China’s Super Rich Entrepreneurs and Philanthropy

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Overview

  - Overview of China’s Super Rich Entrepreneurs Participation in Philanthropy
  - Contributions and Impacts of China’s Super Rich Entrepreneurs on Philanthropy
  - Plights and Challenges Faced by China’s Super Rich Entrepreneurs Involving Philanthropy
China’s Private Enterprises

◆ After nearly 30 years of steady development, there is a tremendous number of private enterprises in China
  
  • According to the statistics released by the State Administration for Industry and Commerce of China (SAIC), up till the end of June 2012 there were already over 10.25 million private enterprises registered in China, with total capital of RMB 28.48 Trillion (more than $4 trillion).
  
  • As shown in the Report on China’s Top 500 Private Enterprises, the total assets of those 500 enterprises were RMB 7770.352 Billion in 2011. Meanwhile, they had gross revenue of RMB 9307.237 Billion last year, and earned a net after-tax profit of RMB 438.74 Billion.
  
  • In 2011, for the first time there were over 1000 privately held listed companies in China.
With the development of private enterprises, the owners of them have accumulated large fortunes

- According to the *Hurun Report*, the number of Chinese millionaires reached 1,020,000 in 2012; they can be found living in all 31 provinces of the mainland.
- These millionaires were classified into four types by Hurun, namely the Private Business Owner (PBO), the Stock Market Investor (SMI), the Real Estate Investor (REI) and the High-salaried Executive (HE). **Half of the total were private business owners.**

As pointed out in the *Hurun Report*, for the PBOs, 75% of their wealth was tied up in their private businesses. On average, they have RMB 2 Million invested in owner-occupied property, RMB 200,000 in cars and more than RMB 300,000 in investable assets.
◆ The Super Rich Entrepreneurs

- The Hurun Report also explored the situation of super rich, and found out the number of this group was 63,500 in 2012, with an annual increasing trend of 6%.
- The proportion of private business owners amongst the super rich is much higher than amongst millionaires, accounting for 75% (about 48,000 individuals). On average, they have RMB 15 Million invested in owner-occupied property, RMB 2 Million in cars and 8% of their wealth is in investable assets.

According to the report, there were 7500 individuals having assets of over RMB 1 Billion, 2500 having over RMB 2 Billion, and only 260 have more than RMB 10 Billion. These people are the real leaders in this field and the core driving force behind the development of Chinese philanthropy.
Overview

• Current Circumstance of China's Entrepreneurs: The Growth of the Super Rich

• **Overview of China’s Super Rich Entrepreneurs Participation in Philanthropy**
  - Contributions and Impacts of China’s Super Rich Entrepreneurs on Philanthropy
  - Plights and Challenges Faced by China’s Super Rich Entrepreneurs Involving Philanthropy
Public Donations

After the 2008 Wenchuan Earthquake, public donations in China entered a new stage. The total amount of donations obviously increased.

In 2008 and 2010, public donations exceeded RMB 100 Billion, a direct result of severe natural disasters.

In 2011, public donations amounted to RMB 84.5 Billion, accounting for 0.18% of the year’s GDP.

The years of 2008 and 2010 witnessed a higher proportion of public donations to GDP in China, resulting from severe natural disasters.

Except for 2008 and 2010, there was no obvious variation in the proportion of public donations to GDP in China.
Social Organization

By 2011, there were 5,993,000 people working for 462,000 social organizations in China, accounting for 0.78% of the country’s total employed population.

<table>
<thead>
<tr>
<th>Year</th>
<th>Social groups (Unit: 10,000)</th>
<th>Private non-enterprise unit/entity/organization (Unit: 10,000)</th>
<th>Foundations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>21.2</td>
<td>17.4</td>
<td>1340</td>
</tr>
<tr>
<td>2008</td>
<td>23</td>
<td>18.2</td>
<td>1597</td>
</tr>
<tr>
<td>2009</td>
<td>23.9</td>
<td>19</td>
<td>1843</td>
</tr>
<tr>
<td>2010</td>
<td>24.5</td>
<td>19.8</td>
<td>2200</td>
</tr>
<tr>
<td>2011</td>
<td>25.5</td>
<td>20.4</td>
<td>2614</td>
</tr>
</tbody>
</table>

Since 2007, the number of Chinese social organizations has been rising. In 2011, every 10,000 people had on average 3.4 social organizations.

