

Understanding Service Contracting and Its Impact on NGO Development in China

Rong Zhao¹ · Zhongsheng Wu² · Chuanjin Tao³

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Abstract The Chinese government and human service NPOs are joining the bandwagon of service contracting with enthusiasm. Although this new policy endeavor has attracted much interest, empirical studies are scant. Drawing from interviews with 14 nonprofit organizations and two government officials conducted in 2012 and 2014, along with abundant secondary data, this paper analyzes the impact of China's service contracting on the following: the social service delivery system, the promotion of NGOs development, and the nature of government-nonprofit relationship. The study found that service contracting has positive impacts on NGOs, such as facilitating their fundraising through sharing the government's legitimacy. However, the majority of contract funding went to organizations that have a close government connection. We argue that the future of China's service contracting is determined by the Chinese government's primary political agenda, which is social control.

Résumé Le gouvernement chinois et les OSBL du domaine des services sociaux prennent le marché des prestations de services d'assaut avec entrain. Même si cette nouvelle initiative politique a soulevé un grand intérêt, les études empiriques à son sujet se font rares. Tiré d'entrevues menées, en 2012 et 2014, auprès de 14 organismes sans but lucratif et 2 représentants du gouvernement, en plus de nombreuses données secondaires, cet article analyse l'incidence dudit marché en Chine en

✉ Chuanjin Tao
taocjbnu@gmail.com

¹ Social Policy & Administration, Columbia University School of Social Work, New York, NY, USA

² Public Policy Analysis, University of Maryland School of Public Policy, College Park, MD, USA

³ Public Management and Nonprofit Management, Beijing Normal University School of Social Development and Public Policy, The North Main Building, 20th Floor, No. 19, XinJieKouWai St., HaiDian District, Beijing 100875, People's Republic of China

fonction du système de prestations des services sociaux; de la promotion du développement des ONG; et de la nature des relations qui unissent le gouvernement aux OSBL. L'étude a démontré que le marché des prestations de services a une incidence positive sur les ONG, notamment sur leurs campagnes de financement, qui sont favorisées par le partage de la légitimité du gouvernement. La majorité du financement a cependant été affectée aux organisations ayant des liens étroits avec ce dernier. Nous faisons valoir que l'avenir du marché des prestations de services de la Chine sera déterminé par le principal programme politique du gouvernement chinois, à savoir le contrôle social.

Zusammenfassung Die chinesische Regierung und sozialen gemeinnützigen Organisationen folgen derzeit enthusiastisch dem Trend der Auftragsvergabe im Dienstleistungsbereich. Obwohl diese neuen politischen Anstrengungen viel Interesse wecken, gibt es kaum empirische Studien. Der vorliegende Beitrag stützt sich auf Interviews mit 14 gemeinnützigen Organisationen und zwei Regierungsbeamten aus den Jahren 2012 und 2014 sowie reichliche Sekundärdaten und analysiert die Auswirkungen von Chinas Auftragsvergabe im Dienstleistungsbereich auf folgende Punkte: das Bereitstellungssystem für soziale Dienstleistungen, die Förderung der Entwicklung nicht-staatlicher Organisationen und die Beziehung zwischen Regierung und gemeinnützigen Organisationen. Die Studie kam zu dem Ergebnis, dass sich die Auftragsvergabe im Dienstleistungsbereich positiv auf nicht-staatliche Organisationen auswirkt, z. B. eine Erleichterung bei der Mittelbeschaffung aufgrund einer mit der Regierung geteilten Legitimation. Allerdings ging ein Großteil der Auftragsfinanzierung an Organisationen, die eine enge Verbindung zur Regierung haben. Wir behaupten, dass die Zukunft der Auftragsvergabe im Dienstleistungsbereich in China von der wichtigsten politischen Agenda der chinesischen Regierung - der sozialen Kontrolle - gesteuert wird.

Resumen El gobierno chino y las organizaciones chinas de servicios sociales sin ánimo de lucro se están incorporando al carro de la contratación de servicios con entusiasmo. Aunque este nuevo esfuerzo político ha atraído mucho interés, los estudios empíricos son escasos. Partiendo de entrevistas con 14 organizaciones sin ánimo de lucro y dos funcionarios gubernamentales realizadas en 2012 y 2014, junto con abundantes datos secundarios, el presente documento analiza el impacto de la contratación de servicios de China sobre lo siguiente: el sistema de entrega de servicios sociales, la promoción del desarrollo de ONG, y la naturaleza de la relación gobierno-organizaciones sin ánimo de lucro. El estudio encontró que la contratación de servicios tiene impactos positivos sobre las ONG, tales como facilitar su recaudación de fondos al compartir la legitimidad del gobierno. Sin embargo, la mayor parte de la financiación de contratos fue a organizaciones que tienen una estrecha conexión con el gobierno. Argumentamos que el futuro de la contratación de servicios en China está determinado por la agenda política fundamental del gobierno chino, que es el control social.

Keywords Service contracting · NGO development · Civil society · China

Introduction

Since the 1970s, the welfare state crisis of many Western industrial countries stimulated a need for public service reform and the privatization of social services provision (Kettl 1997; Eikenberry and Kluver 2004). Because nonprofit organizations (NPOs, generally, also called nongovernmental organizations, or NGOs¹) possess existing organizational structures and human resources, they are considered ideal collaborators for governments in achieving their social goals (Salamon 1993, 1995). During the past several decades, Western welfare countries have relied heavily on NPOs for service delivery, and contracting has become a main form of the government-nonprofit collaboration in service delivery. Accordingly, in countries such as the U.S., government funding has replaced a significant portion of private donation for nonprofit organizations. Empirical studies have shown that this government sponsorship has led to an expansion of both the sector's service capacity and its overall scale (Salamon 1995, 1999).

