Chapter 14
Changing Welfare Institution and Evolution of Chinese Nonprofit Organizations: The Story of Elder Care Homes in Urban Shanghai

Linda Wong and Na Li

Abstract Shanghai has the oldest population profile in the country. The growing pool of seniors creates a large market for residential care. The municipality has actively engaged in institution building to promote welfare nonprofit organizations (NPOs) so that they can take on the brunt of delivering care. Using selected elder care homes in the city as case examples, we attempt to trace the institutional change in the development of residential care as well as its impact on the evolution of non-state care agencies since the new millennium. Our empirical findings suggest that in Shanghai, the state indeed has strengthened its role in welfare planning, financing, and provision through formal and informal institutional arrangement. In this process, welfare NPOs serve as agents of the state and are regulated and incorporated under a system of state dominance. Therefore, it is arguable whether the expansion of non-state welfare can be taken as a success indicator for the welfare socialization policy. Rather, at the present stage, state hegemony in welfare development remains unchallenged. State dominance looks set to become a long-term feature of the new welfare economy in China.

Keywords Welfare NPOs • Social welfare socialization • Urban elder care homes

Under the state policy of "socializing social welfare (*shehui fuli shehuihua*)" promulgated since the late 1990s, Chinese welfare nonprofit organizations (NPOs) have been promoted to relieve the state burden of providing welfare to meet the unmet social needs of the population. Agencies using non-state funds and civil society resources become state partners and agents to deliver welfare services under a new cooperative framework with the state. The case of non-state elder care homes

L. Wong (✉) • N. Li
Department of Public and Social Administration, City University of Hong Kong, Kowloon Tong, Kowloon, Hong Kong
e-mail: Linda.Wong@cityu.edu.hk

S. Chen and J.L. Powell (eds.), *Aging in China: Implications to Social Policy of a Changing Economic State*, International Perspectives on Aging 2,
DOI 10.1007/978-1-4419-8351-0_14, © Springer Science+Business Media, LLC 2012

is a prime example of this new provision pathway. As pioneers, non-state care homes for urban elders have grown in leaps and bounds to meet the burgeoning needs of China's senior citizens. These agencies are financially and administratively independent of the government but are regulated by an austere state regime that requires agencies to be subjected to the control and supervision by a professional sponsoring unit and registration with the civil affairs authority as non-state non-profit enterprises (*minban feiqiye danwei*). In return, such agencies are designated as nonprofit units or NPOs and are given tax exempt status and preferential policies. Nowadays, they have become the major service providers, offering over 411,000 residential beds for urban elders. Therefore, a study into the changing institutional framework and evolution of non-state residential care for urban elders is both timely and important. The development of this sector, touted as the third sector besides the state and market welfare providers, also offers insight into the success or otherwise of the state policy toward welfare socialization. In particular, the relationship between the state and NPOs sheds light on the special feature of China's transitional welfare economy.

Explosion in Non-State Welfare Organizations

The liberalization of China's command system in the last two decades spawned an explosion in NPOs. Normally, NPOs are not only formally constructed, nongovernmental and nonprofit distributing, but also voluntary and self-governing (Salamon & Anheier, 1992). Yet the framework may not be applicable while linked to the party-state institutional structure like China. As Saich (1994) said, "…this approach [emphasizing the need for organizations of civil society to have autonomy vs. the party state] underestimates the role of a competent state structure in the birth and growth of any civil society." Particularly in China, the state plays a predominant role in the birth and growth of NPOs, because it "remains keenly aware of political risks of associational actions (Ma, 2006)" while integrating NPOs in the network to deal with economic, social, and political crises. That is, official policies of the state impact NPOs in China more significantly than any in other countries. Like Yu (2006) indicates, China's civil society is a typical case of a civil society led by the government, and it obviously has both official and unofficial aspects. This kind of government dominance is manifested in the dual-management system toward Chinese NPOs. Its principles are summarized as "registration by professions, dual responsibility and multitier management." According to the *Regulations for Registration and Management of Social Organizations* and the *Temporary Regulations for Registration and Management of Non-state Non-profit Enterprise* promulgated in 1998, an NPO should secure an official/professional sponsor willing to oversee its daily management before it registers with the Ministry of Civil Affairs (MOCA) or local bureaus of civil affairs. The dual-management system brings NPOs under the supervision and monitoring of the state. Also, this restrictive registration system forces some organizations to operate without the official approval

and register as business entities. Based on official statistics up to the end of 2009, 431,069 NPOs have registered under the three legal registration categories[1] recognized by MOCA (2010). Among the three, organizations that deliver social welfare services grow especially rapidly. Welfare NPOs normally register as non-state nonprofit enterprises (*minban feiqiye danwei*) with MOCA or local civil affairs bureaus. At the end of 2009, the country had 190,479 non-state nonprofit enterprises, making up 44.2% of total registered NPOs (MOCA, 2010).

In China, welfare NPOs can be divided into five categories: social welfare homes (*shehui fuliyuan*), children's homes (*ertong fuliyuan*), social welfare hospitals (*shehui fuli yiyuan*), urban welfare homes for the elderly (*chengzhen laonian fuli jigou*), and rural welfare homes for destitute households (*nongcun wubao gongyang fuli jigou*) (National Bureau of Statistic of China, 2008). As said before, these agencies operate under the dual-management system just as other Chinese NPOs. While services are often run on commercial principles, profit is not the primary objective. Rather, income generated is ploughed back into expanding or improving the service and not distributed as dividends to investors. In return, Chinese welfare NPOs enjoy tax exemption and preferential policies like reduced public utility charges. Operating as self-sustaining entities also allows these agencies to enjoy management autonomy. Among these types of welfare NPOs, the development of urban old age homes is particularly noteworthy. As pioneers in non-state care, these agencies are products of the welfare socialization reform since 1998.

The rise of non-state welfare cannot be understood without revisiting the institutional and socioeconomic contexts. Along with the marketization and privatization in the economic sphere since the 1980s, the work unit system collapsed and its accompanying enterprise-based welfare arrangements gradually eroded. In the political sphere, the acceleration of economic reform also highlighted repeatedly the importance of social welfare for maintaining social stability and political authority. Meanwhile, the demographic change resulted from the population growth and the one-child policy led to a rapid process of aging and a declining dependency ratio between the work-age population and the retired, causing the increased needs for welfare services. Under these contexts, how to accommodate both the growing needs of the population and the financial constraints deriving from its reduced institutional capacities became the most significant challenge of the government (Croll, 1999).

