

# Chinese Government Increases Anti-Corruption Scrutiny of Foundations and Other Social Organizations

December 2014

Anti-Corruption

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On November 20, 2014, China's Ministry of Civil Affairs and Ministry of Finance jointly issued the [Opinions on Strengthening the Efforts to Fight Corruption and Uphold Integrity Concerning Social Organizations](#) ("Opinions"; a Covington translation is available [here](#)), which increase anti-corruption scrutiny over foundations and other "social organizations"<sup>1</sup> in China.

Key points in the Opinions include:

- *Regulate commercial activities engaged in by social organizations.* The Opinions include a list of prohibitions for social organizations, most notably:
  - The Opinions reiterate earlier prohibitions<sup>2</sup> on foundations concerning (1) sponsoring for-profit events; (2) directly marketing, promoting, or selling products of any corporation or promoting any corporation's brand; or (3) providing a guarantee of product quality or corporation credibility for any corporation. No additional interpretations or guidance are provided regarding how this applies to foundations and other social organizations that host educational or academic events paid for by sponsors of private companies.
  - The Opinions prohibit social organizations, when they engage in for-profit operations or service, from subcontracting or assigning the work to an entity where any of the management of such organizations or their branches/representative offices has any direct interest.
- *Establish a system to disclose information.* The Opinions require social organizations to disclose certain information, including detailed plans concerning public welfare activities and the use of funds raised, procedures for applying and approving public-funded projects, annual performance reports, and financial audit reports. The Opinions do not describe the level of detail that is required but require government agencies responsible for registering social organizations at each geographic level to facilitate such information

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<sup>1</sup> As used here, the term "social organizations" includes foundations, "social groups" (e.g., trade associations) and "private non-enterprise units" (e.g., privately run schools, hospitals, museums, and scientific research institutes).

<sup>2</sup> Ministry of Civil Affairs, *Several Provisions on Regulating Actions of Foundations (Trial)* 《关于规范基金会行为的若干规定（试行）》， issued in July 2012.

disclosure by issuing rules or regulations and establishing or using public information platforms.

- *Reinforce financial management of social organizations.* As part of reiterating the importance of following PRC accounting regulations, the Opinions require all income and expenses to be transferred to and from social organizations' designated accounts, not any other accounts or individuals' accounts, and prohibit all off-the-books accounts and funds. The direct relatives of the management of social organizations are not permitted to serve as accountants or cashiers within the social organization.
- *Strengthen audit and supervision of social organizations.* The audit offices and bureaus are to strengthen audit and supervision of the use of financial support funds and funds raised from social donations or sponsorships. This requirement indirectly indicates that social organizations are permitted to receive sponsorships and donations. Government agencies responsible for registration may perform special audits as needed.

*Improve "democratic mechanisms" of social organizations.* The Opinions require social organizations to implement democratic and competitive elections, expand the scope of direct elections, and establish and reinforce a system of internal supervision.

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