In contrast, China's social service provision system is highly centralized around government agencies, such as the "Public Service Unit" (PSU, *Shi Ye Dan Wei*)². This system has been criticized as it has not been cost-efficient or able to meet increasing service needs. Consequently, policy scholars and Chinese citizens are urging the government to reform the social service system and fund nonprofit organizations to take on a proportion of its service functions (Fan 2004; Sun 2005; The World Bank 2005). Meanwhile, the majority of NPOs in China are suffering from a funding shortage due to two reasons: First, the private philanthropy is limited in scale in China; second, the government constrains NGOs from raising funds from the general public. As a result, NGOs have been expecting the government's financial support for many years. Considering these mutual needs and the appeal of the service contracting's positive results in the West³, the Chinese government, nonprofit service providers, advocates, and researchers have reached a consensus on the importance of service contracting. They agree that contracting could be a comprehensive solution for the reform of the country's service provision system and the development of the nonprofit sector. In line with this consensus, the Chinese government and human service NPOs have been joining the bandwagon of service contracting with enthusiasm since the late 2000s (Peng and Huang 2006; Zheng 2009; Report of China' Service Contracting 2014).

After running experiments in several large cities, such as Shanghai, Beijing, and Shenzhen, the central government and many local governments are rushing into the

¹ In China, many NPOs have full or partial relationship with the government. NPOs with government background are called GONGOs (governmental NGOs) or quasi-GONGOs, and those without are called NGOs. For this reason, we are not using NPOs interchangeable with NGOs in this article. When we use NPOs, it refers to both GONGOs and NGOs (please see pp. 8–10).

² PSU are also called "Institution Units," which are generally government-run service organizations. Employees of PSUs are not government officials but enjoy similar social status and welfare package. To put it simply, PSUs are public agencies that function alongside government divisions.

³ According to Deng, Chinese people have highly regarded Western theories and practices because of the success of the West and the lag of China since the early 20th century. There is a ubiquitous tendency to emulate Western ideas and practices.

game. Service contracting has become a popular issue both in government policy on the provision of social services and in the nonprofit sector. Accordingly, NGOs are expecting a potential funding influx with enthusiasm, though the future of this endeavor is hard to predict (Yang 2014). So, how has service contracting been conducted and managed? What have been recipient organizations' experiences in the contracting relationship? How has the China's government-nonprofit relationship shifted in response to this new initiative? To date, many policy discussions and journal articles have been published with respect to the operation of the service contracting, the effectiveness of the managerial system, and how the government-nonprofit relationship has shifted with it. However, the arguments being made often solely rely on expectations or theoretical speculation; very few are informed by empirical data. Given the preliminary stage of both the practice and research on service contracting, a longitudinal qualitative study with selected representative cases would be of great value both for policy implication and theoretical development.

Drawing from interviews conducted in 2012 and 2014 with 12 nonprofit organizations and two government officials in Beijing, along with abundant secondary data, this study analyzes, both theoretically and empirically, service contracting practice in Beijing, from 2010 to 2014. Our analytical framework considers the two main goals of service contracting within the context of China's government-nonprofit relationship: (1) transforming the social service delivery system and (2) promoting NGO development (see Fig. 2). The study found that the NGOs/GONGOs schema of China's nonprofit sector played a dominant role in shaping China's service contracting, and the Hub NPOs management system impeded the flow of contracting funds into NGOs. In fact, the contracting might have exacerbated GONGOs' privileged status as well as their reliance on the government, and might have impeded NGOs' growth. Potential future directions of China's service contracting and social service reform as well as corresponding policy implications are discussed.

Literature Review

Government-Nonprofit Relations in Democratic Industrial Countries

Nonprofits' role in society has been traditionally regarded as twofold: service provider (service system role) and civil society builder (polity role) (Salamon 1999); therefore, in general, theories of government-nonprofit relations have been built based on these two roles. According to the literature review by Rathgeb and Gronbjerg (2006), three major theoretical models have been developed to explain the government-nonprofit relationship in the advanced democratic industrial countries. The first is the "Demand/Supply Perspectives" model, which mainly focuses on the efficacy and provision of public goods. Given the fact of "market failure, government failure, and "voluntary failure," a consensus has been reached by both researchers and practitioners that nonprofits are government's collaborators in public goods delivery (Salamon 1987, 1999). The second is the "Civil Society/

Social Movement Model.” Scholars with this perspective are more concerned about nonprofits’ role in developing civil society, which would help construct a society with democracy, freedom, citizen participation, and social capital. This model stresses the advocacy role of nonprofits and the complicated government-nonprofit power dynamics driven by a joint force of social, economic, and political structure. The third is “Regime or Neo-institutional Perspectives,” which is a more recent theory based on comparative analysis of global nonprofit sectors and their relations to respective political institutions. Of this school of theories, “Regime and Social Origin Perspective” (Salamon and Anheier 1998) holds that a specific social structure and political regime are key determinants that drive the development of a country’s nonprofit sector; thus, nonprofit sectors under different political regimes differ significantly. “New Institutional Theory” (Powell and DiMaggio 1991) disagrees with the traditional view that a nonprofit sector is promoted solely by independent social forces, holding that government plays a key role in shaping a nonprofit sector. These two theories have high relevance to the case of China, which has a powerful government and has maintained strict control over the development of civil society.

Government-Nonprofit Relations in China

Theories and practices of government-nonprofit relations in the West have significantly shaped the research and policy discourses on this issue in China. Accordingly, nonprofit studies in China usually adopt the three models illustrated above in their analysis. Although studies on this topic have different methods and research foci, they have reached similar conclusions (Wang 2002; Liu 2007; Kang 2010; Teets 2014). Specifically, authors of these studies agree that the Chinese government’s current attitude toward nonprofits can be summarized as: seek to obtain the benefits of their social service function, while mitigate potential dangers that a developed nonprofit sector might pose to the system. To achieve this overall goal, the Chinese government has employed *differentiated controls* (*Fen Lei Kong Zhi*) strategy (Kang 2010). First, “*differentiated controls*” allows for NGOs to grow in terms of their number and breadth of services and activities. Second, it forbids groups to engage in politically sensitive activities, such as fomenting human rights and anti-government protests. In this way, the Chinese government exercises “control” but does not intervene in the daily activities of politically neutral NGOs (Liu 2007). Teets (2014) theorized this trend as a shift from 1990s’ *corporatism* to *consultative authoritarianism* beginning in 2000. Under this new ideology, the Chinese government allows NGOs’ operational autonomy but still employs many indirect methods to exert its control.

