoy a reasonable income, coffee products with a Fair Trade Certification label, means that the raw coffee beans are supplied by small coffee farmers. Organic Coffee Certification has different indexes, including the USDA from United States Department of Agriculture and European Union Organic Certification; MNEs also have their own coffee procurement standards. For example, in 2004, Starbucks officially launched its “Standards and Practices of coffee growing.”

In 2003, Nestlé and the Rainforest Alliance jointly launched Nespresso AAA a sustainable Quality Program designed to ensure the quality selection of Nespresso coffee products, and to ensure the livelihood and development of local farmers. Nestlé was known for its “inexpensive” instant coffee, and Nespresso was introduced to enhance its brand image as a top luxury brand, therefore high quality coffee beans are required. In 2009, Nestlé and Rainforest Alliance launched its Ecolaboration™ project, a basic set of guidelines were set for the operation of capsule recovery, such as creating shared social values. Ecolaboration has three components which make up its primary mission objectives: Protecting the future development of high quality selected coffee. Controlling the business operations chain from raw materials to finished product and the impact it has on society and the environment and finally

improving the living conditions of farmers growing coffee products and their communities. According to Nestlé data in 2012, more than 8,000 farmers participated in the “AAA quality standards”, 68% of Nespresso coffee beans conform to the standard, and Nestlé plan to have 80% of the beans passing procurement standards in the future.

In Pu'er coffee growing plants, Nestlé is promoting a 4C certification within the area. The 4C (common, code of coffee community) certification is also known as the “Certification of Executive Standard of Coffee”, such standard is also the basic standard for international coffee trade. When coffee farmers obtain the 4C certification, it means that their products have received an international passport. The 4C certification includes the sustainable development of society, the environment and the economy, involving all stages of coffee cultivation, production, processing, and related supply chains. Nestlé uses SHE (Safety, Health and Environment) standards internally as operational guidelines and codes of conduct and certification, and some of its ten commercial operation principles emphasizes the importance of the relationship between suppliers and consumers, agriculture and rural development, and environmental sustainability and water are also stressed; 4C certification is constant with these

The difference between the 4C certificate and those such as that awarded by the Rainforest Alliance is that the 4C does not concern itself with the quality of the coffee, and the 4C label is not promoted or visible to buyers during trading. Their goal is to improve the economic, social and environmental conditions of those who make their living from coffee. Mr. Hou Jiazhi said that under the support of the Rainforest Alliance and the 4C Association, Nestlé provided detailed door-to-door training to coffee farmers, such as how to use electronic cables, how to treat polluted water, the sanitary conditions required, drugs management, warning sign settings and so on.

One of the major focuses for agronomists, is to help farmers deal with the pollution caused by their coffee plantations, this is also one of the most valued priorities of the 4C Association. During the training of coffee farmers, Nestlé put emphasis on how to deal with pectin, so that all coffee farmers can correctly handle pectin, so as to protect the local environment and achieve sustainable development. In the course of the early processing of coffee, wastewater from the production of pectin is inevitable; the PH element is relatively low, leading to a high acidic level, which largely causes soil damage. After fermentation, if the liquid is discharged into the river, that can cause serious water pollution, which not only exudes an undesirable smell, it will absorb the oxygen in the water, threatening fish and other aquatic life. Nestlé in Yunnan, has been advocating farmers to buy machines to dispose of waste in order to avoid serious damage. There are two approaches to disposing pectin waste: (1) Water fermentation, where pectin is not extracted from the wastewater. (2) Degumming, pectin can be collected and limed, this will produce a chemical reaction that can be re-used as fertilizer. At the same time, the water can be recycled for cleaning in order to save the local water resources. Nestlé has helped farmers with their farm management to reduce environmental pollution.

Nestlé is also very concerned as regards the implementation of labor standards. The phenomenon of child labor in China is very rare, but Nestlé is very much concerned about their suppliers' children's education, Nestlé require its suppliers' children to spend less time on farm work, especially during nonofficial holidays.

According to information provided by Nestlé, by the end of 2013, 775 farms had passed the 4C certification. 800 farmers have applied for the third batch of certifications which were held in February 2014. In accordance with the "Nescafe Plan" (starting from 2010), as from the purchase season of 2014-2015, only products from farmers with 4C certified will be procured. (Table 5: Number of certified farmers obtain-

ing 4C) In order to encourage farmers to obtain 4C certification, those already certified can sell their products at a price 0.27 Yuan, which is approximately US \$0.04, per kilogram higher than farmers with no 4C certification. Nestlé together with the Rainforest Alliance, 4C Association and the SAN (Sustainable Agriculture Network) strengthened their cooperation, and plan to double their purchase of coffee beans directly from farmers and associations in 2015, with a number reaching 18,000 tons. In addition to this, all Nestlé's suppliers (worldwide) will have to be 4C certified, among which 90,000 tons in 2020 should meet the standards of the Rainforest Alliance and SAN.

Despite the market downturn (December 2013 -2014 in March), there are still an increasing number of coffee farmers applying for 4C certification. Each day, the Nestlé agronomic department will receive calls from farmers asking "When will you be free to come over and have us certified? We are all ready for it."

9.5.9 Experimental Farm

Coffee is a high-tech horticultural crop. Nestlé has established 960 acres of experimental and demonstrational farms in the Dai Autonomous Prefecture of Xishuangbanna, and have collected more than 30 kinds of coffee trees around the world for cultivation, and selected Arabica coffee beans as well as six other varieties as the most suitable to grow in Yunnan. The testing and demonstration farms have received technical support from multiple Nestlé R&D centers around the world, including France and Singapore. Nestlé France and its adjoining R&D centre, in particular, provides regular coffee varieties and seedlings to Nescafé testing and demonstration farms, which are then handed to coffee farmers to grow. The center provided a variety of Arabica seedlings - Arabica is currently very popular locally. Moreover, the Centre also cultivates new seedlings and distributes them to the Xishuangbanna demonstration farm (China), Thailand (Northern) and South American farm in Ecuador

for testing and research. If the breeding performance in these three areas is consistent, then Nestlé will sell them to the farmers at cost price.

The farm is also a training center, where thousands of local farmers and agricultural technicians were trained on erosion control, environmental protection, pest control and technology to improve yield and production.

9.5.10 Economic Benefits

The coffee industry, in the eyes of Pu'er farmers has become a path to wealth, an increase in industry as well as income, and has given them an edge in a competitive industry in which they can gain foreign exchange through exportation. It has become the main production areas and distribution center for coffee and coffee trade. Today, Yunnan coffee production accounts for 98.8% of China's total production, Yunnan has more than 80,000 coffee farmers involved in cultivation and has become China's largest coffee plantation base. Among them, the Yunnan Pu'er coffee production accounts for 60% of Yunnan's total production, and is a world renowned coffee procurement market.

Dakaihe village is one of the poorest villages in Pu'er, before they started planting coffee, the villagers lived in small thatched huts, the annual income per capita was no more than 200 dollars, and they relied on the government food subsidies in order to survive. In 1999, the village council and Nestlé together promoted coffee cultivation; the village council also set up a Coffee Association, aim at coordinating between Nestlé and the local farmers, and better help coffee farmers grow good quality coffee in the village. Today, almost every member of the Dakaihe village cultivates coffee, their annual income is 5000 dollars per capita, and they live in spacious new houses with much better conditions. In 1998, Chen Jiahua began planting coffee, and participated in eight of Nestlé's training events. Now Chen Jiahua owns a coffee farm

with 10.6 hectares of land, of which 2.46 hectares have been put into production. Likewise in 1998, Zhang Kui began planting coffee, with 1.33 hectares at the beginning; today he now grows 3.5 hectares (50 acres). Zhang Kui is a Hani minority who started business relations with Nestlé in 2000, and participated six times in Nestlé's training programs. Each year Zhang Kui produces 11-12 tons of coffee beans, of which he sells 3-9 tons to Nestlé. His annual gross income is approximately more than 30 thousand dollars.

Official data showed that in 2012, Pu'er coffee farms covered a total area of 43 thousand hectares (65 acres), with production totaling 36,500 tons of coffee, and the related agricultural production value amounting to 150 million dollars. Tax of 1.5 million dollars, exportation accounts to 24,700 tons, worth \$9,994. In addition to Nestlé, Starbucks has also settled itself in Pu'er to carry out business collaborations. Amongst them are other names from the coffee industry; Aini, Beigui, Kangenbei, Many, Malaojiang, Kefei, Caifushan, Alabikaxing, Lvzhou, Jinshu, Baifenzhiyi. In addition, there are 14.35 million people employed in the coffee industry, of which 40,000 are family coffee farmers, coffee farmers income per capita is 1020 dollars.

Nestlé's business model is "company + community + farmers". Such models connect disperse farmers and relatively closed farmers to the market. Not only does Nestlé sign contracts with farmers, but also it maintains a partnership with them, which the community and government have also joined to actively promote as a three-way winning strategy (also known as win-win-win) concept. As Nestlé signed a cooperation agreement with the local government, the government can monitor Nestlé's behavior, to help manage the beneficial relationship between the company and the farmers and other stakeholders. In addition to this, Nestlé also supports coffee farmers to establish associations and other non-governmental institutions and actively participate in the activities of these institutions. Under the model "company + community + farmer",

Nestlé makes use of its funds, technology, market and management advantages to overcome the conflicts of small producers in big market, and develops good relationship with the community. Farmers can obtain fairer offers and higher incomes. The Government can also solve local economic problems, promoting local economic development.

Yunnan has nearly twenty years of coffee-growing history, and Nestlé has always played an important role. Not only does it maintain purchasing activities, but also actively helps farmers and other businesses to enhance and develop the entire industry. In 1992, Nestlé together with the Pu'er regional government signed a 14 year cooperation agreement, to affirm and further the win-win cooperation which had been established over the past twenty years. But this is just the beginning. In 2012, Nestlé and the local government signed a memorandum of understanding to invest at least 16 million dollars (100 million Yuan) in establishing a “Nescafe Coffee Center”, which consists of a coffee cultivating institute, a consumer experience center and modern warehouse and testing facilities. This investment is one of the key projects of Nestlé’s “Nescafe Plan” in 2011. According to this Plan, as of 2020 Nestlé would invest a further 500 million Swiss francs in coffee projects. In the context of limited growth potential in developed countries, Nestlé believes that the investment should mainly be used in emerging market countries. The training programs held at the “Nescafe Coffee Center” train 5,000 farmers, agronomists and coffee business experts each year; the consumer experience center will introduce and demonstrate the history of Yunnan coffee growing and development, as well as the continuous improvement in technology.