To deal with the situation, social welfare reform has been listed in the national reform agenda since the late 1990s. The overriding aim of this reform was "socializing social welfare (*shehui fuli shehuihua*)," which could be regarded as a mixed arrangement for welfare or welfare pluralism. The reform was officially put forward in the Tenth National Civil Affairs Work Conference in 1994. In 1998, 11 ministries and commissions including MOCA co-promulgated the *Suggestions on Accelerating the Implementation of Socialization of Social Welfare*. In this document, the general

[1] These three legal registration categories include social organizations (*shehui tuanti*), non-state nonprofit enterprises (*minban feiqiye danwei*) and foundations (*jijinhui*).

goals of socialization were to promote "various investments, public recipients and diverse services." To sum up, the main trends of the welfare reform lied in two aspects: the first was the decentralization of social welfare from the central government to local governments; the second was the responsibility shift from the state to the market and the third sector. Due to the decentralization, local governments have become key actors in accumulating funds, redistributing resources, and establishing new welfare systems, with the central government's input only comprising a small part (Croll, 1999). Hence, local experiments and innovation presented a decentralized and diverse collage of frameworks in Chinese welfare socialization campaign. More importantly, there has been a diversification in the welfare delivery system, with the emergence of non-state welfare providers, especially the nonprofits becoming the most visible manifestation of the development trajectory. This view was supported by Shang (2001), who pinpointed the mobilization of new economic resources in the provision of social welfare products and the growth of non-state nonprofit enterprises as the main driving force of welfare delivery under the socialization policy.

China officially became an aging society in 1999. Based on government statistics, Chinese elders over 60 amounted to 167.14 million (12.5%) while people above 65 reached 113.09 million or 8.5% of the total population in 2009 (MOCA, 2010). It is estimated that in 2020, the elder population in China will swell to 248 million (China National Committee on Ageing or CNCA, 2010). Faced with the massive and rapid demands of the elderly, the weakness of the government is only too obvious. In 2000, urban bed supply was a mere 977,000, enough for only 0.8% of the target population (Jia, 2000). At the end of 2008, the country has 2.38 million residential beds for elderly, only accounting for 1.5% of the total aging population (CNCA, 2010) while the international recognized standard for developing countries is 3%. To deal with this situation, the government began to promote the practice of "making greater use of the third sector, NPOs and commercial operators to produce welfare services" (Yan, 2003). To encourage and regulate welfare NPOs, it announced the *Temporary Regulations for Registration and Management of Non-state Non-profit Enterprise* in 1998. The decree specifies strict rules on the formation, operation, administration, and dissolution of non-state nonprofit enterprises. Before they can register with MOCA, agencies must secure an official or professional sponsor willing to oversee their daily management. Besides, they must pass an annual inspection by the civil affairs authorities (Wong, 2007) before they can renew their license.

Since the late 1980s, commentators have noted that "a significant number and wide range of associations are in operation in the country [China]" (Wang & He, 2004). In 2005, MOCA published the *Opinions on Supporting Social Entities to Operate Social Welfare Institutions* to lay out the principles and preferential policies (MOCA, 2005). To the state, just as it is eager to shift the burden of delivering welfare to civil society, the growth of social organizations creates considerable anxiety. In particular, agencies that represent troublesome groups and pose a threat to state authority arouse suspicion. On the other hand, organizations engaged in economic and social development are seen as nonthreatening and useful. To the extent that government perceptions of social organizations differ, conflicting policy stance is

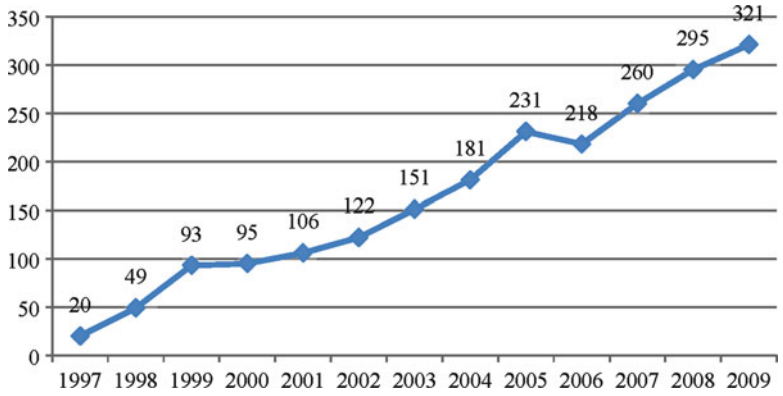


Fig. 14.1 The number of non-state elder care homes in Shanghai from 1997 to 2009. *Source*: Shanghai Civil Affairs Bureau (2010)

apparent. In practical terms, social service and commonweal organizations won the government's favor, whereas political, religious, and advocacy organizations face suppression by the state. Some scholars attribute the policy bias to state concern for social stability after the destabilizing effects of market reforms (Ma, 2006). As vehicles to deliver social care and handle the enormous social problems brought by the lack of a comprehensive social security system, welfare NPOs can repair the havoc in the social and personal life of citizens as the state withdraws from providing the old existential guarantees. This line of thinking is best summarized by Ma (2006) who argues that "[the government's social organization policy is] a response to economic, social, and political crises. The government has turned to nongovernmental institutions to shoulder responsibilities on numerous fronts, including social welfare, economic development, and disaster relief." As a result, government policy is geared toward strengthening the social service functions of NPOs since these agencies serve as agents and allies of government. Consequently, their numbers shot up rapidly since the 1990s. In elder care alone, in 2008, registered non-state care homes have exceeded 4,141 nationwide, operating a total capacity of some 411,723 beds (CNCA, 2010).

Shanghai has the oldest population profile in the country. According to official statistics, people over 60 exceeded 3.15 million in 2009 or 22.5% of the total population (Shanghai Committee on Aging, 2010). The growing pool of seniors creates a large market for residential care. As a pioneer city to implement the welfare socialization program, the municipality was keen to promote NPOs so that they could take on the brunt of delivering care. Indeed the increase in non-state services has been dramatic. In 1997, the city had 20 non-state elder care homes with 1,851 beds; in 2002, the numbers shot up to 122 homes and 10,243 beds. At the end of 2009, 321 homes registered with the civil affairs bureau, providing 47,947 beds and accounting for 53% of total supply, much more than the state sector (Shanghai Civil Affairs Bureau, 2010). In short, in about one decade, unit numbers jumped 15 times while bed numbers jumped nearly 26 times, as shown in Figs. 14.1 and 14.2.