In conjunction with this strategy shift, the Chinese government is reforming its *dual management system* (DMS, *Shuang Chong Guan Li Ti Zhi*). DMS came into existence at the end of the 1980s with the goal of regulating and even controlling the registration and operation of NGOs (Liu 2007; Wang 2008). Under this system, an NGO’s registration requires a government agency sponsor, called Operational Management Agency (OMA), before it files official documents to the Registration Management Agency (RMA) within the Civil Affairs Ministry. An OMA is

responsible for monitoring the NGO's daily operation and program activities, while the RMA ensures the NGO's compliance with legal regulations on nonprofit organizations. A successful registration requires permission both from an OMA and a RMA. After an NGO successfully registers, its OMA (e.g., the Department of Education for an educational NGO) shares the political responsibility for any political infractions; therefore, it is very difficult for an NGO to find a sponsor who is willing to share the political liabilities. Clearly, this registration process is challenging for NGOs without veritable government connections. If an NGO does not register, they will not have a legal identity, and will encounter many difficulties such as fundraising and tax-status. Therefore, the growth of NGOs in China has been significantly stymied by this registration issue.

The *dual management system* has been highly criticized in China, and there have been calls for reform. After several reform experiments in two provinces (Wei 2011; NPO Registration Reform in Guangdong, July 1, 2011), the central government changed this process at the end of 2013. The new regulation waives the sponsorship requirement for four types of service nonprofits, including charitable organizations and community service agencies. However, the DMS is still mandatory for political, religious, or legal-service nonprofits as well as organizations that have international connections (Wang 2013).

In addition to China's unique government-nonprofit relationship, the word *government* has two contradictory connotations. On the one hand, the *governmental* or *top-down approach* in social services often conveys negative meaning to the Chinese public, such as authoritative, bureaucratic, unresponsive, and self-interested. In contrast, NGOs have a positive connotation, such as professional, effective, and capable problem solvers. This NGO method is called the *social* or *bottom-up approach*. The Chinese government is aware of its negative reputation and has been making incremental efforts to socialize the public service delivery system. On the other hand, because of the high level of social distrust in Chinese society (Deng 2008; Kang 2010), government-controlled hospitals, schools, even business firms are generally more trusted than their private counterparts including NGOs. A public firm usually is more trusted because it is supervised by the government system which the general public can hold accountable to some extent. Whereas a private firm, especially a small and new one, often struggles with trust issues before it establishes a reputation due to the lack of a guarantor, like a whole government system. This overall distrust of private firms has been a barrier to NGOs' development in China. In summary, despite the aforementioned negative connotation of "*government*," it still is associated with legitimacy and accountability to some extent.

The Schema of China's NPOs

It is important to note that China's service contracting takes place within a NPO structure that is fairly different from the Western countries.

In China, NPOs are grouped into two categories, GONGOs and NGOs (see Fig. 1), based on the degree of reliance on government resources (Wang 2002; Liu 2007). The first category, GONGO, is either a governmental or quasi-governmental

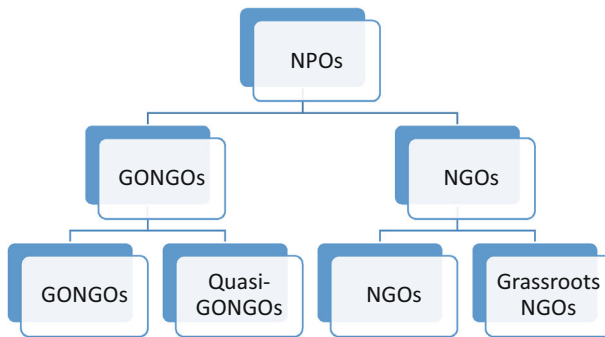


Fig. 1 The schema of China's NPOs

organization, whose personnel and finances are partially to fully created and controlled by the government. Clearly, their identity as a nongovernmental entity and their operating status as a governmental arm are highly contradictory. For example, in most other countries, GONGOs do not exist because an NPO by nature is nongovernmental. These organizations are originally created by the Chinese government with the intention of collecting philanthropic funds for its own municipal service provision. Because of government support, GONGOs have two significant privileges compared to NGOs: they do not face difficulty navigating the *dual management system*'s and possess *public fundraising status* (PFS). PFS is a governmental permission that broadens an NPO's fundraising scope. NPOs that possess PFS are able to raise funds anywhere, whereas technically nonPFS-NPOs are not allowed to publicly raise funds. The majority of PFS-NPOs are GONGOs. With these two privileges, GONGOs can gather private donations easily because often times they are the only legitimate choice for a donor.

The second category of NPOs is NGO, which is defined as an independent nonprofit whose creation is driven by social needs (e.g., social service or civic organizations) (Wang 2002; Liu 2007; Kang 2010). Generally, these organizations are small and operate independently from the government. In contrast with GONGOs, which rely on their relationship with certain government agencies, NGOs compete with one another for private funding in order to survive. The competition is based on professional capacity and accountability, as opposed to the power of the organization's government sponsors. Under the category of NGOs, the smallest and least structured ones are called grassroots NGOs. Because of the aforementioned difficulty of registration, these organizations usually are either not registered and have no legal status, or are registered as for-profit entities in order to have some legal status. Despite their legal status, grassroots NGOs are considered as *de facto* NGOs by both the Chinese public and government given their mission and services. Reputable grassroots NGOs are also eligible for government service contracting through some special arrangements.

Overall, China's nonprofit sector is still in an initial stage and thus quite underdeveloped. To the general public, "NPO" is still a new and unfamiliar term.

NPOs, both GONGOs and NGOs, are not well known in Chinese society, especially in the case of NGOs and grassroots NGOs.

In fact, each type of NPO has a unique set of dilemmas (Wang 2008; Kang 2010). GONGOs are generally large in size and possess tremendous resources, yet their bureaucratic operation and failure to address social needs have been heavily criticized by scholars, NGOs, and the general public. Because of their overreliance on the government, they have limited autonomy. Moreover, they lack the motivation to reform and operate as independent professional NGOs. Consequently, they have encountered a social representation crisis; they usually are regarded as government affiliates rather than NGOs. Since the late 1990s, scholars, NGOs, and the general public are in agreement that the existence of GONGOs has impeded the growth of China's nonprofit sector. Therefore, the government is under pressure to transform GONGOs into NGOs. In fact, it is one of the goals of China's broad institutional reform and service contracting policy.