Job Creation

0.78% vs 2.7%

The proportion of jobs in social/philanthropic organizations to overall jobs in China and the USA.

Since 2007, the number of Chinese social organizations has been rising. In 2011, every 10,000 people had on average 3.4 social organizations.
Social Organizations——Foundations

From 1994 to 2005, the number of foundations in the US increased from 41,600 to 71,100.

From 2007 to 2011, the number of foundations in China increased from 1,340 to 2,614.

- Foundations in China are in their most rapid phase of development.
- The number of foundations almost doubled in five years (2007 to 2011).


Unit: RMB 100m

Up 70.95% in 12 years

Up 95% in 5 years
The establishment of corporate foundations has become one of the major forms of Chinese entrepreneurs participation in philanthropy.

Between 2004 and 2010, the number of corporate foundations increased from 6 to 154.

In June 2004 the “Regulations on the Management of Foundations” was promulgated and implemented; since the growth rate for foundation formation has accelerated.

From 2008 to 2010, the number of corporate foundations increased by more than 30 per year.
Large-scale Donations from Chinese Entrepreneurs

Main Donors to Charities

- Enterprises have been the main source of charitable funds in the Chinese mainland.
- In 2011, donations from mainland enterprises amounted to RMB 43.6 Billion.
- In the five years between 2007 and 2011, donations from enterprises averaged 64% of the total donations in the Chinese mainland.

From 2007 to 2011, donations by enterprises in the Chinese mainland:

- Enterprises have been the main source of charitable funds in the Chinese mainland.
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Distributions of donations from all types of enterprises in China in 2011

- Among all types of businesses in China, private enterprises made the most contributions in 2011, accounting for 58% of the year’s overall corporate donations.
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• **Contributions and Impacts of China’s Super Rich Entrepreneurs on Philanthropy**

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In summary, the super rich entrepreneurs have made contributions in five aspects of Chinese Philanthropy:

- Being major donors to charity
- Introducing advanced business management experience into foundation governance
- Adopting plural methods of doing good
- Advocating the concept of modern philanthropy
- Practitioners of an advanced model of philanthropy
Entrepreneurs have been one of the major sources of charitable funds in China

Niu Gensheng: A philanthropist who donated all his shares of Mengniu Diary

- In December 2004, Niu Gensheng, founder of Chinese diary giant Mengniu, donated all his shares of the company to his newly established Lao Niu Foundation.
- In December 2010, Niu announced that he has put his overseas stake of Mengniu stock into the Hengxin Trust, which is irrevocable.
- The market value of the total shares Niu donated is over $1 Billion (2012).

Wang Jianlin: A donor who has given RMB 2.7 Billion in 22 years

- In 2010, Wang Jianlin donated RMB 1 billion for the renovation of Nanjing Da Bao En Temple in East China.
- Dalian Wanda Group, Wang's company, has already set up a 5-year plan to allocate RMB 400 Million annually for charitable use from 2011 to 2015.
- Since 1990, Wang has already donated RMB 2.7 Billion.
Chinese entrepreneurs like to summarize their experience gained from enterprise management, and put it into the governance of their corporate foundations. Here are two typical examples.

<table>
<thead>
<tr>
<th>Founder</th>
<th>Time of Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAO Dewang</td>
<td>June 2010</td>
</tr>
<tr>
<td>Vision</td>
<td>To help vulnerable groups, promote equality of opportunities, and advance social harmony</td>
</tr>
<tr>
<td>Focus</td>
<td>Education, Three Rural Issues, Poverty Alleviation</td>
</tr>
<tr>
<td>Management Philosophy:</td>
<td></td>
</tr>
<tr>
<td>1. Charity cannot be simply regarded as the donation of money and goods. <em>Heren</em> is committed to become an independent and sustainable private charitable foundation.</td>
<td></td>
</tr>
<tr>
<td>2. An excellent and enthusiastic entrepreneur should employ corporate management experience into the governance of charitable undertakings.</td>
<td></td>
</tr>
</tbody>
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<th>Founder</th>
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<tr>
<td>Jet LI</td>
<td>December 2010</td>
</tr>
<tr>
<td>Vision</td>
<td>Try our hardest to encourage everyone to engage in philanthropy</td>
</tr>
<tr>
<td>Focus</td>
<td>Disaster Relief, Child Care, Philanthropic Professionals Cultivation and Training</td>
</tr>
<tr>
<td>Management Philosophy:</td>
<td></td>
</tr>
<tr>
<td>1. Professional personnel is key to a philanthropic organization because they know very well how to lead a foundation towards sustainable development. Transparent, sustainable, professional trainings and continued progress are a necessity for them.</td>
<td></td>
</tr>
<tr>
<td>2. Foundations need to learn from corporate expertise and experience in terms of governance.</td>
<td></td>
</tr>
</tbody>
</table>
Besides donation and establishing foundations, entrepreneurs have other methods for contributing to philanthropy.