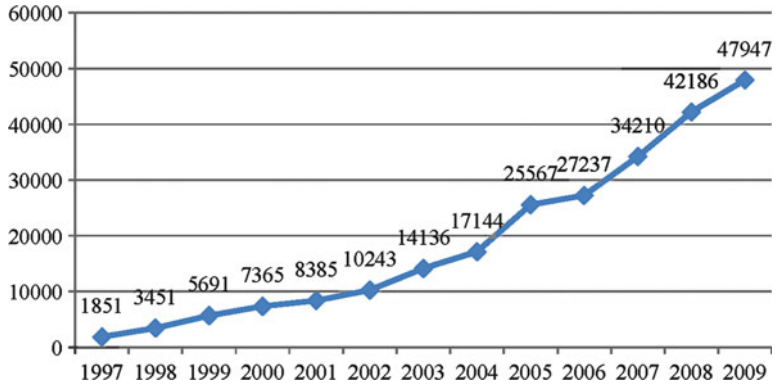


Fig. 14.2 The number of beds of non-state elder care homes in Shanghai from 1997 to 2009. *Source*: Shanghai Civil Affairs Bureau (2010)

What are the reasons behind this stunning growth? What does the numbers represent—success in the socialization policy or otherwise? What are the institutional measures that promoted NPO development? What is the situation of non-state elder care homes in Shanghai now? To answer these questions, we compare the findings of an earlier survey completed by Wong and Tang in 2002 with new investigations we conducted in April 2009.

In the 2002 survey, 137 non-state old age homes in three cities—Tianjin, Shanghai, and Guangzhou—were investigated, including 50 care homes in Shanghai. The early study explored in depth the agency characteristics, development history, operational profile, and difficulties encountered by non-state care homes from the perspective of key stakeholders (investors, administrators, staff, client, and family).

The findings of the 2002 survey have been reported in various venues. Of relevance to this chapter, five conclusions can be summarized. First, the homes had mixed auspices, comprising individual-run, community-run, enterprise-run, shareholder-run, and joint venture units. Over 81.5% of homes registered as NPOs. Second, most of the agency founders were women of middle to late middle age who had a vocational background as a managerial and technical cadre in a socialist work unit and had been made redundant or faced imminent job loss. Third, their financial status was rather weak: only 17% were making a profit (revenue exceeding expenditure), 47% could balance income and expenditure, but 36% were in deficit. Moreover, 51% of agencies had little prospect of ever recovering their capital investment. Fourth, the agencies encountered many daunting problems: high cost, unfair competition from state-run welfare institutions, state failure to enforce preferential policies, and lack of government support and trust (Wong & Tang, 2006). Hence, all agencies were unanimous in demanding government support. Fifth, four factors crucially affect the survival and development of non-state care homes: their ability to meet the needs of users, manage human resources, ensure financial sustainability, and satisfy the expectations of their investors (Wong, 2007, 2008).

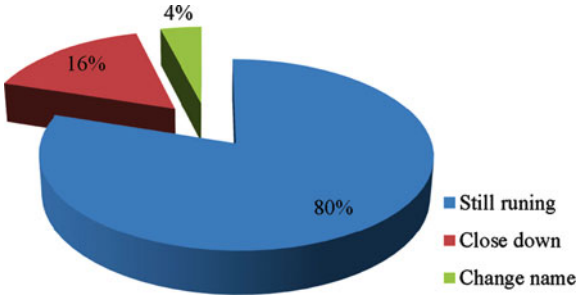


Fig. 14.3 Change in institutional status of 50 non-state elder care homes in Shanghai, 2002–2009. *Sources*: Wong and Tang (2006) and Shanghai Civil Affairs Bureau (2010)

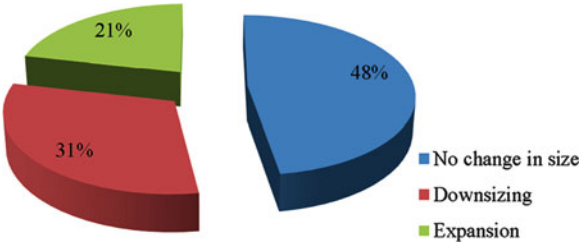


Fig. 14.4 Change in size in 50 non-state elder care homes in Shanghai, 2002–2009. *Sources*: Wong and Tang (2006) and Shanghai Civil Affairs Bureau (2010)

Of the 50 homes in Shanghai which were included in the first survey, eight have closed down while 42 have remained, including two that have changed their names. This means that the vast majority (84%) of the sample homes are still in operation. Among the eight defunct units, two were community-run, four were enterprise-run, and two were joint ventures of enterprises and local communities. The size of the closed units was usually small (less than 10–50 beds). Of the existing 42 homes, 20 homes have retained their original size, 13 homes have expanded (the biggest expansion being 96 beds), and 9 have down-sized (a reduction of 60 beds in the most dramatic case). Figure 14.3 shows the change in institutional status of the 50 agencies from 2002 to 2009; Fig. 14.4 shows the change in bed numbers.

In order to find out what happened to these agencies since the last survey, an initial study of five projects was carried out in April 2009 and June 2010. Without the interlocution of the municipal civil affairs bureau, we used the current list of non-state elder homes on the civil affairs Web page and contacted a number of homes in different locations. To our pleasant surprise, we readily secured the agreement of five agencies for a re-visit. We then called on the Shanghai Civil Affairs Bureau where we interviewed officials from various departments including social organization registration, social welfare services, services for the elderly, policy and research office, and Shanghai Committee on Aging affiliated to the civil affairs bureau. A review of policy documents from government and Web sources and an interview with an expert on old age care from East China Normal University complement the current study. It is envisaged that the current investigations will form a part of a bigger empirical study of Chinese NPOs to be carried out in the future.

Changing Institution of Welfare NPOs in Shanghai

An institution is a series of regulations or norms that influence human activity. North argues that institutions are a set of rules, compliance procedures, and moral and ethical behavioral norms designed to constrain the behavior of individuals (North, 1981). As far as Chinese NPOs are concerned, the impact of institution is particularly visible and important, because the genesis was traceable to the push of the government rather than the autonomous development in civil society. In China, the state still holds a dominant position vis-à-vis civil society. Social science scholars have used the terms "nascent civil society," "semicivil society," or "state-led civil society" to depict the state–society relationship (Frolic, 1997; He, 2003; Whiteet al., 1996). State control of NPOs is strong—it controls them through a tight dual-management system and regulations promulgated in national and local administrations. This comprehensive regulatory framework pervades the process of registration, agency management, fiscal aid, preferential policies, and administrative sanctions.

Shanghai has often stood at the forefront in pioneering social services. For example, the municipality is the first in China to introduce social assistance or minimum living security allowance (*dibao*) in 1993 (Leung & Nann, 1995; Wong, 1998). It is also the first to set up re-employment service centers for redundant or *xiagang* workers in 1994 (Wong & Ngok, 2006). In elder care and NPO development, the Shanghai authorities are keen to take the lead. A review of policy evolution shows a strong record of initiation and consolidation of the regulatory framework. The changing institution can be summarized in two aspects—formal and informal. The former includes law, administration regulations, and other administrative arrangement. The latter comprise officials' attitude toward non-state care homes.

