

# Chapter 19

## NGO Innovations: Conceptions and Recommendations on Bank of Public Interests

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The Third Plenary Session of the 18th National Congress of the CPC expressly put forward to encourage financial innovations and develop non-governmental banks. Over a long time, foundations in China have neither got any explicit recognition, nor regulation for their financial activities. Therefore, their modes for risk control and earnings are restricted within the bounds of relaxation and restriction. For a long time, there are many problems with social welfare enterprises, such as unclear definitions of the nature of financial institutions, obscure rules for foundations that engage in financial activities and incomplete ecological chain in public fields. With respect to such problems, the author has, in accordance with the spirit of the Third Plenary Session of the 18th National Congress of the CPC, put forward several policy recommendations for promoting venture philanthropy and encouraging explorations for banks of public interests, so as to address problems that might affect the development ecology of public organizations, foundations in particular, and the development of venture philanthropy.

Since the reform and opening up, especially the past decade or so, philanthropy has flourished in China. The number of participating subjects has substantially increased, philanthropic resources have considerably accumulated and there are more innovations in welfare activities. There are increasingly obvious improvements in institutional and policy levels, such as unified direct registration, tax reduction or exemption for donations, and government purchasing services. China's philanthropy has undergone a gradual transition from the starting period to the leapfrog period. In this process, there are three factors which are playing an increasingly salient role in restricting the development of philanthropy. The first

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factor is inadequate supply of institutions. Relevant laws and regulations are lagging behind, management rules and standards are incomplete and not unified, and there are shortages in public services. The second factor is inadequate innovative capabilities. In terms of organization, projects or activities, innovative abilities are weak, professional teams are inadequate, and organizational credibility is low. The third factor is unfavorable ecology for public good. The industrial chain for public good has yet to be established, organizations and projects are in a discrete state, the support system is missing and social capital and public ethics are generally insufficient. These problems are manifested in a scarcity of both talents and funds in philanthropic fields. In terms of funds, with constant growth in China's economy, the potential resources for public good keep increasing. However, as of result of scarcity of fund-raising talents, inadequate capabilities of public welfare organizations, incomplete chains for public welfare industry, and the plight of financing for public welfare, the potential resources of the public welfare cause fail to be fully utilized. For example, problems with financing of public welfare field in China include an unreasonable financing structure, insufficient fund operating capabilities for public welfare organizations, difficulty in increasing values of idle funds and inadequate utilization of new financing means.

In the tides of social innovation and welfare innovation, new types of public welfare modes present themselves in response to the above-mentioned problems, and venture philanthropy is among one of them. The concept of "venture philanthropy" is to apply the concept of "venture capital" or "entrepreneurial investment". The emergence of venture philanthropy marks the birth of a new type of philanthropic partnership. The investment subjects of venture philanthropy can be government agencies, enterprises and foundations, or individuals. In terms of operating modes, venture philanthropy is similar to commercial investment behaviors, and its intrinsic difference from commercial investments lies in that its investment objective is not to seek profits; instead of taking maximization of profits as its ultimate goal, venture philanthropy should value both investment returns and philanthropic goals. Over the recent years, the practice of venture philanthropy has begun to rise in various places. Foundations which bear the attributes of financial institutions also get active involvement in venture philanthropy. For example, Guangdong Provincial Government launched the "Jisi Philanthropy...Happy Guangdong" Women-Supporting Schemes in alliance with the Li Ka Shing Foundation (LKSF); the Foundation for Balancing Urban and Rural Development of Sichuan Province set up the Hony Venture Philanthropy Special Fund in support of philanthropy and balanced urban and rural development. YouChange China Social Entrepreneur Foundation unites with the Climate Group and Green China Lab to set up a social value investment foundation.

However, the rapid development of venture philanthropy in China is influenced by system, mechanism, and institutional environment. Moreover, due to their short