9.5.11 Future and Challenges

“China is the future! Although China's market share stands for only a small proportion of the global industry, it is one of

Nestlé's fastest growing markets. So far, only 1% of Nestlé's global purchase is sourced from the Yunnan Province, The cooperation between Nestlé and Yunnan is not only beneficial for Nestlé, but also to the Chinese coffee industry. China's coffee industry, as well, Roland Decorvet promise that it will increase its purchase of Pu'er coffee in the coming years."

— *Roland Decorvet, Chairman and CEO of Nestlé China*

China's coffee growing is developing rapidly (Table 6: Evolution of coffee production in China). By the end of 2013, China had an area of approximately 30 thousand hectares (45 acres) dedicated to coffee growing, of which Yunnan coffee plantations accounted for 98% and Yunnan is also China's largest Arabica coffee growing and export plant. In 2011, the Yunnan provincial government introduced the "2010-2020 Yunnan Coffee Industry Development Plan", in which it is mentioned turning Yunnan into "the world's finest coffee beans raw material plant, and China's largest production plant and trade center." By 2020, the growing acreage is set to reach around 100 thousand hectares (150 acres or so), with an annual production of 200 thousand tons of coffee beans.

Following the development of the coffee industry in the province of Yunnan, the local government is committed to building local coffee brands and helping companies to strengthen their "chain integration". These companies include "Hougu", "Leshou", "Jinxiagu", "Yunling", "Beigui", "Yunka", "Sangcaite" and "Yunlu" just to name a few. Among them, Hougu Coffee has already established four instant coffee production lines with an annual production capacity of 11,000 tons. It is very obvious that these companies desire to compete with Nescafe for a decent share of the instant coffee market. This shows since 1988 when Nestlé first entered Yunnan, the attitude and mindset of the local government has undergone minor changes. International buyers are constantly entering the market. In 2007, Starbucks first visited Yunnan and

announced Yunnan would become one of its coffee bean suppliers in 2009 and that it would build its own coffee plant in the area. In addition to Starbucks, there are also other international brands joining the market including the United States' Maxwell House, Kraft USA, Germany Newman, Denmark renowned brands and Japan's UCC as well as brands from Singapore, Taiwan and many other coffee brands from around the world. Facing both inside and outside threats, how can Nestlé ensure and maintain farmers' loyalty, this is now a major challenge to Nestlé.

Nestlé is ambitious and optimistic about the potential consumers of the emerging markets. In the plan from Paul Bulcke, Nestlé CEO, it is mentioned that Nestlé will achieve a 45% operating income rate in emerging markets, In 2012 its operating income rate reached 33%. The Nescafe instant coffee market share has witnessed peaks as high as 80%, which is an advantage to Nestlé in China. In the future, the consumption of coffee will increase steadily. Although China's per capita consumption of coffee per person per annum is only 3 to 4 cups, which is far lower than coffee consuming countries where on average one person alone consumes 30 to 40 cups annually, but China is still a potential market for Coffee. (Table 8: Ranking list of Coffee Consuming countries) consumption potential is enormous, consumption structure is also changing. As the average income increases, and understanding of coffee becomes more in-depth and widespread, consumers are consistently raising requirements for coffee, this leads the to prefer coffee such as Starbucks, Costa etc. NestléNespresso capsule coffee has been launched onto the Chinese market, in order to meet the needs of its high-end market. The instant coffee market has been in development and has an advantage over developed markets, with the steady incline of the Chinese market, maintaining and consumer loyalty is another challenge being faced by Nestlé.

“It is foreseeable that Nestlé China would be listed as one of the top ten global corporations. We are trying to get in the top five. Our dream is to make our coffee the number one in the Chinese market.” Said Ge Wen confidently, Senior Vice president of Nestlé China. He believes that with the right products and the right marketing strategy, it is certain that the Chinese market should become Nestlé’s premier market. And in the meanwhile, Chinese farmers as well as consumers will share the benefit.

9.5.12 Appendices

Table1: *Coffee commodity future price in 1989-2013*



Data source: *International Exchange, ICE*

Table 2: Coffee production in Yunnan and its Pu'er region and Nestlé's purchasing power

in ton			
Year	Coffee production in Yunnan	Coffee production in Simao&Xishuangbanna	Purchase of Nestlé
96/97 season	1848	648	1300
97/98 season	2095	739	780
98/99 season	3341	1179	1900
99/00 season	4843	1802	1070
00/01 season	7886	3800	1660
01/02 season	15558	7980	3330
02/03 season	20200	11200	4020
03/04 season	21000	11944	3560
04/05 season	17250	12025	5060
05/06 season	20500	12500	3910
06/07 season	23000	14000	4650
07/08 season	24690	16290	5690
08/09 season	28200	18,430	3870
09/10 season	32170	20,940	2750
10/11 season	41450	23,400	7860
11/12 season	53240	31,790	10,510
12/13 season	61960	37,883	11,050
13/14 season	70390	50,000 /39343	-

Table 3: Gaps in prices and revenues (per hectare)

Estimated production, sale and profit of coffee beans per ha			
	10/11season	12/13 season	Gap
Production (kg)	2250	2250	
Price (Yuan/kg)	34	16.5	17.5
Sales	76500	37125	
Cost	30000	30000	
Profit for farming	46500	7125	39375
Profit per mu	3100	475	2625

cost: 22,500-33,750 according to smallholders or plantations /companies

Table 4: Farmers 4C Certification

4C Units	License	Unit Partners	Beneficiaries	Size (Ha)	Prod. Potential (Ton)
Unit A	Dec-12	46	13126	3096	5466
Unit B	Jul-13	775	4689	2692	5009
Unit C (Documents sent to 4C secretariat)	Feb-14	611	5606	3116	5085
Unit D & NAS Jinglu Unit or Lingfeng Unit					
Summary	4-5 Units	1392	23421	8945 ha	15748 ton
		partners	beneficiaries	or	
				134175 mu	

Source: Company documents

Table 5: Evolution of coffee production in China

Evolution of coffee production in China			
	1988	2010	2013
area under cultivation	23,250 (mainly Baoshan)	±435,000	±1,560,000 (±102,000 families)
annual production green beans(in ton)	500-1000	±32,000	±70,000-80,000 (forecast 2014)

9.5.13 Reference

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9.6 Case 6 Macrolink Group

9.6.1 Company Background

- In October 1990, starting from comprehensive trade, Macrolink Group registered in Kuala Lumpur, Malaysia.
- In 1992, Macrolink began to get involved in real estate development, including a number of projects in Guangxi, Hunan, Beijing and other places.
- In 1994, the group established a joint venture named Hunan Hualian Ceramics Co., Ltd., building “Hualian Ceramics” brand.
- In 1996, Macrolink set up a joint venture called Shandong Dongyue Federation Refrigerant, researching and developing refrigerant and polymer materials.
- In 1998, Macrolink cooperated with Wuliangye Group Co., Ltd. to develop “Jinliufu Liquor”.
- In 2000, it merged Yunnan Shangri-La Wine Co., Ltd. and Guangdong Veyron Wine Co., Ltd., developing “Shangri-La. Tibet Peru” dry wine, etc.
- During those years, the group's business also involves many industries such as automotive, catering, insurance, paper and so on.

Adhering to the concept of diversification, after 25 years of sustained development, Macrolink Group has grown into a comprehensive corporate covering various industries such as real estate, petroleum, mining, chemical engineering, finance, etc. It holds 6 listed companies and 13 national famous brands, and has been listed China Top 500 Enterprises and China Top 100 Private Enterprises for 9 continuous years with its comprehensive strength. Now as a family of over 70 subsidiaries, Macrolink has more than 43 thousand employees and it distributed in more than 20 provinces and autonomous regions throughout the country, and over 40 countries and regions in the world. Its annual operating income

is over 45 billion yuan, and the annual tax paid is nearly 4 billion yuan, and its total gross assets are over 46 billion yuan.³⁹

Fu Jun, President of the Group, believes that the highest level of an enterprise is to return to the community. Since 1995, Macrolink Group has been always upholding the business philosophy of integrity, and it has donated accumulatively more than 134 million yuan to the society through numbers of philanthropic projects (Table 1).

Table 9-1: the Donations of Macrolink Group

Year	Beneficiary	Donation (¥1,000)
1995	10th anniversary celebration of Liling City	500
1999- 2004	Schools, Teachers' Day celebrations, road repairing, etc.	6,050
2000	Outer Ring Road construction of Tongzhou District, Beijing	8,000
2000	Schools in Liyuan Town, Tongzhou District, Beijing	2,000
2001	The ninth Sports Meeting of the People's Republic of China (PRC), etc.	530
2001	Chinese Olympic Committee	6,000
2002- 2004	The Asia Pacific Model Airplane Exhibition, Contract Bridge Team, poor students	500
2002	China Football Association	2,600
2002	Love Fund of Macrolink Group	1,500
2003	Construction Committee in Yongshun Town, Tongzhou District, Beijing	2,000
2003	Relief work of SARS in Tongzhou District, Beijing	1,000
2003	World College Students Debate in Chinese	1,400
2003- 2004	SARS relief work	460

³⁹ Corporate Social Responsibility Report 2014 of Macrolink Group

2004	Road repairing in Tangshan Town, Huantai County	750
2005	Charity in Chaoyang District, Beijing	500
2005	Union Medical Award Fund	10,000
2006	Hunan disaster area	5,300
2007	Pukou Town, Liling City	700
2007	the Mausoleum of Emperor Yandi Foundation	1,000
2007	Diqing Tibetan Autonomous Prefecture, Yunnan Province	2,000
2008	Hunan disaster area	13,500
2008	Sichuan disaster area	5,500
2010	Yushu earthquake disaster area	2,000
2010	Education, health and culture	40,000
2011	Education	8,000
2012	Award Fund of Chinese Academy of Geological Sciences	10,000
2012	Education in Hunan	1,000
2013	Ya'an earthquake disaster area, Sichuan Province	2,000
Total		134,790

9.6.2 Profile of Fu Jun

Fu Jun, President and CEO of Macrolink Group, was born in a village in Liling city, Hunan province. Influenced by his father, who was the Party branch secretary of the village, Fu participated in various meetings of the village and learned lots of principles of how to get along with others and how to deal with things. In high school, his father died of illness when repairing railway. At that time, Fu's family was not rich because his father was an honest official. Many relatives and friends provided a lot of help to Fu, which made him always holding a grateful heart of others ever since. Fu had to carry the burden of the family so that he joined the work immediately after graduation from high school.