On the other hand, NGOs have been stymied by both the *dual management system* and *public fundraising status* restrictions (Wang 2002; Liu 2007). Gradually, the Chinese government has loosened the registration restriction for social service NGOs since 2013 (Wang 2013); but NGO development is still largely dependent on the government, especially for funding and reputational support. As mentioned above, service contracting is one of the government's operative strategies to deal with the two types of NPOs. The government intends to use service contracting as a new mechanism to transform GONGOs into NGOs. Furthermore, contracting funding is used to promote NGO growth. Both of these strategies are ultimately aimed at improving and increasing social services.

The Impact of Service Contracting on Service Provision and NPOs

In democratic industrial countries, two schools of thought exist regarding the impacts of service contracting. The first school is predominantly concerned with the service provision role of NPOs. It maintains that the nonprofit sector and NPOs' service capacity has grown through contracting (Grønbjerg 1993; Salamon 1995; Brown and Troutt 2004). The second school concerns the deleterious effect of government funding on the civil society role of NPOs. From this perspective, service contracting would cause NPOs' resource dependency on government, and thus negatively impact their independence and advocacy capacity; moreover, it can distort their mission and weaken responsiveness to community needs (Grønbjerg 1993; Kramer 1994; Alexander et al. 1999; Marwell 2004). Although academics and practitioners articulate these credible concerns in theory, proving them in empirical research is difficult due to confounding factors as well as measurement challenges. Regardless, both the government and NPOs favor service contracting, and it has been institutionalized in many democratic industrial countries (Kramer 1994). In addition, a large literature examined the interaction of government and private funding of nonprofit organizations. Some found evidence that government funding crowds out private donations (Steinberg 1991, 1995, 2003; Brooks 2000), while others revealed that public funds stimulate private giving in certain industries

(Diamond 1999; Okten and Weisbrod 2000; Heutel 2014). Heutel (2014) found that this crowding in effect is especially larger for younger charities.

Since the 1980s, China has a strong tendency to emulate the West, especially in social administration (Deng 2008). Literature on China's service contracting is a vivid demonstration of how the practice and theories of service contracting in the West has shaped the discourse of this issue in China. In general, Chinese scholars have taken two different approaches to study this topic. One primary approach usually begins with borrowing theories and practices from the West's first school of thoughts on contracting (i.e., service provision perspective) to justify their claim that China should do the same. These scholars also pointed out that given China's authoritarian political regime and the unequal status between the Chinese government and NPOs, China's service contracting would encounter a number of problems (Wang and Le 2008; Xu 2009; Zheng 2009). Theoretical and methodological rigor is my major concern about this school of study, as their conclusions and inferences often lack internal logical consistency or reliable empirical evidence. The second approach of Chinese scholarship is empirical, with the intention to direct the research agenda from the general level to issue-specific discussions. This group of scholars is more aligned with the second school of contracting literature in the West (i.e., civil society perspective). Their studies identified several key issues in ensuring an effective contracting process, such as the procedural fairness in selecting recipient organizations and whether the government allows autonomy in recipient NPOs' program implementation (Jia 2006; Le 2008; Han 2009).

Although the identification of these issues is of great value to both theoretical exploration and policy discussion, empirical studies remain few and often are limited to single cases; therefore, the validity of the arguments made by these studies is questionable. An in-depth but representative investigation is still needed to understand issues including service delivery reform, the development of NGOs, and how service contracting has shaped China's government–nonprofit relationship.

Method

Analytical Framework and Research Questions

According to the Chinese government, China's service contracting has two main goals (see Fig. 2): (1) to transform the social service delivery and (2) to promote NGOs' development. Chinese researchers and practitioners desire these two goals as well, and they consider service contracting a breakthrough opportunity for NGOs' growth. When considering goal one, service delivery system reform, there are two fundamental concerns: (a) the ability of service contracting to increase the scale of services as well as improve service quality and (b) the role service contracting plays in changing governmental service institutions (e.g., Public Service Unit) from a hierarchical, authoritative approach to a flat, responsive approach. The second goal, promoting NPOs development, consists of two components: (c) GONGOs' transformation into NGOs, and d) funding assistance to help NGOs grow. These

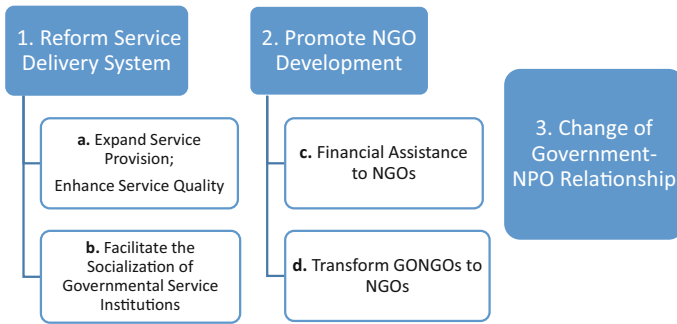


Fig. 2 Analytical framework

two goals are closely intertwined as the accomplishment of goal one is dependent on the progress of goal two. In addition to these two goals, another common scholarly interest is the potential change of the government–nonprofit relationship alongside contracting. Scholars consider contracting as an opportunity to establish a more democratic government–nonprofit relationship, and view the potential change as a critical factor to achieve the aforementioned two goals. Specifically, in theory, contracting entails a collaborative partnership between government and NPOs, which is different from the current relationship and is essential to the growth of NGO and the socialization of GONGO. In this paper, the analytical framework is based on the two main goals of contracting and the related issue of government–nonprofit relationship.

To evaluate service contracting’s role in achieving the above goals, from 2010 to 2014, the following questions will be considered:

1. How has contract funding been awarded and distributed among GONGOs and NGOs?
2. How has the contracting impacted recipient NGOs versus GONGOs?
3. What are the precise mechanisms of the contracting operation system?
4. How has the Chinese government interacted with NPOs in the contracting process?

In general, Q1 and Q2 speak to Framework 1 and 2; Q3 pertains to Framework 1 and 3; and Q4 connects with Framework 3. Specifically, the distribution of funding and the mechanisms of contracting operation determine how well goal two is achieved, which in turn affects the realization of goal one; the contracting operation mechanism and the government–nonprofit interactions in the contracting process indicates the potential of a general change in government–nonprofit relationship.

