

ASIA PACIFIC PHILANTHROPY CONSORTIUM

**STRENGTHENING PHILANTHROPY IN THE ASIA PACIFIC:
AN AGENDA FOR ACTION**

Background Paper: Taiwan

July 2001

INTRODUCTION

Taiwan's non-profit sector can be classified into two main types: membership associations and endowment-based foundations. Both associations and foundations have flourished in the last two decades. Taiwan's non-profit organizations (NPOs) have not only increased in number, their activities and management practices have become more sophisticated as well.

As Taiwan enters the 21st Century, the country's NPO sector is approaching a critical period. The sector faces powerful political, economic, social and technological changes that offer both challenges and opportunities as non-profit organizations pursue sustainable development. Challenges arise in the form of heightened competition amid a shortage of financial resources and talented personnel, as well as limited management abilities. At the same time, this environment presents an opportunity for non-profits to improve their management capacity, learn to handle financial resources and operate more efficiently.

Influenced by these trends, Taiwan's NPOs must work together with the private (for-profit) sector and government to determine how to respond to the challenge of change. This paper will present a broad overview of NPOs in Taiwan, a framework for conceptualizing the opportunities and challenges presented by recent changes, and a context for improving the environment for collaboration.

CONTEXT OF PHILANTHROPY IN TAIWAN

SOURCES (INDIVIDUAL, CORPORATE, FOUNDATION, RELIGION-BASED)

This section will begin with a discussion of the findings from a government-commissioned study entitled "Trends of Taiwan Social Development," conducted from May 1999 through April 2000. Then it will examine associations and foundations in Taiwan.

Results of "Trends in Taiwan Social Development" Study

Researchers surveyed a representative sample of 11,000 Taiwanese households to determine the extent of social participation and contributions to voluntary and NPO sectors. The findings indicated that most of the people surveyed contributed money to NPOs, but

the vast majority did not participate in civil society, not even in the most basic way, which is volunteering.

Extrapolating from the sample survey, the study estimated that almost 11 million people, out of a total population of nearly 23 million, contributed money to NPOs during the period of the study. This represented 68.1 percent of the population over the age of 15. Of this group, 60.5 percent contributed to relief programs associated with the September 21, 1999 earthquake in central Taiwan (called the “921 Earthquake”). Nearly 35 percent of the population over the age of 15 made charitable donations unrelated to the 921 Earthquake, down slightly from the previous year. Overall, the donation rate jumped from 36.3 percent of the adult population the previous year to 68.1 percent as a result of the 921 Earthquake. Among the donors, 46.4 percent would not have made any charitable contribution had it not been for the earthquake.

For the one-year period studied, charitable contributions totaled NT\$69.3 billion, * of which NT\$39.5 billion was donated to earthquake relief programs and NT\$29.8 billion was unrelated to the earthquake. Total charitable contributions unrelated to the 921 Earthquake were down nearly 30 percent from the previous year.

During the study period, more than 2.2 million Taiwan residents (or 13.7 percent of the population 15 years of age and over) participated in volunteer service, about the same as the previous year. Over 11.5 million people, or 71.8 percent of the adult population, were involved in earthquake-related relief activities. On average, 1.5 persons per family donated money. Of the adult population, 31 percent participated by providing rescue supplies or donating blood. Another 5.9 percent participated in earthquake rescue efforts and related volunteer service.

Analysis of Associations and Foundations in Taiwan

Associations

By the end of 1999, the number of Taiwan’s membership associations had risen to 19,518. Of these, 4,190 (21.5 percent) were occupational associations and 15,328 (78.5 percent) were “social” associations. Among the social associations, there were 4,740 social service and charitable associations, 2,111 literary and cultural associations, 1,943 international associations, 1,713 athletic associations, 1,574 economic affairs associations, 529 religious

associations and 464 medical and health associations.

In 1999, associations had an average of 288.7 individual members, 9.2 group members, 13.8 board members, 0.8 full-time workers, 1.2 part-time workers and 4.7 volunteers. Compared with 1995, the average number of members, board members and paid staff is slightly lower. The number of volunteers increased slightly.

Foundations

In the year 2000, there were 3,014 foundations of all types. Today, newly established nongovernmental foundations – either supported by private individual donations or financed by corporate entities -- dominate Taiwan's foundation landscape. More and more corporate foundations have been established since the 1980s, and their increasing importance in Taiwan's non-profit world reflects the growing concern and involvement of the business community in matters of public interest. Philanthropic, welfare, and charitable foundations are the most numerous types of foundations, followed by public interest research, education, culture and arts, international cultural exchanges, and social activism. Except in a few cases, most of Taiwan's foundations are operating foundations rather than grant-making foundations (Hsiao, 2000).