Not long after Fu joined the work, the position of the Public Security Correspondent in the village was vacant. Though just 18 years old, Fu got the job because he was trusted by local villagers with his experiences following his father. Beginning with this opportunity, Fu started his political career and has been promoted ever since with his own efforts. At 23 years old, Fu was Party Secretary of Chashanling Commune, later transferred to Liling city serving as Deputy Director of the Economic Commission. He was promoted to Director of Bureau of Foreign Trade and Party Secretary of Liling city when 26 years old.

Fu didn't lose the passion to study during this time, and he was admitted to Northwestern University majoring in Chemical Engineering. An experience of entrepreneurship laid the foundation for his business career. Graduated from university, Fu was assigned to the Northwest Synthetic Pharmaceutical Factory as technical personnel. Favorable treatment didn't hold back his dream of entrepreneurship. Fu seized the opportunity to contract a beverage factory which was going to close down with money borrowed from his friends. He quitted his job for this entrepreneurship. However, this entrepreneurship was a failure because lack of corporate management skill, and as a result, Fu owed a lot of debt.

When he was 30, Fu was assigned to Changsha city, serving as Deputy General Manager of Crafts Import and Export Group in Hunan province⁴⁰, and became the key cultivation object of the Hunan Provincial Party Committee. Three years later, Fu served as Vice Captain of Social Education Work Team in Hunan province. During his term, Fu took people to visit the old revolutionary base areas in Liuyang, which made him, who had been in political circles for many years and gotten used to social progresses in China, realize that there were still many people living in poor condition. This experience encouraged him to transfer into business world from politics, in order to contribute to China's economic

⁴⁰<http://www.cyzone.cn/a/20090520/93341.html>

development, which has influenced his whole life. In 1990, Fu began his second entrepreneurship in Malaysia with 1,000 dollars borrowed from others. With his keen business sense, Fu found the most promising industry soon.

Moon cakes were pretty popular in the local because of the large amount of Malaysian Chinese. Therefore, lotus seeds as a main raw material for the production of moon cakes were very tight, and the majority of lotus seeds were imported from China, which provided a broad market. Through investigation on the supply of lotus seeds in Malaysia, Fu believed that lotus seeds imported from China had great competitiveness in price even if adding the freight. In his hometown Hunan province, lotus seeds production was high, stable and affordable. In Fu's opinion, if he could get an order of lotus seeds supply, profits would have been guaranteed. Therefore, he signed a supply contract of four containers of lotus seeds in the next year with the dealer.

According to the law of the season, the time of lotus seeds coming into market was generally from July to October each year, leading to the industry norm that the peak of lotus seeds supply came in China's traditional festival Mid Autumn Festival. One of the requirements of this contract is to ensure the supply of goods in time before the peak. The risks of business often come from unexpectedly changes. In the summer of 1991, coincided with the growth period of lotus seeds, great floods occurred in Huaihe River, Chuhe River, which was tributary of the Yangtze River, Lishui of Dongting Lake, and Shuiyangjiang River of Anhui province, and the water level of Taihu Lake exceeded its highest level in 1954. To the end of June, there had been 18 provinces and cities throughout the country suffering floods, 130 million acres of arable land affected, 650,000 houses collapsed, and the total economic loss reaching 16 billion yuan⁴¹. Due to the flood, no lotus seeds and other crops were gathered in affected areas, which attracted nationwide attention.

⁴¹<http://www.wst.net.cn/history/6.15/1.htm>

The flood led to the price-rising of lotus seeds, which means Fu could not provide the goods on time in accordance with the contract requirements. Only the price of lotus seeds produced in Hunan province could meet the requirements of the contract, the price of those from other places of origin were much higher than that. If Fu continued to perform the contract, then he would not only not get the expected profit, but also suffer huge losses. According to the relevant provisions in the Chinese Contract Law, if the contract cannot be performed due to force majeure, one side can be exempted from liability partly or fully under the influence of force majeure, and natural disasters are typical of force majeure. These provisions provided legal basis for Fu to put forward exemption in terms of force majeure, and some of his experienced friends and professionals suggested him not to continue the contract. However, Fu did the opposite, and he did suffer a loss of 40,000 yuan due to the performance of the contract. When the other side realized the rising market price of lotus seeds, they immediately signed a two-year lotus seeds supply contract with Fu, and thus led to profits of 80,000 yuan the second year.

9.6.3 Philanthropic Projects

In 2004, private enterprises contributed more than 60% to China's national economy, absorbing employment of more than 100 million people⁴². That was a time of rapid development of private enterprises in China. Macrolink Group and Changfeng Motor became shareholders of Changsha Commercial Bank that year⁴³. Macrolink Group got the recognition of Changsha government because of its good business reputation and strong economic strength and successfully became the second large shareholder of Bank of Changsha, which was the first local joint-

⁴²<http://news.163.com/05/1012/10/1VRV5H4K0001124T.html>

⁴³<http://www.docin.com/p-101378227.html>

stock commercial bank in Hunan province⁴⁴. By 2005, Macrolink Group's operating income had reached 7,454,590,000 yuan.⁴⁵

In October, 2005, when Macrolink Group had been founded for 15 years, it donated 10 million yuan to the Peking Union Medical College Hospital to establish "Macrolink Group Union Medical Award Fund", which was set to support the cultivation of talents of the Peking Union Medical College Hospital and reward outstanding experts, professors and the majority of medical workers. There were several reasons to choose the Peking Union Medical College Hospital as beneficiary. First of all, it played a decisive role in the field of Medical Science in China. Secondly, those doctors here had great medical ethics and superb skills. By rewarding, these health workers would work harder, and they were encouraged to engage in scientific research and innovation, so that more patients would be able to enjoy more qualified services and advanced technology.

Based on this successful experience, Macrolink Group chose to donate to medical and health field again in October, 2010. It firstly donated 10 million yuan to Peoples Liberation Army Navy General Hospital (hereinafter referred to as Navy General Hospital), establishing "Navy General Hospital – Macrolink Group Pediatric Stem Cell Research Center". Navy General Hospital has been in a leading position in the treatment and research of children's blood diseases, pediatric brain rehabilitation and other diseases worldwide. Macrolink Group donated the money to Navy General Hospital's best specialized fields, which needed innovation and development most at the same time. Thanks to the donation, pediatrics of Navy General Hospital made a great progress in the field of cell therapy for children with intractable diseases and clinical research,

⁴⁴<http://qy.rednet.cn/c/2013/09/24/3152356.htm>

⁴⁵http://www.360doc.com/content/11/0904/01/7499155_145613499.shtml

leading and promoting the development of pediatric cell therapy in China⁴⁶.

In the same year, Macrolink Group also donated 20 million yuan to set up Central South University – Macrolink Group Scholarship for Outstanding Poor Undergraduates, and 150 poor students would be awarded each year to help them to complete their studies.⁴⁷ The scholarship was mainly used for rewarding outstanding poor undergraduates, covering the field relates to non-ferrous metal subject, medical, business, transportation⁴⁸, which were both the specialized disciplines of Central South University and main focus of Macrolink Group's research. Both sides could achieve complementary advantages, and achieve the combination of production and research. By 2003, Macrolink Group had awarded 450 outstanding poor undergraduates, helping them to accomplish their college studies. Through the donation, Macrolink Group strengthened the cooperation with the Central South University, which not only promoted the teaching and scientific research of Central South University, also trained many outstanding talents for Macrolink Group.

Macrolink Group had gained great achievements in the field of geology and mineral resources. In June, 2006, Macrolink Mineral was established, which has developed fast into a large modern enterprise exploring, mining, selecting, smelting and trading metal solid mineral deposits. It owned rights to nearly 100 nonferrous metal mines such as nickel, gold, copper, cobalt, molybdenum; and the total economic value of proven mineral resources was more than 500 billion yuan, including a super-large nickel mine with resource reserves of more than 2 million tons in Pobei, Xinjiang province, whose scale was just behind the first large nickel mine in Jinchuan.

⁴⁶http://www.macrolink.com.cn/index.php?optionid=997&auto_id=58

⁴⁷http://hnr.b.voc.com.cn/hnr_b_epaper/html/2010-10/29/content_269249.htm

⁴⁸http://zndxb.cuepa.cn/show_more.php?doc_id=538091

In June, 2011, Macrolink Group signed a scientific and technological strategic cooperation agreement with Chinese Academy of Geological Sciences. They would make full use of Chinese Academy of Geological Sciences' strengths in talent intelligence, science and technology, graduate students training and so on, combining with Macrolink Group's advanced enterprise concept, strong financial strength, flexible operation mechanism and powerful market development ability, thus to form a strong technological Alliance with the combination of production, learning, scientific research and practical application.⁴⁹

In January, 2012, Macrolink Group donated 10 million yuan to China Academy of Geological Sciences, which is the largest comprehensive scientific research institution in China and has undertaken a number of national level geology studies on the frontier, basic, strategic and technical research, to set up a Science and Technology Award Fund. Through rewarding excellent scientific research personnel and technical professionals, China Academy of Geological Sciences has found many large deposits in Xinjiang, achieving a major breakthrough in geological prospecting.⁵⁰

Currently, many enterprises put carrying out philanthropic projects as an important part of corporate social responsibility management. Yang Yunhui, Trade Union Chairman and Brand Culture Director of Macrolink Group, pointed out that "Enterprises cannot develop without profits, but only profits is not enough; that is to say, the pursuit of economic efficiency is the direct goal of the enterprise, while the pursuit of social benefits is the ultimate goal of the enterprise." He believed that taking corporate social responsibility should be an initiative behavior: "If an enterprise wants to develop, it must occupy certain social resources, while the possession of resources means paying the price, which is equivalent, and is your obligations, you must bear it whether

⁴⁹<http://www.cags.ac.cn/yaowen/2011/0628-1.html>

⁵⁰http://finance.ifeng.com/a/20131203/11202230_0.shtml

you agree or not. This is a low and passive level. When you realize that the social responsibility can bring you benefits, you will take the initiative to assume social responsibility and return to the community, rather than being required by the government, leading to more development and opportunities.”⁵¹

⁵¹ Interview record

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APPENDICES

Appendix 1 China's Philanthropy Law

The Law came into effect on September 1, 2016

Chapter 1 General Provisions

Article 1 This Law is formulated with a view to developing philanthropic undertakings, carrying forward the philanthropic culture, regulating charitable activities, protecting the legitimate rights and interests of charitable organizations, donors, volunteers, beneficiaries and other participants of charitable activities, advancing social progress, and sharing the fruits of development.