Formal Institutions: Work in Progress

As a means to deliver real benefit (*zuo shishi*) to the citizens of Shanghai, the municipal government announced a plan to establish 10,000 new residential beds each year and to provide a subsidy to each newly added bed (*chuangwei butie*) in its 11th Five Year Plan (FYP) released in 2005. In its wake, the city's civil affairs authorities announced an implementation plan. As a measure of support, the municipal civil affairs bureau will grant a subsidy of 5,000 yuan to each new bed. Meanwhile, the district civil affairs department will also give the same level of support. Hopefully, the scheme will give sufficient boost to the creation of new facilities, which was absent in the early years. The implementation of the two-tier scheme is supervised at the city level. According to official report, the system came into effect in 2006. However, 1 year away from the end of the plan period, the government still has not announced further plans to increase bed supply or how to manage the existing ones. What's more, qualitative issues appear to be neglected—the quality of newly added beds and the services these provide are not included in the monitoring and supervision process.

The second measure in institution reform is the formation of a trade association (*hangye xiehui*) for the residential care industry. In 2003, Shanghai Social Welfare Association (SSWA) was set up under the instigation of the government. At the end of 2009, over 80% of non-state care homes have joined up as members. The major responsibilities of the association include the training of care staff and assisting the municipal civil affairs bureau to conduct the annual inspection. In short, it is the intention of the government to use this intermediary agency to manage the elder care homes. In one of our interviews, a government cadre used "mentoring or governing" to describe its relationship with the trade association. Actually, SSWA has been controlled by the government through fiscal and personnel allocation. Where funding is concerned, income for the association comes from state allocation and membership fees. The vice president of SSWA confessed that the association could only rely on the government input because the membership fees were "a drop in the ocean." Where human resources are concerned, the association has 13 cadres on its staff. Eight of them come from the municipal civil affairs bureau, district civil affairs departments, or subordinated public institutions (*shiye danwei*). All cadres are paid by their original or parent units. In terms of personal status, SSWA cadres are not classified as civil servants. Instead they are graded as quasi-civil servants in public institutions. Therefore, to the government, the association functions as a government agent even though it does not have formal line authority over the elder care homes. At the same time, however, the association is supposed to represent the interests of member agencies. This double identity may be a bit awkward. However, the directors we interviewed made no bones that the SSWA was a government front. As all office bearers were appointed by the government, the government naturally dominated the decision making.

The third measure is directed at perfecting the legal framework, namely the introduction of accident insurance in elder care homes. The need for this has been identified in the 2002 survey. In the past, accidents involving residents in care often ended in expensive litigation and compensation settlements. The lack of collective insurance cover drove affected homes to bankruptcy and created long standing hassle. In order to build a safety net for both residents and agencies, the government launched an accident insurance scheme at the end of 2008. In the *Notice to Implement Accident Insurance in Elder Care Homes*, the basic principles, coverage, enforcement measures, and funding arrangements are laid down. The premium comes from three sources: the municipal government, the district government, and the agency, each paying one third of the cost. The scheme was welcomed by agencies. However, as it has only 2 years' experience, the effects remain to be seen.

Informal Institutions: Questionable State Attitude

However vital, formal codes and systems are only one part of reality. Informal institutions are equally salient. Informal rules that are not found in official documents but nevertheless continue to influence the maturation and development of civil society

are influential (Yu, 2006). In China, where legal norms are not well enforced and officials' attitudes and behavior can arbitrarily affect policy outcomes, the force of informal institutions cannot be ignored. Our literature review and interviews with home operators and experts suggest considerable conflict and vacillation of official attitudes toward non-state agencies. On the one hand, the state is anxious to unload the heavy burden of social welfare to the third sector. This is mainly driven by its weak capacity in delivering services, especially financial constraints. On the other hand, the government still keeps a watchful eye on civil society organizations for fear of insubordination, intransigence, or loss of state authority. Pundits say NPOs are never treated as equal partners but subordinates. Their activities and operations require supervision and monitoring.

Even though non-state homes are supposedly instruments of the welfare socialization policy, the civil affairs cadres we interviewed seldom referred to the policy. Instead, officials often stressed that the government would never give up "managing" such homes. They believed that in the transitional stage, NPOs needed strong support and guidance from the state. However, the state could not meet all their needs. In terms of financial support, for example, civil affairs funding is always short and must be used judiciously. They are even more worried about potential loss of state assets if more money passes to non-state operators. One cadre opined bluntly that Shanghai socialization was a failed project. He pointed out that the government has been spending more money on social welfare and on NPOs in the past several years. Instead of bringing in new investment and service operators to relieve the pressure on state coffers, the government was actually enlarging its role in welfare planning, financing, and management. This suggests that state–NPO relationship is one of principal and agent. The latter must operate under a strict regulatory regime.

In sum, the government endorses the function of NPOs in elder care. It encourages social organizations to shoulder the major role in service delivery and is prepared to give more support to these agencies. Nevertheless, it still believes in keeping its guidance and supervision role as its underlying attitudes are colored by both pragmatism and distrust. These attitudes are likely to produce policies that are wavering, inconsistent, and conflicting.

Evolution of Welfare NPOs: Development and Challenges

As mentioned before, the 2002 study identified four factors that affected agencies' survival and development prospects: their ability to ensure financial sustainability, manage human resources, meet the needs of users, and satisfy the expectations of their investors (Wong, 2007). The follow-up interviews also explored these issues by asking investors or managers to reflect on their evolution during these years. The interviewees consisted of home investors, superintendents, and financial managers.

Table 14.1 Features of the revisited non-state care homes in Shanghai

	Home A	Home B	Home C	Home D	Home E
Inception	1999	2002	1998	1998	1999
Auspice	State-owned enterprise	Private enterprise	Individual household	Joint venture	Joint venture
Location	*Yangpu* district	*Yangpu* district	*Hongkou* district	*Pudong* district	*Hongkou* district
Neighborhood characteristic	Old industrial area with a mass of laid-off workers	The biggest civilian residential community with many new residents	Old downtown neighborhood surrounded by warehouses and civilian housing	Emerging community with a mix of local elders and young immigrants	Traditional residential community with many indigenous Shanghai residents

Characteristics of the Revisited Homes

The interviewees spoke quite freely. To protect the anonymity of the agencies, they shall be designated as Homes A, B, C, D, and E (Table 14.1).