history in venture philanthropy, various participating subjects have limited experience and capabilities. Therefore, there are still many prominent problems, mainly include the following: first, in venture philanthropy, the dominant positions of NGOs, foundations in particular, fail to be highlighted. In venture philanthropic activities conducted at various places, though most of local governments usually opt to entrust with or work with NGOs to conduct venture philanthropy, there are still too much administrative dominance. This is particularly manifested in inadequate social participations in venture philanthropy; second, the closed nature of the fund sources of venture philanthropy also leads to inadequacy in innovations of new types of carriers for venture philanthropy. With the exception of part of venture philanthropic activities conducted by foundations and enterprises, the government relies heavily on public welfare funds from welfare lottery tickets sold by departments of civil affairs at various levels with which it participates in venture philanthropy. While the relevant regulations concerning public welfare funds from welfare lottery tickets also strictly restrict the investment orientation, application scope and application methods of venture philanthropy. The closed nature has determined that the government must include venture philanthropy into its own scope of control. This has undoubtedly posed a major obstacle to the establishment of a new type of venture philanthropy; third, the variation in venture philanthropy. In venture philanthropy dominated by the government, the expenditure of funds will normally be free of charge. Venture philanthropy usually combines all kinds of investment tools, and is accompanied by clear and sound exit plans. In this way, the scope for support targets can be effectively broadened and the time for support be extended. Therefore, the design of the exit mechanism is vital for venture philanthropy. While in practice, many local governments in China universally adopt gratuitous means of cash endowment in venture philanthropic activities, and seldom utilize other social investment tools, not to mention to establish a corresponding exit mechanism. Fourth, excessive emphasis is placed on the open-loop of social ecology in venture philanthropy without adequate attention to the closed-loop of the social ecology in venture philanthropy. By excessive emphasis on the open-loop of the social ecology in venture philanthropy, we mean that excessive emphasis has been laid on utilization of external forces and resources, while inadequate emphasis has been laid on the formation of the closed-loop of venture philanthropy itself, or the ability to support, operate or develop itself.

*The Decisions* expressly put forward to allow private capital that meet required conditions to initiate and set up small-and medium-sized banks and other financial institutions. This system has groundbreaking significance. Only in that way, will it be possible for foundations and other welfare organizations to enter the financial system through venture philanthropy and set up financial institutions, and private banks will be able to enter the philanthropic field and carry out venture philanthropy. Moreover, it is possible to build an entire philanthropic financial system.

Building a modern society organization system and developing causes for public good are the important objectives and directions for social structural reform. If this

can be combined with the financial structural reform in the economic structural reform, it will help “leverage the leading role of economic structural reform, promote the compatibility of the relations of production and productive forces, and the superstructure with economic foundations and boost the sustainable and healthy development of the economy and the society”. In view of this, I hereby put forward the following suggestions on policies:

(I) Pay Attention to the Nature of Foundations as Financial Institutions, and Give Full Play to the Financial Role of Foundations in Venture Philanthropy

The nature of foundations as financial institutions is mainly manifested in the following aspects: first, they have the function of gathering, mobilizing and distributing funds, similar to that of an intermediary; second, as the mechanism for accumulating and pooling wealth, they have the function of accumulating funds and spitting wealth; third, they are agencies for storing funds. It takes a long and complicated process to raise and utilize the funds of foundations. Such storage function has endowed foundations more financial attributes and functions; fourth, as investment subjects, they have the functions of maintaining, increasing value and financial accommodation of funds; fifth, the funds mainly come from donations and thus possess the function of fund trust.

At the initial period, foundations in China originally have the similar function as banks, and are dealt with as special financial institutions. Their competent business units also include the People’s Bank of China. In the 1990s, rural cooperative foundations were universally set up in rural China, in an attempt to solve the difficulty of rural areas in getting loans. Unfortunately, rural cooperative foundations didn’t go far before explicitly being banned by the State Council in July 1998 due to unclear property ownership and poor management. However, this was not intended to negate the financial attributes and functions of foundations. Under a new historical period, we must once again emphasize and leverage the attributes of foundations as financial institutions, especially the financial function of foundations in venture philanthropy.

(II) Form a Complete Ecological Chain for Venture Philanthropy and Build an Effective Closed-Loop Ecological Chain for Venture Philanthropy

Venture philanthropy cannot succeed without the forces of government agencies and enterprises, and still more, nor can it succeed without the participation of NGOs, foundations in particular, as subjects of social governance. The government can promote and guide the strategic development direction of venture philanthropy by formulating relevant policies and systems. When assuming social responsibilities, enterprises, commercial banks in particular, can take venture philanthropy as an important way of participating in social construction and social governance, so as to bring about a win-win situation. Therefore, it is necessary to encourage commercial banks and policy banks to fulfill social responsibilities of enterprises, and participate in public welfare cause, so as to promote financial innovation and

provide convenience for financing venture philanthropic projects. Banking financial institutions should undertake social responsibilities for their shareholders, employees, consumers, commercial banks, government agencies and communities and other stakeholders, and be encouraged to participate in venture philanthropy and explore financial innovations, so as to help fulfill their corporate social responsibilities as enterprises. As resource providers, foundations can not only raise funds, maintain and increase values, but also establish commercial entities including financial institutions capable of providing resources to causes for public good in a long-term and stable manner.