Article 2 This Law shall apply to natural persons, legal persons and other organizations in carrying out charitable activities and philanthropy-related activities. Special provisions, if any, prescribed in other laws shall prevail.

Article 3 For the purpose of this Law, charitable activities shall refer to the following public welfare activities voluntarily carried out by natural persons, legal persons and other organizations by means of donating assets, providing services, etc.:

- (1) Alleviating poverty and helping the needy;
- (2) Supporting the elderly, helping orphans, providing comfort for persons with serious illnesses, assisting the disabled, and giving special care to disabled servicemen and the family members of martyrs;
- (3) Engaging in rescue and relief operations with regard to the damage caused by natural disasters, accidents and disasters, public health incidents and other emergencies;

- (4) Promoting the development of education, science, culture, health, sports and other undertakings;
- (5) Preventing and controlling pollution and other public hazards, and protecting and improving the ecological environment; and
- (6) Engaging in other public welfare activities that are in compliance with this Law.

Article 4 In carrying out charitable activities, it is imperative to follow the principles of legality, voluntariness and integrity, uphold the non-profit nature of such activities, and refrain from violating social ethics and endangering national security or prejudicing public interests and the legitimate rights and interests of others.

Article 5 The State shall encourage and support natural persons, legal persons and other organizations to practice socialist core values, carry forward the traditional virtues of the Chinese nation, and carry out charitable activities pursuant to the law.

Article 6 The civil affairs department of the State Council shall be in charge of philanthropy-related work at the national level, while the civil affairs departments of local people's governments at and above the county level shall be in charge of philanthropy-related work within their respective administrative regions. Relevant departments of the people's governments at and above the county level shall, in accordance with this Law and other relevant laws and regulations, properly perform relevant work within their respective scopes of duties.

Article 7 September 5 of each year shall be designated as the "China Philanthropy Day".

Chapter 2 Charitable Organizations

Article 8 For the purpose of this Law, charitable organizations shall refer to duly-established non-profit organizations that are in compliance

with this Law and whose purposes are to carry out charitable activities for the public.

Charitable organizations may be in the organizational form of foundations, social groups, social service agencies, etc.

Article 9 A charitable organization shall satisfy the following conditions:

- (1) Its purposes shall be to carry out charitable activities;
- (2) It shall uphold its non-profit nature;
- (3) It shall have its own name and domicile;
- (4) It shall have its own articles of association as an organization;
- (5) It shall possess necessary assets;
- (6) It shall have in place an organizational set-up and person-in-charge that satisfy relevant conditions; and
- (7) It shall satisfy other conditions prescribed by laws and administrative regulations.

Article 10 To establish a charitable organization, an applicant shall apply for registration to the civil affairs department of the relevant people's government at or above the county level, and the said civil affairs department shall make a decision within 30 days upon acceptance of the application. Where the application satisfies the conditions prescribed herein, the said civil affairs department shall approve the registration of the charitable organization, and issue an announcement thereon to the public; and, where the application fails to satisfy the conditions prescribed herein, the said civil affairs department shall not approve the registration and shall give written explanations therefor.

A foundation, social group, social service agency or a non-profit organization of other types that has been established prior to the promulgation of this Law may apply to the civil affairs department that originally handles its registration to be recognized as a charitable organization, and the said civil affairs department shall make a decision thereon within 20

days upon acceptance of the application. Where the applicant satisfies the conditions on charitable organizations, the said civil affairs department shall recognize the applicant as a charitable organization, and issue an announcement thereon to the public; and, where the applicant fails to satisfy the conditions on charitable organizations, the said civil affairs department shall not recognize the applicant as a charitable organization, and shall give written explanations therefor.

Where the period for deciding on registration or recognition needs to be extended under special circumstances, the said period may be appropriately extended after approval by the civil affairs department of the State Council, provided that the extended period shall not exceed 60 days.

Article 11 The articles of association of a charitable organization shall be in compliance with laws and regulations, and shall specify the following matters:

- (1) The name and domicile of the charitable organization;
- (2) The organizational form of the charitable organization;
- (3) The purposes and scope of activities of the charitable organization;
- (4) The sources and composition of the assets of the charitable organization;
- (5) The composition and duties of the decision-making body and the implementation body of the charitable organization;
- (6) The internal supervision mechanisms of the charitable organization;
- (7) The asset management and use systems of the charitable organization;
- (8) The project management systems of the charitable organization;
- (9) The circumstances under which the charitable organization shall be terminated and post-termination liquidation methods; and
- (10) Other important matters.

Article 12 A charitable organization shall, in accordance with laws, regulations and its articles of association, establish and improve its internal governance structure, specify the scope of duties and authority in terms of decision-making, implementation, supervision, etc., and carry out charitable activities.

A charitable organization shall adopt the unified national accounting system, conduct accounting in accordance with the law, establish and improve its accounting supervision systems, and subject itself to the supervision and administration by relevant government departments.

Article 13 A charitable organization shall submit its annual work report and financial and accounting report on a yearly basis to the civil affairs department that originally handles its registration. Such a report shall cover the following situations on a yearly basis: fund-raising and acceptance of donations; management and use of charitable assets; implementation of charitable projects; wages and benefits of its staff members; etc.

Article 14 The promoter, major donors and management personnel of a charitable organization may not use their affiliation to prejudice the interests of the charitable organization and beneficiaries, and social and public interests.

Where the promoter, major donors and management personnel of a charitable organization engage in transactions with the charitable organization, they may not participate in the decision-making by the charitable organization with regard to the transactions concerned, and relevant situations on the transactions shall be made public.

Article 15 A charitable organization shall not engage in, or finance, activities endangering national security and public interests, shall not accept donations attached with additional conditions that are in violation of laws and regulations or against social morality, and shall not impose on beneficiaries additional conditions that are in violation of laws and regulations or against social morality.

Article 16 A person who falls under any of the following circumstances shall not serve as the person in charge of a charitable organization:

- (1) Where he/she has no civil capacity or has only limited civil capacity;
- (2) Where he/she has been sentenced to criminal punishments against intentional crimes, and not more than five years have elapsed upon completion of the execution of the criminal punishments;
- (3) Where he/she has served as the person in charge of an organization whose registration certificate has been revoked or that has been banned, and not more than five years have elapsed after the registration certificate of the organization has been revoked or after the organization has been banned; or
- (4) Where he/she falls under any other circumstances prescribed by laws and administrative regulations.

Article 17 A charitable organization that falls under any of the following circumstances shall be terminated:

- (1) Where any of the circumstances for termination under the articles of association has occurred;
- (2) Where the charitable organization needs to be terminated due to division or merger;
- (3) Where the charitable organization has not engaged in charitable activities for two consecutive years;
- (4) Where the registration of the charitable organization is cancelled pursuant to the law, or where the registration certificate of the charitable organization is revoked pursuant to the law; or
- (5) Where there are any other circumstances prescribed by laws and administrative regulations under which the charitable organization shall be terminated.

Article 18 A charitable organization that is terminated shall go through liquidation.

The decision-making body of a charitable organization shall, within 30 days upon the occurrence of any of the circumstances for termination as prescribed in Article 17 herein, set up a liquidation team to conduct liquidation, and issue an announcement thereon to the public. Where no liquidation team is set up or the liquidation team fails to perform duties, the civil affairs department concerned may apply to the competent people's court to designate relevant persons to form a liquidation team to conduct liquidation.

The assets of a charitable organization that remain after its liquidation shall be transferred to other charitable organizations with the same or similar purposes in accordance with the articles of association of the former. In the absence of relevant provisions in the articles of association, the relevant civil affairs department shall preside over the transfer of such assets to other charitable organizations with the same or similar purposes, and issue an announcement thereon to the public.

Upon the completion of liquidation, a charitable organization shall go through deregistration with the civil affairs department that originally handles its registration, and the latter shall issue an announcement thereon to the public.

Article 19 Charitable organizations shall form industry organizations pursuant to the law.

Philanthropy industry organizations shall reflect the demands of the industry, promote industry exchanges, enhance the credibility of the philanthropy industry, and advance the development of philanthropic undertakings.

Article 20 Specific measures for the organizational structures and registration administration of charitable organizations shall be formulated by the State Council.

Chapter 3 Charitable Fundraising

Article 21 For the purpose of this Law, charitable fund-raising shall refer to the activities whereby charitable organizations raise assets for charitable purposes.

Charitable fund-raising shall include public donation drives for the general public and targeted fund-raising from specific parties.

Article 22 A charitable organization that intends to engage in public donation drives shall obtain the qualifications for public fund-raising. A charitable organization that has been in lawful registration for at least two years may apply for the qualifications for public fund-raising to the civil affairs department that originally handles its registration. The said civil affairs department shall make a decision within 20 days upon acceptance of the application. Where the charitable organization satisfies the conditions of having a robust internal governance structure and engaging in standardized operations, the said civil affairs department shall issue the qualification certificate for public fund-raising to the charitable organization; and, where the charitable organization fails to satisfy relevant conditions, the said civil affairs department shall not issue the qualification certificate for public fund-raising, and shall give written explanations therefor.

Foundations and social groups that are allowed to engage in public donation drives with effect from the date of registration as prescribed by laws and administrative regulations shall have their respective qualification certificate for public fund-raising directly issued by civil affairs departments.

Article 23 A charitable organization may carry out public donation drives by any of the following means:

- (1) Setting up donation boxes in public places;
- (2) Holding charitable performances, competitions, sales, exhibitions, auctions, galas, etc. for the public;

- (3) Releasing information on fund-raising through radio, television, newspapers and periodicals, the Internet and other media; and
- (4) Adopting other means of public fund-raising.