In terms of auspices, they fell into different types. Home A was started by a state-owned enterprise in 1999 with the initial aim to cater for the unit's retired employees and to place their redundant staff. Home B was initiated by a private enterprise owned by an individual entrepreneur in 2002. Over the years, this entrepreneur formed a string of five elder care homes and two nursing hospitals in a consortium under the district labor union as its official sponsor. Home C was founded by a female entrepreneur in 2001, who used to be a laid-off worker of a state-owned enterprise. Home D was established by an oversea religious group as one program of an entire community project in 1998. This community project was co-founded by the government, the religious group, and the local community, providing community services, community education, and cultural activities to residents. Home E was set up as a joint venture of a collective-owned enterprise and a local community organization (*jiedao banshichu*) in 1999.

Service demand and client profile is crucially affected by location. All five homes are situated in Shanghai's inner city areas: Homes A and B are located in *Yangpu* District, Homes C and E in *Hongkou* District while Home D is in *Pudong* District. However, their neighborhood characteristics are different. Home A sits in an old industrial area with a mass of laid-off workers; hence most of its residents are retired personnel or redundant staff from its parent company. Home B is domiciled in the biggest civilian residential community in the city—*Zhongyuan* Community.[2] Not a traditional neighborhood, the community houses many residents resettled from other areas after the large-scale land clearance in the 1990s. According to the data of Shanghai Civil Affairs Bureau, there are ten residential homes in the neighborhood (Shanghai Civil Affairs Bureau, 2010), so competition for customers is intense.

[2] According to government statistics, the population in *Zhongyuan* Community is more than 250,000.

Home C is found in the old downtown of *Puxi*[3] surrounded by civilian residences, warehouses, hospitals, and schools. Although the earliest urban renewal project was started in this area in the 1990s, most of the original residents had moved back since, thereby maintaining the traditional custom and community identity. Home D is located in the newly developed residential community of *Pudong* District. Most of the residential units were workers' housing provided by state-owned enterprises. After welfare housing distribution came to an end in 1998, the original residents moved out gradually and rented their apartments to outsiders. Nowadays, this community is a mixed neighborhood dominated by local elders and young immigrants. Home E lies in a traditional community with local Shanghainese making up the majority of the population, especially retired workers from the education bureau. The local environment is comparatively close and stable.

Financing Issues: Funding Chain, Preferential Policies, and Housing Problem

1. Ruptured funding chain

The initial capital of non-state residential homes comes from four sources: individual investment, enterprise funding, government subsidy, and social donations. Wong and Tang found that 66% of homes had individual investment, 39.6% of homes obtained startup capital from enterprises, 24.7% enjoyed a subsidy from the government, and 13.6% secured donations from society (Wong, 2007). In this chapter, the revisited agencies obtained initial funding either from their parent units or individual investors. Home A got the capital funding from its parent company, a state-owned enterprise. Home B was started by an individual investor although it was supposedly supervised by the district labor union. Home C was initiated by a female laid-off worker, who received fiscal assistance from the district civil affairs bureau and the Women's Federation, and became the manager of the home later. Home D was funded by a social group but obtained extra support from the government because it was supposed to be a "model project of community service provision." Home E was a joint venture set up by a collective enterprise and one local community. For all, the biggest financial problem was not the startup investment but the ruptured funding chain after the projects came into operation. The government was aware of this difficulty. In our interviews with civil affairs officials, one cadre emphasized that most non-state elder care homes had sufficient funding at the founding stage. Agencies often ran out of money to maintain and expand their operations.

[3] *Puxi* is a geographical concept that refers to the west bank of *Huangpu* River in Shanghai city except for suburbs like *Jiading* District and *Baoshan* District.

Continuing injection of capital was needed to expand the scale of operation and to enhance the amenities and services. In 2002, Wong and Tang discovered that it was rare for the government and enterprises to make further injection after the initial investment, hence most homes relied on fee charges to keep afloat (Wong, 2007). The situation has not changed since then. As mentioned before, the municipal government now provides a subsidy of 5,000 yuan to each newly added bed. Some districts are able to offer more subsidies. For example, in *Pudong* District, the district government provided an extra subsidy of 45,000 yuan for each new bed. However, after receiving the startup grant, agencies do not get any new funding to run the existing beds. The financial manager of Home A expressed her anxiety about the funding crunch during our visit. The subsidy was not enough to set up a standard new bed according to the government's guideline.

To augment the shortfall, agencies turned to three sources. The first and most important funding source was the residential charges at an average of 1,000–1,600 yuan per resident per month. Indeed, from a report of CNCA, 90% of non-state old age homes in the whole country depend heavily on the charges as the primary funding to maintain their daily operation while only 7% of them have other financial sources like social donation (CNCA, 2010). The second source came from the investors, such as the continuing operation subsidy, and the exemption or deduction of rent or management fee.[4] Funding from the local community made up the third source, with the neighborhood agency contributing funds to support destitute seniors who did not have any children. Notwithstanding this, the latter two sources are uncommon for non-state agencies. For example, in Home A, the parent company provided a subsidy for each resident who had no family members. However, for other homes, the only income resource is the fee charges. Consequently, the shortage of money meant that although agencies perceived new demands, expansion is not possible. Unable to raise new funds, Home E had to give up its expansion plan and focus on cost reduction, for example, controlling the food bill. Another illustration comes from Home C. Because of its unstable finance, it has to downsize from 130 to 70 beds over a 7-year period. Meanwhile, although the superintendent of Home B refused to admit that he obtained funding from other service units in the consortium, primarily the two nursing hospitals, to balance its finances, its residential fee was higher than other homes, ranging from 1,300 to 1,900 yuan per month.

When the issue of funding shortage was raised with the civil affairs officials, they were well aware of the issue. They felt unable and reluctant to give ongoing support. As mentioned before, the government was deeply concerned about the potential loss of state assets. To the state, spending money (albeit on a more generous level) on government-run facilities was regarded as justified. Giving a subvention to non-state agencies was not. In their view, granting public money to non-state programs was inherently dangerous. One official even suggested that it was tantamount to divesting state resources to benefit individuals and enterprises.

[4] Some non-state old age homes rent space from their parent companies. Meanwhile, some agencies initiated by state-owned enterprises have to submit management fees to their investors.

Another cadre admitted that, apart from the government's own financial incapacity, they did not have enough confidence to support non-state projects year by year. Besides, agencies should "run their own business." Such an attitude reflects a lack of trust in the third sector.

In view of these difficulties, NPOs began to look for alternative income sources besides fee charges. In Home A, the manager tried very hard to obtain aid from the Shanghai Charity Foundation. For years, the superintendent of Home B intimated that the income deficit was met by transfers from its sister organizations. However, he refused to confirm this point and insisted that all the units in the group had independent accounting. Raising donations from society might be a solution in the future. In 2007, the *Enterprise Income Tax Law of the People's Republic of China* considerably increased the scope for pretax deductions when companies donate money to public welfare undertakings (National People's Congress, 2007). One home manager we interviewed expressly looked to donations as the next step to augment their funding.