Research Methods

Empirical research on China’s service contracting is scant in the Chinese as well as English language literature. Researchers are still accumulating foundational knowledge. Therefore, this paper employs a qualitative exploratory research

method because the lack of existing data. Specifically, the case study approach is selected and we consider Beijing's service contracting process as the case of study. As a strategy of inquiry, case study has been broadly used in political science to explore real-life, operational scenarios (Creswell 2012). Case study requires broad and deep data collection involving multiple sources of information (e.g., observations, interviews, and documents). Research findings are articulated through case description and themes in this approach. These advantages of this approach make it an operative strategy for this study.

Data Collection

First, interviewing was used as the primary data collection method. Recruiting research participants from NGOs and the government; however, is difficult due to the political sensitivity around contracting. Fortunately, SW, a government agency that serves as the primary funder and administrator of Beijing City's service contracting, helped connect us with many recipient organizations, hoping that we could provide a report for its own reference as well. Subsequently, this networking increased the participation rate of organizations.

In 2012, 18 semi-structured interviews were conducted with 12 nonprofit organizations in Beijing (For the organization list, please see Table 1). Of the 12 NPOs, 11 are recipient organizations; follow-up interviews were conducted with four of the recipient NPOs in 2014. Specifically, interviewed recipient organizations fall into four groups. The first three groups are: GONGOs as type A (4 cases), Quasi-GONGO as type B (1 case), and NGOs as type C (5 cases, three of them are grassroots). The fourth group contains two type D NGOs including one supportive NGO, which serves as the contracting program evaluator for a borough of Beijing, and a grassroots organization, which was not awarded a contract. In addition, two government officials of Beijing were interviewed, one from SW, and the other from the Beijing Civil Affairs Bureau (BCAB), the supplemental funder and administrator of Beijing's service contracting.

In total, 24 interviews were conducted in Chinese; all the interviews were conducted by the first two authors together. The average duration of interviews with NPOs was 2 h, while both the two interviews with government officials lasted about 1 h. Oral informed consent was obtained in the interview scheduling stage and at the beginning of each interview. Formal written consent forms were not used because they would have been seen as highly unusual and inappropriate—signing documents is not a typical behavior in Chinese society. All interviewees except the two government officials consented to audio-recording. All audio-recorded interviews were transcribed by Beijing Hui Wu Tong Transcription Company, a reliable company that has a long-term relationship with the Center for Philanthropy and Social Enterprise where the authors worked. In the end, 141 single-spaced pages of interview transcripts were created. All the transcripts were double-checked by the first author of the paper. All identifiable information of the interviewees and the organizations they worked for was de-identified.

Second, the following secondary data from 2009 to 2014 were collected: government regulations, policy analyses, newspapers, and online articles as well as

government briefs on service contracting. In China, government-funded programs are politically sensitive because of the country's censorship tradition. Consequently, very little information on contracting has been disclosed, such as the names of recipient organizations as well as the size of awarded grants. In addition, NGOs, especially GONGOs, often are reluctant to disclose their experiences of working with the government to avoid risking future contracting opportunities. Thus, the aforementioned secondary data became critical to this study. The Chinese government has been intentionally keeping the contracting process opaque. Nevertheless, interesting contracting patterns do emerge from the scant information presented in government reports released online. Twelve of these types of articles were analyzed.

Data Analysis

As the interview transcripts are in Chinese, the coding was conducted in Chinese as well. In the open coding stage, all transcripts were first manually coded by the paper's first author and then verified by its second author. All the first-round codes were inputted into a Microsoft Excel file and were grouped into thematic codes. In the end, 48 thematic codes were abstracted from the first-round coding. Major thematic codes include "funding assistance and expansion of service," "share of government's legitimacy," "the Hub NPO Management System," and "unfair competition." Then, with the analytical framework and its sub-categories, axial coding was conducted to confirm that the concepts and categories used accurately represent interview responses, and to explore how the concepts and categories are related. The aforementioned secondary data were not closely coded because of the lack of concrete information of most of the government articles. We created two to three themes from each article and used them as background information when writing the paper. Of all the secondary data, one important article exposed the exact contracting funds distribution of one of Beijing's districts.

Findings

The Role of Service Contracting in Recipient Organizations' Development

Two major positive impacts of government service contracting were identified from the interviews with recipient organizations: (1) funding supplements and resulting expansion of service capacity; and (2) increase in recipient NPOs' legitimacy and fundraising capacity, especially for NGOs. First, service contracting indeed financially supported recipient organizations. This support was especially significant for disadvantaged grassroots NGOs that often struggle to make ends meet. Contract funding not only helped sustain these NGOs' survival but also expanded their service provision capacity. Second, through contracting, the Chinese government shared its legitimacy and accountability with recipient NGOs, and thus increased their chance to raise funds from private donors; in other words, a potential "crowding in effect" was discovered. As mentioned earlier, as a public institution,

the Chinese government still possesses legitimacy and a certain degree of trust from the public. Therefore, when it officially awards a contract to an NGO, the latter certainly enjoys some reputational benefits from this recognition. In particular, stakeholders and the general public would consider it more reliable. For example, grassroots recipient NGOs including KA and HD, said that contracting with the government significantly facilitated their fundraising from private donors and that they most value this benefit. Grønbjerg's (1993) study on service contracting in the Chicago area also identified this legitimacy sharing effect between state and contracted NPOs; however, in China, this legitimacy sharing explicitly impacts recipient NGOs' fundraising.

We hypothesize that there are two causes of this explicit effect in China's contracting process. The first reason may be due to the low level of social trust in Chinese society, and the general public's distrust of NPOs, particularly of small NGOs that are not registered or are registered as for-profit. In addition, because of China's authoritarian political regime and the incomplete market reform, the success of businesses and individuals (e.g., pop stars) is largely dependent on their relationship with the Chinese government (Deng 2008; Sun 1993; Kang 2010). Consequently, to maintain a good relationship with the government, corporate and individual donors often are cautious when choosing NGOs to sponsor. Donors tend to avoid supporting politically sensitive organizations because they may risk their own standing. To a potential private donor, a government contract to some extent assures an NGO's service quality as well as its political safety. In this regard, government contracts are particularly important to NGOs with a social sensibility like HD and KA, as this recognition could resolve their potential donors' concerns over controversy. For instance, a German corporate donor required that HD maintained a good relationship with the Chinese government, as the company's business in China relied on the government's support.

Unfortunately, we found that the majority of funding went to GONGOs, while very little was allocated to NGOs, although this legitimacy sharing effect is more critical for the growth of NGO and nonprofit sector.