Where the charitable organization engages in public donation drives by the means prescribed by Item (1) or Item (2) of the preceding Paragraph, the charitable organization shall carry out public fund-raising activities within the jurisdictions of the civil affairs department that originally handles its registration, and where it is genuinely necessary to carry out such activities beyond the jurisdictions of the said civil affairs department, the charitable organization shall go through record-filing with the civil affairs department of the people's government at or above the county level that is located in the place where the donation drives are to be conducted. Donors are not bound by geographical restrictions in making donations.

A charitable organization that intends to engage in public donation drives through the Internet shall release information on fund-raising via the uniform philanthropy information platform of the civil affairs department of the State Council or such a platform designated by the latter, and may, at the same time, publish information on fund-raising via its own website.

Article 24 To carry out a public donation drive, a charitable organization shall formulate a fund-raising plan which shall cover the purposes of fund-raising, the commencement and ending time and the geographical regions of the public donation drive, the name and office address of the person in charge of the public donation drive, the ways to accept donations, bank accounts, beneficiaries, the purposes of the funds and materials raised, the cost of fund-raising, the disposal of surplus assets, etc.

The fund-raising plan of a charitable organization shall be reported to the civil affairs department that originally handles the registration of

the charitable organization for record-filing before the fund-raising activities.

Article 25 In carrying out a public donation drive, the name of the fund-raising organization, its qualification certificate for public fund-raising, its fund-raising plan, contact details, methods for inquiring about fund-raising information, etc. shall be announced in eye-catching locations on the fund-raising scene or the carriers of the fund-raising activities.

Article 26 An organization not qualified to raise donations from the public or an individual may, for charitable purposes, cooperate with a charitable organization with qualifications for public fund-raising, and let the latter carry out public donation drives and manage the funds and materials raised.

Article 27 Radio stations, television stations, newspapers and periodicals, Internet service providers and telecommunications business operators shall verify the registration certificates and qualification certificates for public fund-raising held by the charitable organizations that use their platforms to carry out public donation drives.

Article 28 A charitable organization may engage in targeted fund-raising from specific parties with effect from the date of registration.

Where a charitable organization engages in targeted fund-raising from specific parties, it shall raise donations within the scope of specific parties, including its promoter, council members, members, etc., and explain to the fund-raising targets the purposes of fund-raising, the usage of the funds and materials raised and other relevant matters.

Article 29 A charitable organization shall not, overtly or covertly, carry out targeted fund-raising from specific parties by any of the means prescribed in Article 23 herein.

Article 30 Where swift rescue and relief operations are necessary upon the occurrence of a major natural disaster, accident disaster, public health incident or an emergency of other types, the relevant people's

government shall establish coordination mechanisms, provide demand information, and guide fund-raising and rescue and relief activities in a timely and orderly manner.

Article 31 In carrying out fund-raising activities, it is imperative to respect and safeguard the legitimate rights and interests of fund-raising targets, protect their right to information, and refrain from deceiving or inducing fund-raising targets into making donations by fabricating facts or other means.

Article 32 In carrying out fund-raising activities, apportioning the donations needed among fund-raising targets either overtly or covertly shall be prohibited, and the public order, the production and operations of enterprises, and the normal life of residents shall not be obstructed.

Article 33 Any organization or individual shall be prohibited from making use of the name of philanthropy or passing itself off as a charitable organization to carry out fund-raising activities to defraud assets.

Chapter 4 Charitable Donations

Article 34 For the purpose of this Law, charitable donation shall refer to the activities whereby natural persons, legal persons and other organizations voluntarily give assets as gifts gratis for charitable purposes.

Article 35 Donors may make donations via charitable organizations, or donate directly to beneficiaries.

Article 36 The assets donated by a donor shall be lawful assets of which the donor is entitled to dispose. Donated assets shall include currencies, physical assets, real estate, marketable securities, equity, intellectual property rights ("IPRs"), and other tangible and intangible assets.

The physical assets donated by a donor shall have use value, and meet the standards in terms of safety, sanitation, environmental protection, etc.

A donor which is an enterprise donating its own products shall bear product quality liabilities and obligations pursuant to the law.

Article 37 A natural person, legal person or organization of other types that carries out for-profit activities such as performances, competitions, sales, auctions, etc., and undertakes to use all or part of the proceeds for charitable purposes shall, before the relevant events are held, conclude donation agreements with the relevant charitable organization or other donation recipients, fulfill donation obligations in accordance with the donation agreements after the completion of the events, and make public information on the donations.

Article 38 A charitable organization that accepts donations shall issue to donors the donation proofs uniformly printed by, or printed under the supervision of, finance departments. Such a donation proof shall specify the donor, the types and quantity of the assets donated, the name of the charitable organization and the names of its handling persons, the date of the proof, etc. Where a donor makes donations anonymously or waives the right to receive donations proofs, the charitable organization shall properly make relevant records.

Article 39 Where a charitable organization accepts donations from a donor, the former shall sign a written donation agreement with the latter if so requested by the latter.

A written donation agreement shall cover the names of the donor and the charitable organization, the types, quantity, quality, usage and delivery time of the assets to be donated, and other relevant contents.

Article 40 When a donor and a charitable organization agree on the purposes and the beneficiaries of the donated assets, the donor's stakeholders may not be designated as the beneficiaries.

No organization or individual may take advantage of charitable donations to promote tobacco products in violation of the law, and no organization or individual may take advantage of charitable donations to

promote, in any way, any product or matter whose promotion is prohibited by law.

Article 41 A donor shall fulfill donation obligations in accordance with the relevant donation agreement. Under any of the following circumstances, where the donor fails to deliver an asset for donation by the prescribed deadline in breach of the donation agreement, the relevant charitable organization or another donation recipient may require the donor to deliver the asset for donation; and, where the donor refuses to deliver the asset, the charitable organization or another donation recipient may apply to the competent people's court for a payment order or bring a lawsuit pursuant to the law:

- (1) Where the donor has made public commitments to donation through radio, television, newspapers and periodicals, the Internet or other media; or
- (2) Where the asset for donation is to be used for any of the charitable activities prescribed by Item (1) through to Item (3) of Article 3 herein, and a written donation agreement has been signed.

Where the donor experiences significant deterioration of its financial positions after making public commitments to donation or signing the written donation agreement, seriously affecting its production and operations or family life, the donor may no longer be required to perform donation obligations after reporting to the civil affairs department at the place where the public commitments to donation are made or the written donation agreement is signed, and after explaining the situations to the public.

Article 42 A donor shall be entitled to inquire about and duplicate relevant materials on the management and use of the asset donated thereby, and the charitable organization concerned shall take the initiative to provide the donor with relevant feedback in a timely manner.

Where a charitable organization abuses the assets donated in breach of the purposes agreed upon in the relevant donation agreement, the donor concerned shall be entitled to require the charitable organization to make correction. Where the charitable organization refuses to correct, the donor may lodge a complaint or tip-off to the relevant civil affairs department or file a lawsuit to the competent people's court.

Article 43 To make charitable donations, State-owned enterprises shall comply with the provisions on State-owned asset management, and go through approval and record-filing procedures.

Chapter 5 Charitable Trusts

Article 44 For the purpose of this Law, a charitable trust shall refer to a public welfare trust under which the principal, for charitable purposes, entrusts its assets to the trustee pursuant to the law, and the trustee, according to the wishes of the principal, manages and disposes of such assets in its own name, and carries out charitable activities.

Article 45 The establishment of a charitable trust, and the determination of trustees and supervisors shall be in writing. A trustee shall, within seven days upon the conclusion of the documents on a charitable trust, submit relevant documents to the civil affairs department of the people's government at or above the county level at its domicile for record-filing.

A trustee that fails to submit relevant documents to the civil affairs department concerned for record-filing in accordance with the preceding Paragraph shall not be eligible for preferential taxation policies.

Article 46 The trustee of a charitable trust may be served by the charitable organization or trust company that the principal concerned determines as trustworthy.

Article 47 The principal of a charitable trust may change the trustee thereof if the trustee breaches its fiduciary duties or finds it difficult to perform duties. The new trustee after the change shall, within seven days from the date of change, report the changes to the civil affairs department that originally processes record-filing for record-filing again.

Article 48 The trustee of a charitable trust shall manage and dispose of trust assets according to the purposes of the charitable trust, and shall practice due diligence and perform the obligations of good faith and prudent management.

The trustee of a charitable trust shall, according to the requirements of trust documents and the principal concerned, promptly report to the principal the handling of trust matters and the management and use of trust assets. The trustee of a charitable trust shall, at least once on a yearly basis, report the handling of trust matters and the financial conditions of the trust to the civil affairs department that originally processes its record-filing, and announce the same to the public.

Article 49 The principal of a charitable trust may determine trust supervisors according to actual needs.

Trust supervisors shall supervise the acts of the trustee, and safeguard the rights and interests of the principal and beneficiaries in accordance with the law. Where a trust supervisor finds that the trustee has breached its fiduciary duties or that it is difficult for the trustee to perform duties, the trust supervisor shall report relevant situations to the principal, and shall be entitled to file a lawsuit in its own name to the competent people's court.

Article 50 The establishment of a charitable trust, the management of trust assets, the parties to a trust, the termination and liquidation of a trust, etc. shall be governed by other relevant provisions herein in the

absence of relevant provisions in this Chapter, and shall be governed by the Trust Law of the People's Republic of China in the absence of relevant provisions herein.

Chapter 6 Charitable Assets

Article 51 The assets of a charitable organization shall include:

- (1) The founding assets donated or financed by its promoter;
- (2) The assets raised; and
- (3) Other legitimate assets.

Article 52 The assets of a charitable organization shall be used fully for charitable purposes in accordance with its articles of association and donation agreements, and shall not be distributed among the promoter, donors and members of the charitable organization.

No organization or individual may embezzle, misappropriate, withhold or encroach on charitable assets.

Article 53 A charitable organization shall register, and prepare a register for, the assets raised, rigorously manage such assets, and earmark special funds for intended purposes.

Where the donations in-kind made by donors are not easy to store, transport or be directly used for charitable purposes, a charitable organization may auction off or sell such donations pursuant to the law, and the proceeds obtained shall be used fully for charitable purposes after necessary expenses are deducted.