2. Difficulty of implementing preferential policies

On paper, the government has promulgated preferential policies to encourage non-state welfare provision. Supportive policies, from the central to the local government, include concessions on land and land costs, construction expenditure, water and electricity charges, tax exemption, and so on (Yi, 2006). In reality, implementation was haphazard. The failure to honor preferential policies has been identified by Tang and Wong. The situation has persisted to this day. For example, Home A did not enjoy half price for electricity during nighttime according to policy; the electricity bureau refused to offer discount even when the relevant notice from the civil affairs bureau was presented. For gas charges, they did not enjoy the domestic rate as promised; the actual charge was set between the levy for domestic households and that for commercial users. Home E reported another anomaly. In 2008, the home earned a profit of 10,000 yuan. As an NPO, if the profit was put back into existing services, it should be tax exempt. However, the tax bureau insisted on taxing them. Notwithstanding the generally uncooperative attitude of fellow state agencies and utility companies, exceptions are possible. For instance, homes that enjoy close connections with the authorities will stand a better chance of enjoying the preferential policies. Home D, designated as part of a "star project" is one such case. This home has multiple auspices. Its founders include the district civil affairs bureau, a street-level agency, and a Hong Kong-based charitable organization with a religious background. Although the government does not involve in its daily operation, its close link to the state and its special place in the welfare socialization campaign in Shanghai give it favored standing. The manager of Home D acknowledged this privilege: "We are luckier than most of our fellows. We enjoy everything we are entitled to from the state, sometimes even more."

Actually, the issue of enforcing preferential policies exposed the weak position of the welfare authorities. Within the government bureaucracy, the civil affairs

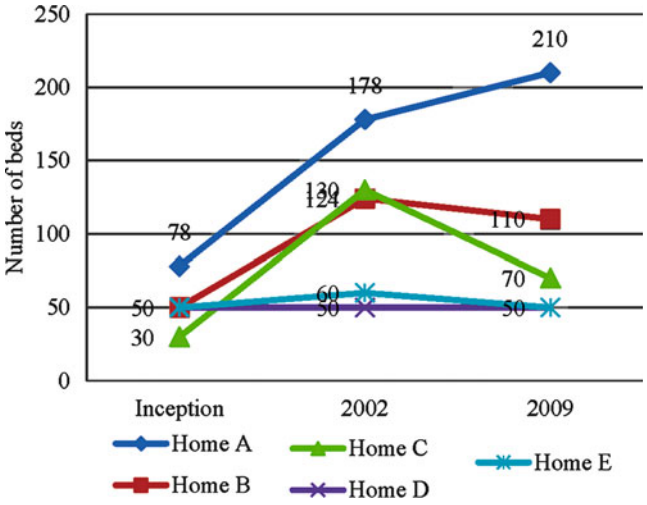


Fig. 14.5 Changing size in the revisited non-state elder care homes in Shanghai, the inception to 2009. *Sources*: Wong and Tang (2006) and Shanghai Civil Affairs Bureau (2010)

bureau is known as a marginalized agency. It has no power over finance and personnel in other departments and their subordinate agencies. When fellow bureaucrats refuse to observe the preferential codes, such as tax exemption or reduction in fee charges, the civil affairs bureau is powerless. The ambiguity of the policies themselves creates difficulties too. For example, in the *Suggestions on Supporting Social Sector to Set Up Social Welfare Institutions*, the authorities only promise to "grant proper preferential treatment to social welfare organizations on the land price," but there is no elaboration on what "proper" treatment means. Further, the government professes to give priority to welfare agencies in the use of telecommunications service, but it does not state what the preference is (MOCA, 2005). Such vagueness and ambiguity makes enforcement almost impossible. In the opinion of Yan Qingchun, vice president of CNCA, policies that are promoted by the central government are not being enforced by the local authorities. "Normally, the land allocation, government subsidies and utilities concessions exist in name only" (Yan, 2007).

3. Problem in securing affordable housing

All home operators wanted to tap into the big market for residential care in the rapidly aging city. Indeed all homes had plans to expand facilities. However, such ambition had to be put on hold due to difficulties in security land and buildings at affordable cost. As Fig. 14.5 shows, all five agencies had below 100 beds at the beginning. In the 2002 survey, four out of the five homes had grown significantly. By 2009, however, all of those expanded homes had to scale back their capacity.

Three factors hindered service expansion. First, from 2005, the government set higher building standards and strengthened the inspection of newly added beds. This increased the cost of installing new facilities. Second, the shortage of new funding curtailed their ability to expand. Finally, difficulty in acquiring affordable space through purchase or leasing had been the most critical factor. The finance manager of Home A complained that because of space limitation, they could not add extra beds even though each new bed could bring in more revenue from the government. As few agencies can afford to buy land or property, success in negotiating a long lease and keeping the rent from rising too sharply is crucial to survival. Compared with Home A's failure in expanding its facilities, the story of Home C is more pathetic. Since its establishment in 1998, it has rented space from the district education bureau. For quite a long time, Home C's relationship with the landlord was said to be "stable and close." The grace ended at year-end 2008, when the landlord demanded to double the rent from 2009. This is a big blow to the home. Its manager immediately pleaded for a new and more affordable rent. Unfortunately, the negotiation quickly broke down, with the owner refusing to sign a new lease. This caused Home C to be slapped with a serious warning in the annual inspection: "Literally, we pass this year's annual inspection, but the government refuses to stamp on our inspection form because we cannot produce an effective leasing contract to prove our housing status." The home was ordered to fix this problem before the next inspection or face failure in the subsequent round. Given the regulation that an elder care home cannot fail the inspection in two consecutive years, its future is in jeopardy with the threat of closure over its head.

The constant struggle over the space issue forces home managers to look for survival strategies. For the manager of Home E, cultivating a good relationship with the landlord is imperative. He cited another case as a lesson: one care home in the vicinity was close to collapse after the landlord raised the rent from 60,000 to 90,000 yuan in a period of 2 years. Each re-location means a loss of investment that had gone into decoration and provisioning. Home A experienced this trauma first hand. In 2005, new decoration and fitting out work was carried out. After completing the improvements, the landlord (the parent company) suddenly demanded repossession of several floors in the building. The blow to the agency's finances was severe.