The Distribution of Contract Funding between GONGOs and NGOs

We found that the majority of recipient organizations were GONGOs and their affiliated subordinate GONGOs; the more powerful a GONGO, the more contract funds it received. In contrast, very few NGOs, especially grassroots NGOs, successfully obtained a contract. On average, the amount of funding received by each NGO was less than ¥100,000 (RMB). This amount was considerably lower than that received by GONGOs, which ranged from ¥150,000 to ¥1 million (see Table 1). For example, only one type C organization (NGOs), CC, received more than ¥100,000. CC provides services for the elderly, which is a key service area that the Beijing government has intended to expand. Another example is HD, which is an established NGO in disability services that had relied on private donation for 8 years before it earned the first government contract, ¥50,000, which roughly equals to \$8000 USD. KA, another established service NGO, also only obtained minor grants in 2010 and 2011, respectively. The grants awarded to the NGOs were

significantly smaller than those of their GONGO competitors, even though half of the latter were founded less than 2 years before the contracts and had underdeveloped organizational structures. Unfortunately, our most recent investigation in 2014 revealed that this pattern continued.

In addition to the funding distribution disparity between GONGOs and NGOs, another theme repeatedly emerged from our interviews: a significant proportion of contract grants were actually retained by the government itself. This is because GONGOs are essentially part of the Chinese governmental system. The head of a renowned NGO said during our interview:

Government service contracting has a seemingly beautiful goal which is to support NGOs, but in fact, government is taking money from its left pocket, and putting it into its right pocket. NGOs are not going to benefit much from service contracting. It's just a political show. (Interview notes, No. 9, p. 18)

As stated above, GONGOs have already received heavy funding subsidies from the government. One of the major goals of Chinese service contracting is to transform GONGOs into NGOs via competition. In theory, the money distributed to GONGOs could help realize this goal if the competition drives them to be more efficient. However, our investigation on how the grants were utilized by GONGOs disproved this expectation. One of the examples of GONGOs' failure in reforming their inefficient operation is a handicrafts promotion association, N. N was created by one of the most powerful GONGOs, All-China Women's Federation (ACWF, *Quan Guo Fu Lian*), and was led by several ACWF officials. We found that up to the interview date, N still had not developed an organizational structure that was independent from ACWF. It did not have one full-time employee and most work was conducted by ACWF's officials. Most importantly, it used the contract funding on ACWF's routine projects that were created before the establishment of N, and involved no expansion or reform in service delivery.

Another example is CSY, which was created in 2011 by SW, the primary funder and administer of Beijing's service contracting. CSY got ¥1 million in the 2011 fiscal year. Considering that CSY was just newly established when it gained this big contract, we doubt that it had developed the capacity to utilize this much funding in an effective way that could contribute to GONGO reform. Moreover, two of the four GONGOs that received big contract grants were established right after service contracting began. It is likely that they were created to compete for contract funding.

Secondary data on service contracting conducted by one of Beijing's districts, Xicheng, also revealed the same pattern (see Table 2). Xicheng is the only local government of Beijing that released the distribution of its contracting funds. Table 2 shows that type A and B organizations generally received large amount of money, while type C agencies received much less.

This significant discrepancy of contract funding between GONGOs and NGOs reveals that even though the central government has the intention to use service contracting as a mechanism to transform GONGOs, the self-interest of local government is likely to distort the process. With the additional funding available for social services from contracting, it is difficult to prevent GONGOs from finding ways to obtain as much money as possible. Our investigation found that it is highly

probably that many government institutions and GONGOS are creating new GONGOs to compete for resources with the NGOs. With limited money being allocated to NGOs and no change to the way that GONGOs utilize the funding, it is unclear how the service contracting will promote NGOs development as well transform GONGOs into NGOs. If this phenomenon continues, the larger resource and status discrepancy between GONGOs and NGOs will actually grow.

Management Systems of Service Contracting

Beijing's service contracting is primarily implemented and managed by "Hub NPOs." To establish a management system, the Beijing government assigned the most powerful 27 GONGOs as the Hub NPOs to manage the contracting with NGOs in their same fields. These include the ten People's Associations that are directly affiliated with the Communist Party (*Ren Min Tuan Ti*), various government-controlled industry associations as well as charitable associations. Hub NPOs are GONGOs with the closest connection to the Chinese government, many of which are a part of a government agency. Hub NPOs operate in various social service fields including child care, disability, education, women, and elderly. We later found that nearly all the GONGOs and Quasi-GONGOs interviewed in this study, including CSG, CSY, ZY, and M, are Hub NPOs. In addition to contract operation management, Hub NPOs also are responsible for supervising and evaluating corresponding recipient NGOs' program implementation.

We found this *Hub NPO Management System* to be problematic for two reasons. First, beyond their management role in the contracting, Hub NPOs are also eligible to compete with NGOs for government contracts. Because NGOs have to file their application through Hub NPOs, the hub NPOs both judge and compete with NGOs in their respective fields. Also, it is possible for Hub NPOs' to plagiarize NGOs' program ideas—an NGO is required to file application documents to its corresponding Hub NPO before the contract application are due to the government. Clearly, the competition is unfair. Second, as revealed by our interviews with the two government officials, the application review committee is majorly composed of officials from SW's eight co-founding agencies, which are the most powerful Hub NPOs. Consequently, both the procedural and distributive fairness of contract funding allocation is questionable. Indeed, both the interviews and secondary data substantiated our concern that an organization's connection with the Chinese government, instead of its accountability and professional capacity, determines whether it obtains a desirable contract. This pattern is certainly the case for GONGOs, and even applies to NGOs and grassroots NGOs—a good relationship with the Chinese government is the prerequisite to obtain a contract. All the grassroots NGOs interviewed, including HD, KA, CCH, and JJ, had some previous relationship with the government.

Operational Process of Service Contracting

In terms of application procedures, recipient organizations agreed that application forms were not complex and had low standards. No formal rules were made by the

government regarding program implementation and reporting in advance. In addition, once a contract was awarded to an NPO, the government did not monitor how the program was implemented and how the funding was used. Evaluation of a completed program was either absent or was conducted in an unstructured way. According to the interviewed NGOs, the reasons for this contracting process were threefold: First, corresponding government agencies did not have sufficient staff or time to monitor the contracted programs; Second, the government lacked experience with this new contracting practice; Third, contract funding awarded to GONGOS was still within the government system and monitored as regular governmental expenses; therefore, it was less necessary to oversee it. As for NGOs, the government even lacked the motivation to oversee it because the amount of funding received by them was so little.