Article 54 A charitable organization that makes investment for the purpose of preserving and increasing the value of assets shall make investment in a lawful, safe and effective manner, and use all the proceeds obtained from investment for charitable purposes. A major investment plan of a charitable organization shall be subject to the consent of at least two-thirds of the members of its decision-making body. Government-subsidized assets and assets that are not allowed to be used for

investment as agreed in donation agreements shall not be used for investment. The person in charge of a charitable organization and its staff members shall not concurrently hold positions in, or receive remunerations from, the enterprises invested by the charitable organization.

Specific measures for the matters prescribed in the preceding Paragraph shall be formulated by the civil affairs department of the State Council.

Article 55 Where a charitable organization carries out charitable activities, it shall, in accordance with laws, regulations and its articles of association, use donated assets according to the relevant fund-raising plan or donation agreement. The charitable organization shall report to the civil affairs department concerned for record-filing if it genuinely needs to change the purposes of the donated assets prescribed by the fund-raising plan. The charitable organization shall obtain the consent of the donor concerned if it genuinely needs to change the purposes of the donated assets agreed in the relevant donation agreement.

Article 56 A charitable organization shall design charitable projects in a reasonable manner, optimize the implementation process, lower operating costs, and improve the efficiency of the use of charitable assets.

A charitable organization shall establish project management systems to track and supervise project implementation.

Article 57 Where there are remaining donated assets after the termination of a charitable project, the surplus assets shall be disposed of according to the relevant fund-raising plan or donation agreement. In the absence of relevant provisions in the fund-raising plan or relevant agreements in the donation agreement, the charitable organization concerned shall use the surplus assets for other charitable projects of the same or similar purposes, and announce relevant information to the public.

Article 58 A charitable organization shall determine philanthropy beneficiaries in an open, fair and impartial manner, and shall not designate the stakeholders of its management personnel as beneficiaries.

Article 59 Where necessary, a charitable organization may sign an agreement with a beneficiary to specify the rights and obligations of both parties, the purposes, quantity, methods of use, etc. of the charitable assets, and other relevant contents.

A beneficiary shall cherish charitable assistance, and use charitable assets according to the relevant agreement. If the beneficiary fails to use charitable assets according to the agreement or otherwise commits grave breaches of the agreement, the charitable organization concerned shall be entitled to require the beneficiary to make correction, and shall be entitled to terminate the agreement and require the beneficiary to return the assets if the latter refuses to correct.

Article 60 A charitable organization shall actively carry out charitable activities, make full and efficient use of charitable assets, and follow the principle of incurring management expenses only in the most essential circumstances to practice thriftiness and reduce unnecessary expenses. As regards a foundation with qualifications for public fund-raising, the annual expenditure incurred for carrying out charitable activities shall not be lower than 70% of its total revenue of the preceding year or its average revenue of the past three years, and the annual management expenses incurred shall not exceed 10% of its total expenditure of the given year, provided that under special circumstances, where it is difficult for its annual management expenses to comply with the foregoing provisions, the said foundation shall report relevant situations to the civil affairs department that originally handles its registration, and explain the situations to the public.

The standards for the annual expenditure and management expenses incurred by charitable organizations other than foundations with qualifications for public fund-raising for carrying out charitable activities shall

be formulated by the civil affairs department of the State Council in conjunction with the finance department, taxation department and other relevant departments of the State Council in accordance with the principles prescribed in the preceding Paragraph.

The agreements, if any, agreed upon in a donation agreement on the expenditure and management expenses for charitable activities carried out with a single donated asset shall prevail.

Chapter 7 Charitable Services

Article 61 For the purpose of this Law, charitable services shall refer to the volunteer and pro bono services and other non-profit services provided for the public or others by charitable organizations and other organizations and individuals for charitable purposes.

A charitable organization may provide charitable services on its own or by recruiting volunteers, and may also entrust other organizations with expertise in relevant services to provide charitable services.

Article 62 In carrying out charitable services, it is imperative to respect the human dignity of beneficiaries and volunteers, and refrain from infringing upon the privacy of beneficiaries and volunteers.

Article 63 Where medical rehabilitation, education and training and other charitable services that require specialized skills are carried out, the standards and procedures formulated by the State or industry organizations shall be complied with.

Where a charitable organization recruits volunteers to participate in charitable services that require specialized skills, the charitable organization shall provide relevant training for the volunteers.

Article 64 When recruiting volunteers to participate in charitable services, a charitable organization shall disclose all the information related to charitable services, and inform the volunteers of risks that may occur during services.

Where necessary, a charitable organization may sign an agreement with a volunteer to specify the rights and obligations of both parties, the contents, methods and time of services, etc.

Article 65 A charitable organization shall register the real names of volunteers, and record their service hours, contents, evaluation and other information. As requested by volunteers, a charitable organization shall issue proofs of volunteer service records in a truthful manner and free of charge.

Article 66 When assigning volunteers to participate in charitable services, a charitable organization shall ensure the assignments are suitable for the ages, educational levels, skills and health conditions of the volunteers.

Article 67 Volunteers who accept the arrangements by a charitable organization to participate in charitable services shall subject themselves to the management by the latter, and receive necessary training.

Article 68 A charitable organization shall make available necessary conditions for volunteers to participate in charitable services, and protect the legitimate rights and interests of volunteers.

Prior to arranging volunteers to participate in charitable services during which physical danger may occur, a charitable organization shall purchase appropriate personal accident insurance for the volunteers.

Chapter 8 Information Disclosure

Article 69 The people's governments at and above the county level shall establish and improve their respective philanthropic information statistics compilation and publication system.

The civil affairs departments of the people's governments at and above the county level shall promptly disclose philanthropic information to the public via a unified information platform, and provide services for releasing philanthropic information free of charge.

Charitable organizations and the trustees of charitable trusts shall publish philanthropic information on the platform prescribed in the preceding Paragraph, and be responsible for the truthfulness of such information.

Article 70 The civil affairs departments of the people's governments at and above the county level and other departments concerned shall promptly make public the following philanthropic information:

- (1) Registration matters of charitable organizations;
- (2) Record-filing matters of charitable trusts;
- (3) The list of charitable organizations with qualifications for public fund-raising;
- (4) The list of charitable organizations qualified to issue pre-tax deduction proofs for public welfare donations;
- (5) Measures promoting charitable activities, such as preferential taxation policies, subsidies and allowances, etc.;
- (6) Information on the purchase of services from charitable organizations;
- (7) Results of the inspection and evaluation of charitable organizations and charitable trusts;
- (8) Results of the commendation and punishment of charitable organizations and other organizations, as well as individuals; and
- (9) Other information that shall be made public pursuant to laws and regulations.

Article 71 Charitable organizations and the trustees of charitable trusts shall perform information disclosure obligations in accordance with the law. Information shall be disclosed in a truthful, complete and timely manner.

Article 72 A charitable organization shall make public its articles of association, information on the members of its decision-making body, implementation body and supervisory body, and other information re-

quired to be disclosed by the civil affairs department of the State Council. The material changes, if any, of the foregoing information shall be promptly made public by the charitable organization.

A charitable organization shall make public its annual work report and financial and accounting report on a yearly basis. The financial and accounting reports of a charitable organization with qualifications for public fund-raising shall be audited.

Article 73 A charitable organization with qualifications for public fund-raising shall, on a regular basis, make public the situations of donation raising and the implementation of charitable projects.

Where a public donation drive lasts for more than six months, the situations on donation raising shall be announced at least once every three months, and the situations on donation raising shall be fully announced within three months following the completion of the public donation drive.

Where the implementation of a charitable project lasts for more than six months, the situations on project implementation shall be announced at least once every three months, and the situations on project implementation and the use of the funds and materials raised shall be fully announced within three months following the completion of the charitable project.

Article 74 A charitable organization that engages in targeted fund-raising from specific parties shall promptly inform the donors of the situations on donation raising, and the management and use of the funds and materials raised.

Article 75 Charitable organizations and the trustees of charitable trusts shall inform beneficiaries of their respective criteria for granting subsidies, work processes, work standards and other information.

Article 76 Information involving State secrets, commercial secrets and personal privacy, and information on names, domiciles, contact

details, etc. whose public disclosure is objected to by donors and the principals of charitable trusts shall not be made public.

Chapter 9 Promotion Measures

Article 77 The people's governments at and above the county level shall, based on economic and social development situations, formulate policies and measures that promote the development of philanthropic undertakings.

Relevant departments of the people's governments at and above the county level shall, within their respective scope of duties, provide information on philanthropy needs for charitable organizations, the trustees of charitable trusts, etc., and offer guidance and assistance to charitable activities.

Article 78 The civil affairs departments of the people's governments at and above the county level shall establish a philanthropic information sharing mechanism with other departments concerned.

Article 79 Charitable organizations and their incomes shall be eligible for preferential taxation policies in accordance with the law.

Article 80 Natural persons, legal persons and other organizations shall enjoy preferential taxation policies pursuant to the law if they donate assets for use in charitable activities. The portion of the charitable donations by an enterprise that exceeds the amount deductible as prescribed by law in the given year for the purpose of calculating the amount of incomes subject to enterprise income tax shall be allowed for deduction during the calculation of taxable income within three years after being carried forward.

The materials donated by overseas parties for use in charitable activities shall be eligible for the reduction or exemption of import tariffs and import value-added tax in accordance with the law.

Article 81 Beneficiaries who accept charitable donations shall be eligible for preferential taxation policies pursuant to the law.

Article 82 Where charitable organizations, donors and beneficiaries shall be entitled to preferential taxation policies pursuant to the law, the departments concerned shall handle relevant procedures in a timely manner.

Article 83 Donors who donate physical assets, marketable securities, equities and IPRs to charitable organizations shall be exempted from relevant administrative and institutional fees for the transfer of rights pursuant to the law.

Article 84 The State shall apply special preferential policies to charitable activities carried out for alleviating poverty and helping the needy.

Article 85 A charitable organization that needs land parcels for charitable services and facilities for the purpose of carrying out charitable activities prescribed by Item (1) or Item (2) of Article 3 herein may apply for using allocated State-owned land or rural collectively-owned construction land pursuant to the law. The purposes of land parcels for charitable services and facilities may not be changed without going through statutory procedures.