To non-state agencies with modest means, buying their own premises is unthinkable. All five homes rely on renting and are unanimous in welcoming government support in securing affordable and stable housing space. One suggestion, from the superintendent of Home B, was to have the government sign a long-term contract with land/property owners and sublease the space to agencies. Another idea, from the superintendent of Home E, was for the government to provide land to agencies as incentive to start new facilities. The most favored suggestion was offering rent allowance to agencies. These suggestions were not well received. The idea of rental allowance, especially the feasibility of a unified rent allowance scheme, was dismissed as unfeasible. First, the government suffered from resource constraints. The municipal civil affairs bureau already spent 50 million yuan a year to create new beds; to give recurrent rental subsidy would not be possible. Second, due to the unstable and variable real estate prices in different districts, a single rent aid

standard is impractical. Notwithstanding the caution of the municipal authorities, local districts and communities were encouraged to experiment with rent support schemes when resources permit. For example, *Changning* District started to offer non-state care homes a rental subsidy at 0.5 yuan per day per square meter from 2008. The investor of Home C, who has another non-state old age home in this district, regards the rental allowance as the greatest and most useful help from the government, "If I set up another elder care home, I will definitely put it in *Changning* District, because the rent allowance is attractive for us [investors]."

Staffing Concerns

A care home is a human service; hence the staffing issues are of crucial importance (Wong, 2007). In non-state care homes, the service team comprises administrators, doctors, nurses, care workers, and support staff. The 2002 survey identified a number of salient issues related to staffing: staff lacked training and experience in elder care, wages for most staff was low, working conditions were tough, and turnover of nurses and care workers was high.

The situation has not changed much since then. Because of the limited budget and unfavorable working environment, the homes faced problems in hiring professionals like doctors and nurses as well as care workers. For example, Home D only hired one healthcare doctor who was unqualified to prescribe. Home B did not hire any doctors or nurses itself. All the four medical professionals working in the home came from the nursing hospitals in the same consortium. They were paid by the nursing hospitals, not the home. Home A had more than 200 beds but had only four doctors and one nurse. All medical workers were former employees of the parent state-owned enterprise who had been reassigned there since its founding in 1999. However, attracting new medical and nursing staff was difficult because of the low pay. It was the same with care workers. The majority were also redundant personnel transferred from the parent company. All of them spoke the Shanghai dialect and were familiar with the community. In time, most of the first cohort has retired. Nowadays, the 50 strong care staff is dominated by migrant workers from Gansu Province.

While migrant workers provide an abundant reservoir of care staff, their hiring has brought about new issues. One problem is the high mobility and turnover. Currently, care workers are paid 1,500–1,900 yuan per month. Working conditions are disagreeable: a two-shift system, no vacations and heavy work load. Home E saw a lot of turnover among its care staff each month; the shortest stint was 2–3 months. Signing a contract was no guarantee to staff retention. To the management, the never-ending task of making new hires has become a constant headache that consumed a lot of their time. Furthermore, frequent staff changes disrupt the service and harmed work relationships with clients. Besides, migrant workers coming from villages in western China did not speak the local dialect and were unfamiliar with local customs. In our interviews, communication and cultural differences resulted

in residents' complaints that care workers did not understand them and could not communicate with them. Agency administrators could do very little to solve these problems. Even worse, the new generation of migrant workers was reluctant to work in elder care homes, since it was viewed as a high-risk job with poor salary, poor working environment, and low social status. The manager of Home B complained that it was "extremely difficult" to hire new nursing workers from the labor market: "They prefer to work in restaurants or hotels, because these jobs are much easier and less pressurized." In addition, all five homes were eager to hire professional social workers. However, trained social workers are in short supply in China and where available, prefer to work in community settings rather than in elder care. As a partial remedy, some agencies took in social work students or volunteers but their short-term affiliation limits their usefulness. In some homes, existing staff undertook social work training to meet the shortfall of social workers and to lower the staff costs. The female manager of Home D is one such example.

Meeting Users' Needs and Enhancing the Quality of Care

Chinese tradition of filial piety stresses care of elderly parents in the family, and seeking residential care for a parent is frowned upon. Values have changed a lot in modern times (Peng, Liang, & Cheng, 2006; Wong, 2008; Wong & Tang, 2006). Now, placing a parent in a care facility no longer invites social disapproval. Many elders also accept residential care as a normal and professional form of old age support. Such thinking has impacts on service development. First, as residential care becomes more accepted and as income rises, better amenities and higher professional standards are in demand. Care homes have to respond by improving their amenities and care skills. Second, higher expectation on the services provided and nature of care has been evident. Previously residential care was seen as catering to the physical needs of inmates; now new professional thinking emphasizes the provision of a comprehensive service package which includes emotional tending, mental stimulation, and even hospice care. From our recent visits, however, not all the homes were well prepared to meet the new challenge. The views of the agencies on the nature of care and their vision for the future differed. The manager of Home A appeared unconvinced about the need to provide mental and psychological care. Her main concern was seeing to the satisfactory discharge of the traditional functions—the diet, facilities, cleanliness, medical treatment, and personal care. However, for the superintendent of Home B, a former army doctor and ambitious social entrepreneur who led a "group" of five care homes and two nursing hospitals, the updating of the service was his goal. Noting the increasing longevity of the residents, he gave priority to the purchase of new medical equipment to improve the inmates' health and wellbeing. The introduction of hospice care was also in the pipeline. By contrast, the superintendent of Home C felt powerless to follow the fashion of care service updating. She defined her elder care home as an institution that offered elementary accommodation, diet, and care service to low-income elders because of its limited

funding, facilities, and space. Actually, among our sample homes, Home C set the lowest charges and 30% of its residents were supported by the municipal Minimum Living Security Allowance Scheme. For Home D, thanks to the social service experience and good standing of its Hong Kong sponsor, the agency is able to offer psychological counseling and various cultural activities to its inmates. The enhanced standard of care gives the home its major selling point. The manager of Home D encouraged her employees to acquire knowledge and skills in nutriology, psychology, hospice care, and related fields to meet the rising expectation of their residents. Not all homes have such aspirations. In the case of Home E, a different perspective is evident. The manager knew about the modern ideas in elder care, but disdained to follow them, regarding them as meaningless for the present. In his opinion, nutritious meals and comfortable living environment were the essence of good residential care; hence much time went into ways of improving the residents' diet.

All five homes seemed to run well since they were last surveyed. Occupancy rate was over 90% in all five. Residents and their family members were reportedly satisfied with the services provided, in particular, the food and personal care. Moreover, all agencies tried hard to control their fee charges at an acceptable level. The monthly fees[5] in Home A was 1,200–1,600 yuan; in Home C, charges ranged from 900 to 1,350 yuan per month; and in Home D, fees covered from 1,150 to 1,550 yuan. Home C had the lowest monthly fees from 600 to 1,000 yuan while Home B sets the highest monthly charges from 1,300 to 1,900 yuan.

Investors' Concerns

Wong and Tang identified four important motivations for investors/founders to start their social projects: their personal history, their need for employment and economic survival, the skills and experiences they developed in their past careers, and their entrepreneurial vision and ability (Wong, 2007). After founding the projects, almost all the founders were involved in running the business. To staff and clients, they were known as the "bosses." Running a non-state home turned out to be more testing than they imagined; "the feeling of being overwhelmed by problems and not getting help from the government was widespread among them" (Wong, 2008). In the latest visit, our conversations with the administrators revealed interesting perceptions about the challenges they faced and their vision for the future.