Although this hands-off approach indeed provided recipient NGOs more administrative discretion and flexibility in program implementation, the recipient NGOs actually preferred a more explicit protocol that clearly defines both sides' rights and obligations. Another issue is that the continuation of an NGO's collaboration with a government agency mainly depends on a particular government official's preference. Both HZ and JJ experienced a sudden termination of their contracts because of a leadership change in the government.

Recipient Organizations' Status in the Contracting Relationship

In addition to the uncertainty of contracting relationships mentioned above, our interviews repeatedly revealed many arbitrary behaviors of government agencies. For example, although KA obtained a ¥50,000 contract, it did not receive the funding until the proposed program was completed and all receipts of program expenses were submitted to the government. Before that, no guarantee was provided by the government that the proposed program would surely be funded. KA tried to negotiate with its corresponding government agency but the latter immediately refused its request. KA also tried to request more funding from the agency as the current grant was insufficient for its proposed program but the government agency responded with the following:

If I were you, I would be satisfied with what I get; ¥50,000 is not little, there are many other organizations that get nothing. Accept it or not, no more negotiation. (Interview notes, No. 5, p. 35)

KA then accepted this reality telling us that they cannot insist, otherwise, they will upset the government contractor and completely lose this and future opportunities. The early termination of CMC's contracting program also demonstrated the unequal status between the Chinese government and NGOs. CMC is a grassroots NGO created by a British businessman, working with children of migrant workers in Beijing. Because of its good reputation as a service provider helping meet social needs, it obtained a government contract. However, the contracting relationship ended following a negative Tweet by an American journalist who visited CMC's program and discovered the problems with the country's education policy for children of migrant workers.

Contracting Under the Agenda of Social Control

The CMC example is also a vivid demonstration of the Chinese government's *differentiated control* strategy on NGOs (Kang 2010). Although the government allows for operational autonomy, it also maintains the absolute power to determine an NGO's fate. The seemingly collaborative relationship between the Chinese government and NPOs in service contracting does not change the nature of their considerable power differential. The examples mentioned above support the *consultative authoritarianism* argument (Teets 2014) that the Chinese government is solely interested in reaping the benefits of NPOs' social service provision function but does not tolerate any political risks that they may pose. Grassroots NGO KA's caution in framing its program when applying for contracts is another example that supports this argument. To improve cancer patients' health conditions, KA's regular program activities involve a traditional Chinese physical exercise, *Qigong*, whose form is similar to Falun Gong. Because Falun Gong is a politically sensitive activity which is intensively suppressed by the Chinese government (Chan 2004), KA intentionally avoided the term "*Qigong*" in framing their program activities when applying for a government contract.

What has happened to NGOs in China outside the contracting field also substantiated this central political agenda. Since June 2014, nearly all advocacy NGOs such as those engage in anti-discrimination or human rights campaign were forced to close (The Experience Working for Anti-discrimination Cause in China, 2015). These organizations included Yi Ren Ping, an anti-discrimination organization, Li Ren School and Library, a civic training agency, and Chuan Zhi Xing, an independent think tank which conducted research on social justice and civic participation in contemporary China. In addition, a new law was proposed in June 2015 to force many foreign nonprofit organizations to "scale back their activities in China or pull out of the country entirely" (Jacobs, June 17, 2015, The New York Times; GoneGirl 2015). These suppressive actions and the newly proposed regulation revealed the Chinese government's longstanding fear that a civil society might threaten its rule.

Conclusions and Discussion

Similar to the West, service contracting has positive impacts on the development of NGOs, such as an increase in their financial resources and an expansion in their service provision. The contract funding partially relieved the financial difficulties faced by Chinese NGOs. Most meaningfully, through signing a contract with an NGO, the Chinese government shares its legitimacy and accountability, which makes it easier for the organizations to raise private funding (e.g., from corporations). This crowding in effect becomes more significant when the recipient organization is politically sensitive. Additionally, we did not find a crowding out effect—government service contracting did not cause a decrease in private donation, a phenomenon occasionally observed in the West. One possible reason is that the scale of China's contracting has been limited and the unmet demand for social service has been considerable. In addition, private corporate donors and

philanthropists would flock to, rather than withdraw from, contracting service areas that the government intends to expand due to their need to please the Chinese government.

Despite the positive impact on NGO development, data presented in this paper showed that the majority of contract funding went to organizations that have a close government connection, or GONGOs. NGOs have not benefited much from this new policy. In addition, flaws of the contracting management system have increased the gap in the status and resources that GONGOs and NGOs hold. Based on our investigation, contract funding has been squandered by GONGOs, and thus the net service growth brought by service contracting has been limited due to the small amount of money going to grassroots organizations. The method of service delivery has not changed, and the effect of service contracting in fostering NGO development has been limited.

Moreover, using the current management system, the Hub NPO Management System, is not helping reform the service delivery system nor promoting NGO development. The future of service contracting and its potential to achieve its two goals rely on a reform of the current management system. However, the choice of a particular management system is dependent on the government's ultimate objective, which is social reform without the loss of social control. Consequently, the future of service contracting is largely determined by the Chinese government's political agenda.

With respect to the government–nonprofit relationship, China's nonprofit sector and its service contracting are consistent with the “New Institutional” model (Powell and DiMaggio 1991), in which the government plays a dominant role in shaping the development of the two. One can see that the Chinese government is actively encouraging NPO's service provision role and suppressing the civil society role through the service contracting process. The termination of CMC's contract funding exemplified the harsh punishment of NGOs for any political infractions. While many consider service contracting an opportunity for NGO growth in China, we doubt this optimistic expectation. Without the freedom to socially organize, advocate, and protest, NGOs cannot make a real difference even if they become large-scale service providers. Moreover, in our opinion, the increase in numbers of NGOs does not necessarily lead to the development of civil society, if they are solely social service providers operating in alignment with the government's political agenda.