- **WANG Wenbiao**, the president of Elion Resource Group, excels at desertification control for more than 20 years. He has reforested more than 5,000 Km² of Kubuqi Desert, which is 1/7,000 of global area covered by deserts.

- A sustainable development model that combines desertification prevention and economic development, Elion develops a "green economy" which frees hundreds of thousands of people from poverty, increasing their income 7-fold in ten years.

- **In Wang’s opinion**, "desertification prevention is a worldwide charity issue."

During the “Rio+20” Conference held in June 2012, the United Nations awarded Wang Wenbiao its “Environmental Protection and Development Award.”
Not only do entrepreneurs contribute to philanthropy by actions, but they also focus on advocating the theories and concepts of modern philanthropy.

**LU Dezhi**, Founder of the Huamin Charity Foundation, is a very successful entrepreneur. He has outlined the “Capital Spirit” philosophy and the concept of modern philanthropy.

**Six Characteristics of Modern Chinese Philanthropy according to Mr. Lu:**

- With a Pure Goal in doing charity
- Operating under a Rule of Law –based environment
- Core bodies of philanthropy, including foundations and charitable organizations, have a Well-organized System
- The primary source of funds for philanthropic organizations are Foundations
- The main driving force is Non-governmental rather than a governmental one
- Enterprises and individuals participate in philanthropy with Voluntary Impulses in Independent Ways
Chinese entrepreneurs have been brave in making innovations, as many of them attempted to donate equity interests of their enterprises and hoped that the state will issue several preferential policies in this area.

- **2005**: In 2005, NIU Gensheng pledged to donate most of his stock profits to charitable activities, only leaving a small amount of dividends to his family.

- **2009**: In March 2009, CAO Dewang declared that he would donate 29.5% of Fuyao Glass shares for the establishment of the Heren Charity Foundation.

- **2009**: In 20 DECE. 2009, CHEN Fashu announced personal donations of RMB 8.3 bn of securities and RMB 100 m in cash to establish the New Huadu Charity Foundation. However, owing to tax reasons, the donation of securities has not yet been realized.

- **2010**: On 28 DECE. 2010, the Mengniu Dairy announced in Hong Kong that its founder NIU Gensheng had donated all of Mengniu’s overseas equity assets under his name to philanthropic undertakings. He is known as the first person to donate stock profits for philanthropic causes.

- **2010**: At the end of 2010 – after three years’ efforts – the application for the set-up of the Heren Charity Foundation was approved by the government. It is the first equity-donation-based foundation in China.
Summary: Impacts of Super Rich Entrepreneurs on Philanthropy in China

Based on their great contributions to charity, super rich entrepreneurs wield a lot of influence in China. Generally speaking, their impacts are mainly on the following three categories:

- Promoting the revision of Chinese philanthropy policies, and drawing the government’s attention to the issue
- Accelerating the transmission of modern philanthropy concepts
- Increasing the exchange between Chinese and foreign philanthropy organizations
Currently, the philanthropic legal system in China is imperfect. However, thanks to the efforts of these super rich entrepreneurs, the policy environment in China is beginning to improve.

- Relying on the endeavor of several entrepreneurs, the Civil Affairs Bureau of Shenzhen officially approved One Foundation’s registration, granting it legal rights for public fund raising. It is seen as an important step taken by the Chinese civil departments to facilitate administrative reforms and support philanthropic growth.