Article 86 The State shall provide financial policy support for philanthropic undertakings, and encourage financial institutions to provide financing, settlement and other financial services for charitable organizations and charitable trusts.

Article 87 The people's governments at all levels and relevant departments thereof may support qualified charitable organizations to provide services for the public by purchase of services and other means in accordance with the law, and shall make public relevant information in accordance with the laws and regulations on government procurement.

Article 88 The State shall take measures to carry forward the culture of philanthropy, and nurture the philanthropic awareness of citizens.

Schools and other educational institutions shall include the culture of philanthropy into their education and teaching contents. The State shall encourage institutions of higher learning to nurture professionals for philanthropic undertakings, and support institutions of higher learning and research institutes to carry out theoretical research on philanthropy.

Radio stations, television stations, newspapers and periodicals, the Internet and other media shall actively carry out promotional campaigns for charitable and public welfare activities, popularize the knowledge of philanthropy, and disseminate the culture of philanthropy.

Article 89 The State shall encourage enterprises, public institutions and other organizations to make available premises and other convenience for carrying out charitable activities.

Article 90 Upon consent by a beneficiary, a donor may name the charitable project to which its donations are made as commemoration, provided that approval shall be obtained if so required by laws and regulations.

Article 91 The State shall establish a philanthropy commendation system under which natural persons, legal persons and other organizations that have made outstanding contributions to the development of philanthropic undertakings shall be commended by the people's governments at and above the county level or relevant departments.

Chapter 10 Supervision and Administration

Article 92 The civil affairs departments of the people's governments at and above the county level shall perform duties pursuant to the law, conduct supervision and inspection of charitable activities, and provide guidance for philanthropy industry organizations.

Article 93 The civil affairs departments of the people's governments at and above the county level shall be entitled to take any of the follow-

ing measures against charitable organizations that are suspected of violating this Law:

- (1) To conduct on-site inspection of the domiciles of the charitable organizations and the places where charitable activities are carried out;
- (2) To require the charitable organizations to give explanations, and to inspect and duplicate relevant materials;
- (3) To investigate the entities and individuals related to charitable activities with regard to situations concerning supervision and administration;
- (4) To make inquiries of the financial accounts of the charitable organizations upon approval by the people's governments at the corresponding level; or
- (5) To take other measures prescribed by laws and administrative regulations.

Article 94 When the civil affairs departments of the people's governments at and above the county level inspect or investigate charitable organizations, relevant entities and individuals, there shall be at least two inspectors or investigators who shall produce their lawful credentials and inspection or investigation notices.

Article 95 The civil affairs departments of the people's governments at and above the county level shall establish a credit record system for charitable organizations and their persons-in-charge, and announce their credit standings to the public.

Civil affairs departments shall establish a charitable organization evaluation system, encourage and support third-party institutions to evaluate charitable organizations, and make public the evaluation results.

Article 96 Philanthropy industry organizations shall formulate and improve industry standards, and strengthen industry self-discipline.

Article 97 Any entity or individual that finds a charitable organization or charitable trust has committed violations of the law may lodge a complaint or tip-off to the relevant civil affairs department, other departments concerned or the relevant philanthropy industry organization. The civil affairs department, other departments concerned or the philanthropy industry organization shall promptly investigate and handle the complaint or tip-off upon the receipt thereof.

The State shall encourage the public and the media to oversee charitable activities, and expose the violations of laws and regulations committed by charitable organizations and charitable trusts, and the acts of defrauding assets by fraudulently using the name of philanthropy or the identity of charitable organizations, so as to play the role of supervision by public opinions and public oversight.

Chapter 11 Legal Liabilities

Article 98 A charitable organization that falls under any of the following circumstances shall be ordered by the relevant civil affairs department to make correction within the prescribed time period, and shall have its registration certificate revoked, and the revocation made public, if it fails to correct by the prescribed deadline:

- (1) Where the charitable organization fails to carry out activities for charitable purposes;
- (2) Where the charitable organization embezzles, misappropriates, withholds or encroaches on charitable assets; or
- (3) Where the charitable organization accepts donations attached with additional conditions that are in violation of laws and regulations or against social morality, or imposes on beneficiaries additional conditions that are in violation of laws and regulations or against social morality.

Article 99 A charitable organization that falls under any of the following circumstances shall be given a warning, and be ordered by the relevant civil affairs department to make correction within the prescribed time period, and shall be ordered to cease activities within the prescribed time period for rectification if it fails to correct by the prescribed deadline:

- (1) Where the charitable organization violates Article 14 herein, and causes losses to charitable assets;
- (2) Where the charitable organization uses assets that may not be used for investment for investment;
- (3) Where the charitable organization changes the purposes of donated assets without authorization;
- (4) Where the standards of the charitable organization on annual expenditure or management expenses for carrying out charitable activities are in violation of Article 60 herein;
- (5) Where the charitable organization fails to fulfill information disclosure obligations pursuant to the law;
- (6) Where the charitable organization fails to submit annual work reports or financial and accounting reports, or submit fund-raising plans for record-filing in accordance with the law; or
- (7) Where the charitable organization divulges the personal privacy of donors, volunteers and beneficiaries, or the information on names, domiciles, contact details, etc. whose disclosure is objected to by donors or the principals of charitable trusts.

A charitable organization that violates this Law and divulges State secrets or commercial secrets shall be punished in accordance with relevant laws.

A charitable organization that falls under any of the circumstances prescribed in the preceding two paragraphs shall have its registration certificate revoked, and the revocation announced, by the relevant civil affairs department, if the charitable organization falls under any of the

circumstances prescribed in the preceding Paragraph again within one year after being dealt with pursuant to the law, or if the charitable organization falls under any other grave circumstances.

Article 100 Where a charitable organization falls under any of the circumstances prescribed by Article 98 or Article 99 herein, its illegal gains, if any, shall be confiscated by the civil affairs department concerned, and its person directly in charge and other personnel subject to direct liabilities shall be given a fine of not less than RMB 20,000 but not more than RMB 200,000.

Article 101 Where a perpetrator falls under any of the following circumstances in carrying out fund-raising activities, the perpetrator shall be warned and ordered to stop fund-raising activities by the civil affairs department concerned, and be ordered to return the assets illegally raised to donors; if such assets are difficult to return, they shall be confiscated by the civil affairs department, and be transferred to other charitable organizations for charitable purposes; and, the relevant organization or individual shall be given a fine of not less than RMB 20,000 but not more than RMB 200,000:

- (1) Where the perpetrator engages in public donation drives although it is an organization or individual not qualified for public fund-raising;
- (2) Where the perpetrator deceives or induces fund-raising targets into making donations by fabricating facts or other means;
- (3) Where the perpetrator, overtly or covertly, apportions the amount of donations needed among entities or individuals; or
- (4) Where the perpetrator obstructs the public order, the production and operations of enterprises or the normal life of residents.

Radio stations, television stations, newspapers and periodicals, Internet service providers and telecommunications business operators that fail to perform the obligations of verification prescribed by Article 27

herein shall be given a warning and be ordered to make corrections within the prescribed time period by their respective competent department, and shall be circulated against notices of criticism if they fail to correct by the prescribed deadline.

Article 102 A charitable organization that fails to issue donation proofs to donors pursuant to the law, fails to issue proofs of volunteer service records to volunteers pursuant to the law or fails to promptly and proactively provide feedback on relevant situations for donors shall be given a warning and be ordered to make correction within the prescribed time period by the relevant civil affairs department, and shall be ordered to cease activities within the prescribed time period if it fails to correct by the prescribed deadline.

Article 103 A charitable organization that practices fraud to defraud preferential tax treatment shall be investigated and punished by the relevant tax authority in accordance with the law; and, under grave circumstances, the civil affairs department concerned shall revoke the registration certificate of the charitable organization and make an announcement thereon.

Article 104 A charitable organization that engages in or funds activities endangering national security or public interests shall be investigated and punished by relevant organs pursuant to the law, and the civil affairs department concerned shall revoke the registration certificate of the charitable organization and make an announcement thereon.

Article 105 Where the trustee of a charitable trust falls under any of the following circumstances, the trustee shall be warned by the civil affairs department concerned, and be ordered to make correction within the prescribed time period; its illegal gains, if any, shall be confiscated by the civil affairs department; and, its person directly in charge and other personnel subject to direct liabilities shall be given a fine of not less than RMB 20,000 but not more than RMB 200,000:

- (1) Where the trustee uses trust assets and the proceeds thereof for non-charitable purposes; or
- (2) Where the trustee fails to report information on the handling of trust matters and financial positions to the relevant civil affairs department or make public such information pursuant to relevant provisions.

Article 106 During charitable services, if damage is caused to beneficiaries or third parties due to faults attributable to a charitable organization or its volunteers, the charitable organization shall be liable for compensation pursuant to the law; and, if such damage is caused by the willful misconduct or gross negligence of volunteers, the charitable organization may exercise recourse against the volunteers.

Where a volunteer suffers damage due to faults attributable to a charitable organization in participating in charitable services, the charitable organization shall be liable for compensation pursuant to the law; and, if the damage is caused by force majeure events, the charitable organization shall give appropriate compensation.

Article 107 Natural persons, legal persons or other organizations that defraud assets by fraudulently using the name of philanthropy or passing themselves off as charitable organizations shall be investigated and punished by public security organs pursuant to the law.

Article 108 Where the civil affairs department and other relevant departments of a people's government at or above the county level and their staff members fall under any of the following circumstances, their superior organ or the relevant supervisory organ shall order correction to be made; and, where disciplinary sanctions shall be meted out pursuant to the law, the relevant personnel appointment and removal organ or supervisory organ shall impose disciplinary sanctions on the persons directly in charge and other personnel subject to direct liabilities:

- (1) Where they fail to fulfill information disclosure obligations pursuant to the law;
- (2) Where they, overtly or covertly, apportion the tasks to raise donations, or compulsorily designate volunteers or charitable organizations to provide services;
- (3) Where they fail to perform the duties of supervision and administration in accordance with the law;
- (4) Where they take administrative enforcement measures and mete out administrative punishments in violation of the law;
- (5) Where they embezzle, misappropriate, withhold or encroach on charitable assets; or
- (6) Where they commit other acts of abusing power, neglecting duty or practicing favoritism for personal gains.