For managers of Homes A and E, running a care home was a task assigned by their former employers. Without relevant skills and experience, they found the work difficult and demanding. Their common complaint was a lack of support given by the government. Besides, providing care to frail elders on a 24 h basis made them tired and frustrated. Both seemed to be resigned and cautious. When asked what

[5] Normally, the monthly fees or charges of an old age home consist of three parts: accommodation, diet, and nursing service fee which vary according to the level of care.

their plans for the future were, their answer was somewhat surprising. Their concerns were mundane, such as decorating the premises, replacing windows and doors, and replenishing the facilities. They confessed that they were not looking for big profit, but for survival. Nevertheless, they were proud of their social contribution. They thought their work had great social value.

For the manager of Home C, in contrast, the development of the non-state agency reflected her life story and personal struggle as a former laid-off worker and a current social entrepreneur. After retiring from the state-owned enterprise at her 40s in 1998, she got fiscal support from the district civil affairs bureau and the Women's Federation to start a civilian-run elder care home. Since that time, she had received a number of awards from the authorities. The most treasured honor was being conferred the title of "National Female Pacesetters (*quanguo jinguo jiangong biaobing*)" by the All-China Women's Federation for her remarkable contribution to social welfare reform and re-employment of laid-off workers in 2003. Currently, she supervised three small to middle size elder care homes in two different districts. Despite difficulties in securing affordable housing and facilities, she was thankful that she had gone into the residential care field. As a female entrepreneur, she is still optimistic about the future of the business. She understands the constraints of the civil affairs authorities and is not overly critical of the government policy toward NPOs. At this point, her business ambition is modest: no expansion in the coming years, just focus on maintaining and improving the services incrementally.

All managers found their work draining and stressful. To Home D's manager, the pressure is keenly felt. Having served as home superintendent for 8 years, she was newly promoted to a more senior post in her agency. As a modern manager who acquired knowledge in nutriology, social work, and public administration, she attempted to bring new ideas into the operation of care homes. She strongly believed in encouraging inmates to participate in various community activities and strengthening communication with neighborhood residents. Despite her tireless efforts to reach out to the community and strengthen programming in her home, a change in government personnel and attitude deprived her of the support she used to enjoy from the state authorities. Two factors led to the falling status of her home. One was the religious background of her Hong Kong sponsoring agency, which made government leaders uncomfortable in visiting her project. A more immediate cause was the departure of the home's patron, a senior government cadre who was promoted and transferred to another government department. Hence instead of being held up as a model for government–NPO collaboration, the home lost its favored status. Much as she still felt hopeful about the future of non-state residential care, her aspirations have become more modest. More attention is now being given to internal management issues, particularly the cost control. No expansion plan is envisaged.

The superintendent of Home B was more visionary. He had been a doctor in the army before entering the elder care industry. Using his personal resources, medical knowledge, and social connections, he started his first care home in Shanghai in the early 1990s. After more than a decade of hard work, he built up a consortium of seven care establishments (five elder care homes and two care hospitals) through

collaborating with other individuals and organizations. In his view, the old age care industry was full of opportunities and challenges. He professed his eagerness to develop his projects to meet the higher service requirements and advanced ideas in the near future. He also saw the need to strengthen the corporate management skills in his team. Indeed, he had the bearing and vision of a true businessman or entrepreneur. However, even for an optimist like this boss/manager, the market environment at the present time is fraught with risk and uncertainty. Government policy still forbids NPOs to set up branch organizations and operate as a consortium. In the interview, he was wary in drawing attention to his "group" of five projects although he was proud of being head of a big organization. He made no bones in saying he had little confidence in the legal environment of Chinese society. In his words, government policy might change at any time. Besides, "a tree that grows tall captures the wind"—the government might give him trouble if his business becomes too successful.

Conclusion

The development of non-state elder care homes filled a gap in social welfare provision in a rapidly aging society. In Shanghai, which has the oldest population in China, non-state elder care homes have become the major service providers. In recent years, the government has publicly endorsed the contribution of NPOs. To encourage their growth, it has actively engaged in institution building. However, policy development is very much a work in progress. In particular, translating policy into practice turns out to be inconsistent, arbitrary, and uncertain. First, there is the absence of long-term direction and detailed plan to guide the development of the industry. Beyond the plan to increase new beds, issues of quality and monitoring have not received much attention. Second, the status of the trade association is ambiguous. As an organization that purportedly represents members' interests, issues like agency involvement, autonomy, and accountability should be stressed. However, the way the association operates suggests it is another form of government organization to manage and regulate the non-state sector. Third, the attitude of the government toward NPOs is a source of anxiety to agencies. In contrast with before when NPOs were solely responsible for raising the initial capital, the government now gives a startup grant. However, there is still no policy on providing ongoing subvention to help alleviate the funding shortage. Weak support to NPOs was attributed to resource constraints and anxiety about the loss of state assets. This is not the entire story. At a deeper level, there is strong distrust in NPOs and their use of public resources. More importantly, the state is in two minds about the value of the non-state sector. On the one hand, NPOs are useful as service providers, helping to relieve pressure on the state. On the other hand, non-state players have to be kept subservient, to be used as agents and controlled as part of the new regulatory state. Government–NPO relationship is one of dominance, not equality. The idea of NPOs as partners is still a long way off.

The return visits to five non-state elder care homes reveals that problems relating to funding, staffing, and space pose big challenges to service operators, similar to the time of the first survey. Uncertainties about state policy and the nature of residential care also create obstacles to further development. Of the five homes, three appeared to lack vitality and were just coping on a day-to-day basis. Two homes are rather more forward looking and appear adroit in harnessing networks and capital to expand their operations. It now seeks to upgrade its facilities, services, and standards to capture the emerging market for quality care. All agencies are frustrated by the low level of state support and trust. The welfare market is still risky and uncertain.

Notwithstanding the explosion of non-state elder care, it is questionable whether such growth is a step forward toward welfare socialization. In the case of Shanghai, the state has strengthened its role in welfare through provision of startup grants, higher spending on welfare, standard setting, and initiation of a trade association. If welfare socialization means cultivating greater participation of societal actors in welfare funding, provision, and management, it is difficult to come to any conclusion on what expansion in non-state care means and NPOs' position vis-à-vis the state. So far the state–agency relationship is marked by tension. At the present stage in the new welfare economy, the market in social care is far from mature. The authority of the state is well accepted and agencies demand more state support to increase their chance of survival. State dominance looks set to become a long-term feature of welfare development in China.

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