- In Ningbo, one of the most charitable cities in China, local entrepreneurs have always shown great enthusiasm towards giving, with a total donation amount of over RMB 1 Billion for the last 14 years. Given this fact, the municipal government enacted a Philanthropy Regulation in April 2011, for better management of local philanthropy.

Since 2007, Cao Dewang, the chairman of Fuyao Glass planned to donate all his shares of the group, but he could not reach agreements with all the authorities. By December 2010, after dozens of negotiations, he was finally approved to donate his multi-million shares of stocks to the Heren Foundation.
In general, there are ten basic concepts in China’s modern philanthropy theory. The super rich entrepreneurs are now trying to popularize these concepts by their endeavors.

**Ten concepts of modern philanthropy:**

- Donors should appreciate recipients
- Being tolerant to donors
- Doing good can be high-profile
- Pressure should come from the non-government sector
- Relying on organizations rather than individuals
- Charities being entitled to tax-exemption
- Enacting tax policy to induce donations
- Protecting the privacy of participants
- Donors possess rights to escape from public attention
- Civil philanthropy overrides elite philanthropy

CHEN Guangbiao: An example of a Chinese high-profile philanthropist

The establishment of foundations showed the importance of philanthropic organizations in China.
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As more entrepreneurs step into the area of philanthropy, they no longer want to act blindly, but have started to learn from the experience of advanced countries, thus increasing the exchange between Chinese and western philanthropy organizations.

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
<th>Entrepreneurs involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2010</td>
<td>Gates and Buffet Charity Banquet</td>
<td>PAN Shiyi, WANG Shi, CHEN Guangbiao, NIU Gensheng, etc.</td>
</tr>
<tr>
<td>June 2011</td>
<td>Bill &amp; Melinda Gates Foundation and Baidu Charitable Foundation launching alliance</td>
<td>LI Yanhong</td>
</tr>
<tr>
<td>October 2011</td>
<td>Chinese philanthropy and media leaders’ visit to America</td>
<td>LU Dezhi</td>
</tr>
<tr>
<td>May 2012</td>
<td>Observational tour of children’s museums</td>
<td>NIU Gensheng</td>
</tr>
</tbody>
</table>
Plights and Challenges Faced by Chinese Entrepreneurs Involving Philanthropy (1/2)

Internal Challenges

- **Entrepreneurs have old-fashioned minds towards philanthropy**
  - In a survey, over half of entrepreneurs believed that philanthropy came in second after payment of taxes, when asked what is the most important way to give back to society. (Hurun Report)

- **Corporate foundations lack professional personnel**
  - Only 184 of 285 corporate foundations disclosed information about their employees. There were 384 employees working for these 184 foundations, each of which had on average two staff members. (Research Report on the Development of Chinese Corporate Foundations, 2011)

- **The focus of many corporate foundations are too narrow and concentrated**
  - Education has been the philanthropic area of most concern to Chinese entrepreneurs. In 2010, there were 210 educational-related programs among the overall 504 projects launched by 133 foundations, accounting for 41.7% of programs. Expenditure in educational projects amounted to RMB 190m, making up 34.3% of total expenditures. (Research Report on the Development of Chinese Corporate Foundations, 2011)
External Elements

• Institutional bottlenecks impede entrepreneurs’ charitable activities
  – 8%: Regulations for the Management of Foundations (2004) provides that annual expenditure of non-public fundraising foundations on the public benefit activities stipulated in their charter must not be less than 8% of the surplus from the previous year.
  – 10%: It also stipulates that a foundation may not allocate more than 10% of its total expenditure to cover staff wages, benefits, and overheads.
  – High taxation on equity donations has inhibited the development of this new model of donation.

• Harsh criticism is received from media and the public
  – Media and the public in China tend to question the motivations of those entrepreneurs who are doing good. Even some philanthropic activities were regarded as “making show,” “for publicity,” “fraud donation,” “pseudo charity,” etc.

• Chinese NGOs are finding it difficult to build an industrial chain in philanthropy due to their weak capabilities at the moment
  – Chinese charity NGOs have lacked talent for a long time. They are also weak in project design.
Challenges

• How to push traditional charity to modern charity in China?
• How to popularize knowledge of philanthropy in China?
• How to design a dialogue among the Super Rich Entrepreneurs?