Article 109 Where the violations of this Law constitute acts in violation of public security administration, public security organs shall mete out public security administrative punishments pursuant to the law. Where the violations of this Law constitute criminal offenses, criminal liabilities shall be investigated for pursuant to the law.

Chapter 12 Supplementary Provisions

Article 110 Urban and rural community organizations or entities may carry out grass-roots activities of mutual assistance and help within their respective communities or entities.

Article 111 Organizations other than charitable organizations may carry out charitable activities to the best of their abilities.

Article 112 This Law shall come into effect on September 1, 2016.

Appendix 2 Administrative Regulations on Civil Organizations¹

A. Inurement

Chinese law prohibits any action to “usurp, divide in secret or misappropriate the assets” of a social organization (Article 29 of the Regulations on the Registration and Administration of Social organizations). All of a social organization’s income must be devoted to the activities addressed in the association’s governing statute or constitution, and may not be divided among members. All donations and subsidies must be used in conformity with the association’s purposes and the agreements made with donors. In addition, employees’ compensation must be set with reference to the salaries set for employees of the supervising governmental agency or other unit, which means they generally mirror the salaries of civil servants.

With regard to foundations and private non-enterprise units, the relevant provisions are nearly identical to those governing social organizations (Regulations on the Administration of Foundations Article 27; Interim Regulations on the Registration and Administration of Private Non-Enterprise Units Article 21). A 2005 Ministry of Civil Affairs notice on private non-enterprise units’ accountability and self-governance further requires that all private non-enterprise units comply with the Accounting System for Private Non-Profit Organizations issued in August 2004, thereby securing additional protection against inurement in the case of private non-enterprise units.

For public units, all the institution’s income must be devoted to activities that advance its purposes (Interim Regulations on the Registration and Administration of Public Units Article 15). The public unit

¹Referred to <http://www.cof.org/content/china>.

must use all donations and subsidies in conformity with the purposes of the organization and the agreements with donors.

The Law on Donations for the Public Welfare sets forth similar provisions regarding inurement (Law on Donations for the Public Welfare Articles 17, 18, and 23).

There is one exception to the general rule against inurement: The founders of a private school are permitted to receive a "reasonable return" on their investment (Law on the Promotion of Private Education Article 51).

The legal framework contains general prohibitions but no detailed rules governing financial transactions or "self-dealing" between NPOs and their founders, donors, directors, officers, employees, or family members.

B. Proprietary Interest

The Accounting System for Private Non-Profit Organizations (effective January 2005) specifically states that "resource providers do not have ownership of [NPOs]" (Article 2(3)). Though the law and regulations do not explicitly prohibit a donor from making a conditional donation, various regulations limit how an NPO can use its property and income, which may imply that donors cannot revoke their contributions.

The Law on Donations for the Public Welfare provides that if the recipient changes the nature and use of the donated property without the consent of the donor, and refuses to abide by a competent authority's order to cure the violation of the donor's instructions, the authorities can transfer the property to another NPO with the same or similar purposes, after consulting the donor (Article 28).

The regulations do not address whether members of a mutual benefit social organization can receive their contributions back when they cease being members.

The founders of a private school may retain a proprietary interest in the property they contribute to a school. During the existence of the school, however, they are entitled to claim only a “reasonable return,” and they cannot revoke their contribution or receive their property back (Law on the Promotion of Private Education Article 36). It is not yet clear whether they can recover their property upon dissolution of the private school.

C. Dissolution

Chinese law is largely silent on what happens to the assets of an NPO upon its dissolution. One reason for this is the close link between the state and many NPOs. The state has formed virtually all public units and most social organizations and foundations that exist today. In practice, the assets of a dissolved NPO generally are transferred to another NPO or to the state.

For social organizations, the Regulations on the Registration and Administration of Social Organizations provide that “the remaining assets of a canceled social association shall be disposed of in accordance with the relevant provisions of the State” (Article 25). The relevant governmental agencies have opined that the assets should not be returned to members or donors. Further, the Standard Form of Statutes of Social Organizations, issued by the Ministry of Civil Affairs, provides that remaining assets should be used to support undertakings similar to those of the dissolved organization, under the supervision of the relevant government authorities (Standard Form of Statutes of Social Organizations Article 25).

The Interim Regulations on the Registration and Administration of Public Units are silent in this regard, but officials generally treat private non-enterprise units in the same manner as social organizations.

For foundations, the Regulations on the Administration of Foundations provide that “the remaining assets of a canceled foundation shall be used for public benefit purpose designated in its constitution. When it is not feasible to do so, the registration and administration agency will arrange for the assets to be donated to public benefit organizations whose nature and purpose are similar to the one in question (Article 33).

Because public units are established with state-owned assets, the state typically acquires remaining assets upon dissolution, even in the absence of explicit provisions for their return.

Private schools may be an exception. The Law on the Promotion of Private Education provides that the remaining assets will be disposed of according to related laws or regulations, which have not been issued yet (Article 59). It is possible that the rules will allow founders to recover the property they contributed, but only to the extent of its original value.

D. Activities

General

An NPO must limit its activities to those set forth in its constitution or statutes (Regulations on the Registration and Administration of Social Organizations Articles 29 and 33; Interim Regulations on the Registration and Administration of Public Units Articles 21 and 25; Regulations on the Administration of Foundations Articles 27 and 42).

Different types of NPOs are able to qualify as legal persons, provided that they follow the appropriate registration procedures. As such, all NPOs have the power to engage in activities of legal persons, except to the extent that the law provides otherwise.

Economic Activities

Conducting commercial activities cannot be the principal purpose of an NPO. The law does not distinguish between “related” and “unrelated” commercial activities.

As interpreted by the State Administration of Industry and Commerce (the authority responsible for commercial activities), social organizations, private non-enterprise units, foundations, and public units cannot themselves engage in for-profit businesses, but they can invest in commercial entities unless the State Council provides otherwise.

An NPO's commercial activities are taxed on the same basis (25%) as a commercial corporation unless the law stipulates otherwise. Exceptions to this rule are rare. Enterprises owned solely by public schools, for example, are exempted from a substantial part of the business tax and VAT. The income of scientific research institutes and higher educational institutions, if derived from the transfer of technology, is exempted from business tax.

Political Activities

No formal legal rules restrict NPO involvement in the legislative process. Organizations commonly debate legislative proposals through the mass media and communicate their opinions to the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) (an advisory body that meets at the same time as the NPC), as well as to provincial and municipal legislatures.

Though no explicit rules exist, NPOs are generally forbidden to engage in political activity surrounding an election, except for trade unions and certain affiliated organizations of the Chinese Communist Party.

E. Discrimination

The Constitution of the People's Republic of China guarantees that all "Citizens of the People's Republic of China have the duty as well as the right to receive education" (Constitution Article 46). Article 4 of the Constitution also guarantees, in formal terms, the equality of all national and ethnic groups in China, and prohibits any form of discrimination against minorities (Constitution Article 4).

F. Control of Organizations

It is possible for a Chinese NPO to be controlled by a for-profit entity. For-profit organizations commonly form or join social organizations, such as chambers of commerce, trade associations, or industry associations. In formal terms, members control a social organization through the members' assembly, though in practice members' authority may not be substantial.

Many private non-enterprise units and private foundations have been established by for-profit organizations. Founders of a private non-enterprise unit or a foundation are permitted to control it throughout its existence. Although it is not explicitly provided in the regulations, control may be established by the statute of a civil non-enterprise institution or a foundation. In practice, a public unit is wholly controlled by its founding organization, which is ordinarily a government agency.

G. Annual Inspection and Information Disclosure

The Measures for the Annual Inspection of Foundations issued by the Ministry of Civil Affairs in 2005 require that foundations and representative offices of overseas foundations provide their annual work report for the previous year to the relevant registration and administration organ for review. An annual work report must include: financial statements, auditing reports, and information on donations, acceptance of donations, and offers of funding, as well as any changes in staffing or institution. The Regulations on the Registration and Administration of Social Organizations and Interim Regulations on the Registration and Administration of Public Units spell out similar requirements for social organizations and private non-enterprise units.

The Measures for the Information Disclosure of Foundations issued by the Ministry of Civil Affairs in 2006 require foundations or representative offices of overseas foundations to disclose internal information

and business undertakings to the general public. The following information must be made generally available: (1) the annual work report of a foundation or representative office of an overseas foundation; (2) information on donation activities by the foundation; and (3) information on the welfare funding projects undertaken by the foundation.

Appendix 3 Websites for Philanthropy

Type	Name	Website
Specialized Websites	Website of Chinese Civil Organization	www.chinanpo.gov.cn
	Website of Chinese Philanthropy	www.charity.gov.cn
	Website of Chinese Public Welfare	www.pubchn.com
	Website of China Foundation Center	www.foundationcenter.org.cn
	Website of NGO Development and Communication	www.ngocn.net
	China Development Brief	www.chinadevelopmentbrief.org.cn
	Website of China Philanthropy Times	www.gongyishibao.com
Sub-sites of portal websites	Tencent Philanthropy	gongyi.qq.com
	Sina Philanthropy	gongyi.sina.com.cn
	Sohu Philanthropy	gongyi.sohu.com
	Ifeng Philanthropy	gongyi.ifeng.com
	Hexun Philanthropy	gongyi.hexun.com/gyzx
	Xinhua Philanthropy	www.xinhuanet.com/gongyi
	People.cn	www.people.com.cn

Appendix 4 Specialized Newspapers and Magazines for Philanthropy

Print Media	Name	Sponsor	Time of Establishment
Newspaper	Red Cross of China	Red Cross Society of China	1986
	China Philanthropy Times	China Association of Social Workers	2001
	Civil Organization Weekly	Ministry of Civil Affairs	2004
	Philanthropy (newspaper)	China Charity Federation	2012
Magazine	Philanthropy	China Charity Federation, Tianjin Charity Association	1998
	Ultimate Love	Shanghai Charity Foundation	2004
	Global Philanthropy	China Soong Ching Ling Foundation	2008
	Social Entrepreneurs	NPI Development Center for Philanthropic Organizations	2009
	China Philanthropist	Philanthropy Media	2010
	Hope Project	China Youth Development Foundation	2010
	Society and Philanthropy	China Association of Social Workers	2010
	China Fortune	China Foundation for Poverty Alleviation	2011



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