As summarized in the literature review, maintaining the recipient organizations' independence in the contracting relationship is one of the major concerns in the industrious Western countries. This concern is based on the assumption that, prior to contracting, NPOs are independent from the government. However, in China's case, NPOs, both GONGOs and NGOs, have never had real freedom from the government's strict surveillance. Therefore, the issue lies in whether service contracting will expand or further limit NPOs' autonomy. As GONGOs propagate with contract funding, the number of government-affiliated NPOs is growing. As for NGOs, although the funding they received from contracting has been limited, the Chinese government still has an influential impact on NGOs that are interested in government contracts. In order to obtain a government contract, no matter how

small it is, an NGO has to demonstrate that it is apolitical. Therefore, both GONGOs and NGOs have to closely follow the government's preference for their program activities. If this trend of resource dependency on government funding continues, service contracting is very likely to detrimentally affect civil society's independence in China. With the Chinese government's recent tightening control over civil society organizations, we are pessimistic about China's nonprofit sector, the service contracting, and its civil society.

Limitations of the Study

First, the data presented in this paper are regionally limited to Beijing, the political center of China. Although we hold that Beijing is valid as a theoretically representative case because of its political importance and China's traditional policy practice, we are cautious about overgeneralization of our findings. On the one hand, as the center of a politically homogenous country, Beijing's policy practice has always been a model for local governments to follow. Local government agencies are motivated to conservatively follow policy models created by the central government, because the promotion of local government officials is in the hands of central government (Li-an 2007). Various sources show that the Chinese government indeed has been trying to extend Beijing's approach in service contracting to other provinces, especially its management system, *Hub NPO Management System*. In fact, many provinces, including Henan, Jiangsu, and Yunnan have started to adopt this system (Zhang and Zhang 2013; Xia 2014). Even Guangdong and Shanghai, the two other most developed regions which have a larger degree of autonomy, have integrated the *Hub NPO Management System* into their contracting process. On the other hand, China is tremendously diverse with respect to level of economic development and size of the nonprofit sector across geographical regions. As a result, the scale and impact of service contracting may vary across regions. To date, China's service contracting still concentrates in economically developed areas such as Beijing, Shanghai, Guangdong, and Jiangsu, which have more financial resources for social services. In general, social service, nonprofit sector, as well as service contracting are very limited in scale, even in areas like Beijing (please see Table 3), let alone underdeveloped regions which account the majority of China. Therefore, what we present here is a snapshot of a new policy practice in China's social service development. To have a comprehensive grasp of China's service contracting and its impact on NGO development, more empirical and in-depth studies on service contracting in other regions are required.

Second, the study is limited in time span. China's service contracting has been in practice for just over a decade and is still in its initial and exploratory stage. The way the Chinese government carries out service contracting is subject to change before it is institutionalized. Although this study focuses on the underlying mechanism and political agenda of service contracting and tries to make theoretical predictions, we are cautious about any overgeneralization of our conclusions and keep an open mind about future development of this new policy initiative. More research is needed to track the progress of China's service contracting before making any conclusive arguments about its influences.

Last but not least, due to the political sensitivity of the study, difficulty in recruiting organizational participants and government officials constrained the scope of our data. For example, it was difficult for us to conduct follow-up interviews with the NPOs in 2014, so our sample in this year is much smaller than that of 2012. For our first-round data collection in 2012, a government agency was involved and helped recruit interviewees. This significantly increased our response rate as the organizations were motivated to consent due to their contracting relationship with the government. In 2014, without facilitation by the Chinese government, organizations were less accessible given their heavy workload as service providers and the political sensitivity of the issue. In addition, government officials were even more reluctant to accept our interview request. Although we planned to have a representative sample of government officials in both rounds of the data collection, we ended up using a convenience sampling method. With tremendous effort, we only interviewed two government officials in 2012, and were not able to access any in 2014. During our 2012 interviews with the two government officials, they were cautious and refused to disclose any information that they deemed sensitive. Fortunately, despite their reluctance, they still disclosed the composition of Beijing's contract review committee, which was key information to our study.

To sum up, due to the limitations in our data collection and the initial stage of China's service contracting, the generalizability of our research findings is limited both geographically and temporally. We look forward to more studies on future development of this new policy endeavor and its implications to China's nonprofit sector and civil society.

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Compliance with Ethical Standards

Conflict of interest The authors declare that they have no conflict of interest with respect to the research, authorship, and/or publication of this article.

Ethical Approval All procedures performed in studies involving human participants were in accordance with the ethical standards of the institutional and/or national research committee and with the 1964 Helsinki declaration and its later amendments or comparable ethical standards.

Informed Consent Informed consent was obtained from all individual participants included in the study.

Appendix

See Tables 1, 2, and 3.

Table 1 Contracting funding obtained by interviewed organizations in Beijing

Org names	Types	Establishment date	Funding received— fiscal year of 2010	Funding received— fiscal year of 2011
N	A	2008	0	450
CSG	A	2007	Unknown	300
CSY	A	2011	Unknown	1050
ZY	A	1993	Unknown	800
M	B	2004	0	700
HD	C	2003	0	50
JJ	C	2007	0	80
KA	C	1990	50	40
CC	C	2006	Unknown	200
SY	C	2004	50	80
NP	D	2009	Unknown	300
HZ	D	2003	0	0

A Governmental, *B* quasi-governmental, *C* NGOs, *D* others. Unit: Thousand Yuan; 1000, RMB)

Table 2 Contracting funding distribution in Xicheng District, Beijing

Organization names	Org types	Funding received—fiscal 2010
NPOs Association of Xicheng, and Xicheng Medical Association	A	9000.75
NPOs Association of Xicheng	A	1320
Xicheng Philanthropic Culture Center	B	300
NPO Incubator of Xicheng	B	380.63
Xicheng Family Care Center	C	65
Xicheng Cochlear Training School	C	80

The organization types of Table 1 and 2 were grouped by the two authors. The judgment was made based on the type of the organization's sponsor(s), its primary funding sources, and to what extent its leaders affiliate with government agencies. The information was collected from the organizations' official websites

A Governmental, *B* quasi-governmental, *C* NGOs, *D* others, unit: Thousand Yuan, RMB

Table 3 Total funding of Beijing Municipal Contract Competition

Total funding	2010	2011	2012	2013	2014
RMB	47.73 m	72.07 m	Unknown	80 m	Unknown
USD	7.4 m	11.3 m	n/a	12.5 m	n/a

Source China Charity Information Center (2014)

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