About 65 percent of the foundations in Taiwan were formed after 1987 -- the year that Taiwan's democratization process formally began. These foundations vary greatly in terms of board member size (six to 65), number of staff (one to 873), and size of endowments. More than 85 percent of these foundations have an endowment of less than NT\$10 million and 49 percent have an endowment of below NT\$5 million. About 70 percent of foundations are private, supported by individuals and the general public, 25 percent are corporate foundations and the remainder are government-linked foundations.

Table 1 below categorizes foundations by mission and purpose. The number of those involved in culture and education top the list at 2,126 (70.6 percent). Charitable and social welfare-oriented foundations follow at 479 (15.9 percent), then medical and health care foundations at 119 (4.0 percent), agriculture at 43 (1.4 percent) and transportation at 41 (1.4 percent). Bringing up the rear are foundations concerned with economic development, media, and environmental protection. The missions and purposes of Taiwan's foundations are highly concentrated in the fields of culture, education, charity and social welfare.

Table 1 Taiwan Foundations Categorized by Mission and Purpose

Mission and Purpose	Number	% of Total
Cultural and educational	2,126	70.6%
Social welfare and charitable	479	15.9%
Medical and health care	119	4.0%
Agriculture	43	1.4%
Transportation	41	1.4%
Economical development	33	1.1%
Media	30	1.0%
Environment protection	29	1.0%
Others	114	3.8%
TOTAL	3,014	

Source: Himalaya Foundation

Government-related foundations are comprised of those foundations established entirely by government agencies. They are subordinate to government departments and assigned particular government functions. A total of 86 foundations are in this category.

In the year 2000, the total endowment of Taiwan's 300 largest foundations amounted to NT\$50.8 billion, rising 37.3 percent from NT\$37 billion in 1999. The Buddhist Compassion Relief Tzu-Chi Foundation, one of the largest Taiwan foundations, had an endowment that exceeded NT\$12 billion. Seven other foundations exceeded NT\$1 billion each.

No unified statistical data have been published on revenues and expenditures of foundations in Taiwan because of the diversity of administrations. Information is, however, available on membership associations. Total revenues of these associations equaled NT\$43.3 billion in 1999. The average revenue per association that year was NT\$2.22 million, down 1.8 percent from 1995. "Membership fees" were the greatest income source, accounting for an average of NT\$500,000 (or 22.5 percent) per association. This was followed by "fundraising" at NT\$444,000 (20 percent) and "income from services" at NT\$270,000 (12 percent). The percentages derived from the various income sources vary according to the type of association. For example, social service and charity associations derived their greatest source of revenues from fundraising, followed by membership fees and government grants.

PURPOSES (SOCIAL SERVICE DELIVERY, POLICY ADVOCACY, DISASTER RELIEF,

ECONOMIC DEVELOPMENT)

Total expenditure of associations was NT\$41.3 billion in 1999. The average expenditure per association was NT\$2.12 million, down from NT\$2.26 million in 1995. Nearly all membership associations (except economic affairs-related associations) list “services and programs” as their expenditure, accounting for on average of NT\$625,000 (29.6 percent), followed by “personnel expenses” at NT\$402,000 (19 percent) and “administration expenses” at NT\$218,000 (10.3 percent).

CURRENT ISSUES

ENABLING ENVIRONMENT

This section provides an overview of the current legal and regulatory framework that affects Taiwan’s civil society and its relationship with government.

In Taiwan, all NPOs are required to register as a “legal person” with the relevant supervising government bodies and undergo an administrative review and approval procedure. The Civic Code, originally enacted in 1927, is the legal basis for specific regulations governing the establishment and operation of Taiwan’s NPOs. Foundations and associations, the two main types of NPOs, are treated in different chapters of the Civil Code (Feng, 1999). According to the Civil Organization Law, associations come under the jurisdiction of the social welfare authorities of the central, provincial, and municipal government. The Civil Organization Law governs professional organizations, social organizations, and political organizations (Feng, 1999).

Foundations are required to apply for approval from various governmental agencies, depending on the stated purpose. They are regulated by different judicial and administrative boundaries. At present, each of twenty ministries and bureaus of Taiwan’s Cabinet, the Executive Yuan, has issued its own “Regulations for the Establishment and Supervision of Foundations,” with legal and administrative guidelines. Taiwan’s provincial, county and municipal governments can also approve and supervise local foundations. To establish a foundation, an endowment varying in size from NT\$500,000 to NT\$30 million is required, depending on the supervising government agency. The supervising agency may authorize an endowment that is invested in real estate and securities.