### (III) Drawing on International Experience to Set up Banks of Public Interests and Form a Complete Modern Financial System

Commercial banks and policy banks are two major parallel and complementary financial institutions in China's unified financial system. The emergence of policy banks and even policy-based finance, are a reasonable complement to the "mal-functioning status" of the market arisen during resource allocation and is an approach for the government to allocate resources under the market economic conditions. However, the government sometimes does malfunction, so merely using policy-based finance as a complement still fails to give effective responses to the "market malfunction" existing in reality. When it comes to the financing plight for the development of public welfare causes, the crux lies in the absence of a financial system for public good. Philanthropic finance is different from commercial finance. Commercial banks operate on the principle of safety, liquidity and benefits, and their main objective is to make profits; while philanthropic finance operates on the non-profitable principle, or their objective is not to make profit. Philanthropic finance is also different from policy-based finance. Policy-based finance is based on state credit, and indirectly or directly serves to implement and coordinate particular economic and social development policies set by the state for deposit and loan interest rates under preferential conditions using various special financing means. In contrast, philanthropic finance is not based on state credit, nor does it rely on the government as its source of capital. In most cases, it relies on market-oriented approaches to solve financial problems that exist in the fields of society, including the fields of public welfare.

In the public welfare financial system, due to their intrinsic characteristics and inadequacy in such aspects as property rights, performance evaluation, investment returns and maintenance and increase of values, foundations can hardly replace banks; there are also such intrinsic restraints as shareholder interest returns, profitability restriction which hinder commercial banks from undertaking corporate social responsibilities and entering public welfare financial system. It is not only necessary, but also, to a certain extent, operationally possible to explore the establishment of banks of public interests. Banks of public interests can keep

tapping into new opportunities from the blind domains of market-oriented mechanism and policy-related mechanism in the public welfare fields. Effectively integrating the relatively “backward” causes for public good and relatively mature financial market can serve two purposes: on one hand, it can help maintain and increase the value of funds through financial means, thereby promoting the independent and healthy development of causes for public good; on the other hand, it can regulate the profit-seeking inertia of the financial market by taking advantage of the value restraints of public welfare, and guide it to return to its original financial functions and values.

Concerning banks of public interests, there is much practical experience that we can draw from the international community. Bangladesh Rural Bank, also known as the Grameen Bank, is dedicated to providing petty loans to the poor, and has achieved great success in poverty alleviation. A1-Bank al-Islami is a generic term for domestic financial credit institutions that some Arabic and Islamic countries established on the principle that interests should be banned according to the *Koran*. Not aimed at making profits, such banks do not charge interests for loans, nor pay interests for deposits. Instead, they commit themselves to developing the national economy and cultural and educational undertakings and have played an enormous role in mobilizing the domestic economic resources in a country and fostering a sound financial system. In China, relevant explorations have also been carried out in some regions. The Foundation for Balancing Urban and Rural Development of Sichuan Province plans to set up the Sichuan Bank for Balanced Development to provide services for balancing urban and rural development and advancing causes for public good in Sichuan Province. This proposal has been brought to the attention of relevant departments.

#### (IV) Build a Scientific and Effective Supervisory Mechanism and a Performance Evaluation Mechanism for Banks of Public Interests

To promote venture philanthropy and encourage trials at banks of public interests in innovating the financial system, we must establish a scientific and effective supervisory mechanism and maintain a balanced relationship between the welfare attributes and commercial approaches of venture philanthropy and banks of public interests on the basis of the intrinsic characteristics of venture philanthropy and banks of public interests. We should explore enactment of relevant laws, coordinate commercial finance, policy-based finance and philanthropic finance, and build a fire wall between different financial fields, so as to promote reform of China’s financial system and build a complete modern financial system.

A scientific evaluation system should be established with respect to performance of banks of public interests. In view of the uniqueness of banks of public interests in the financial system and their own missions, we should take differentiated approaches to commercial banks and policy banks in their performance evaluation systems.

Among them, social investment returns are tools that hold salutary reference and significance for performance evaluation of banks of public interests. For social investment returns, what matters are not only their economic benefits and policy benefits, but also the changes brought about by investments to the society and communities.