The Tax Law grants special tax deductions for individual charitable donations, corporate charitable donations and NPOs. Article 4 (13) of the Republic of China (Taiwan) Income Tax Law provides that an educational, cultural, public interest or charitable organization established in accordance with the relevant regulations is exempt from income tax. NPOs can be tax-exempt if their expenditures surpass 80 percent of total interest received, plus any other regular annual income for its stated purpose. At present, corporate donations to the non-profit sector are eligible for tax deductions up to an amount not exceeding 30 percent of the company's total annual business revenue, and the tax deduction ratio for individuals is ten percent of personal income for a given year.

INTERSECTORAL RELATIONS

Multi-sectoral partnerships in Taiwan were limited until the late 1980s due to legal, political and social factors. On the one hand, the establishment of nonprofit organizations was highly regulated and restricted by the government. The government still played an essential role in providing public benefits and supporting social development before the emergence of civil society in the late 1980s. Moreover, many civic and voluntary organizations emerged from a series of social movements and tended to maintain their independence and autonomy. Their goals were to challenge the authoritarian regime and to create a public sphere for nurturing grassroots organizations. These social movement groups were in an advisory role concerning the formation of partnership with government. They lacked a sufficient capacity to enter into partnerships with government on the provision of mutual benefits.

However, as Taiwan entered the 1990s, multi-sectoral partnerships increased because of the substantial development of the nonprofit sector, the reshaping of central and local governments and increasing awareness of corporate social responsibility. Significantly, the nonprofit sector grew rapidly after the passage of the Civil Organization Law of 1987. The number of social and charitable groups grew from 821 in 1988 to 3,729 in 2000 (See Table 3). Since the mid-1990s, the central government curtailed its expansion and began a structural streamlining process in order to reduce administrative bureaucracy in the provision of social services. Both central and local governments were encouraged to privatize welfare programs by partnering with nonprofit organizations. At the same time, business leaders increased their investments in corporate philanthropy and community development in order to improve the quality of life and to boost their image as good

corporate citizens.

Government-Nonprofit Partnerships in Taiwan

Like other developed countries, government-nonprofit partnerships in Taiwan are typically established to benefit social welfare. Partnerships have evolved from short-term case management and welfare programs to long-term contractual services (Wang and Lin, 1997). Many scholars describe government-nonprofit partnerships as the “privatization of social welfare.” In a study of nonprofit-government partnerships in Taipei City, Chen (1997) indicated that the cross-sectoral partnership avoids excess expansion of administrative agencies, reduces personnel budgets, provides more diverse and accessible services, increases civic participation and reinvents public services. Table 4 shows how Taipei City government collaborates with social welfare organizations in the provision of social services.

In addition to social welfare, government-nonprofit partnerships in Taiwan have extended to the areas of community development and international assistance. In a study of civil society development in Taiwan, Twu (2001) indicates that since the mid-1990s, the Council for Cultural Affairs, a Cabinet-level agency, has proposed a series of community development programs that encourage local voluntary groups to investigate the historical and cultural roots of their communities, organize arts or cultural activities and share experiences in community-building. Many of these development programs were financed by the central government but implemented by local voluntary groups. Likewise, nonprofit-government partnerships have been formed to provide foreign aid. They are regarded as an important guideline for framing foreign policy in Taiwan. For example, in April 1999, the Taiwan Root Medical Peace Corps collaborated with the Ministry of Foreign Affairs and six other nonprofit organizations to provide humanitarian and medical assistance to Kosovar refugees in Macedonia. This kind of partnership strengthens the role of nonprofit organizations in international relief work.

Business-Nonprofit Partnerships in Taiwan

Before the 1990s, many corporations in Taiwan did not infuse the concept of social responsibility or corporate philanthropy in the long-term planning of organizational development. Corporations did not regard local communities and nonprofit organizations as important stakeholders affecting their institutional performance. However, in order to

respond to increased globalization, severe market competition and higher customer expectation, corporations in Taiwan are now attempting to collaborate with nonprofits to accomplish organizational goals and explore new marketing strategies. According to a recent study from *Commonwealth* magazine, businesses in Taiwan have increased their investment in the social sector.

In a study of business-nonprofit partnerships in Taiwan, Chang (1999) categories four types of partnerships to illustrate how businesses can help nonprofit organizations do good work. These include cause-related marketing, corporate sponsorship, gift in-kind and corporate volunteerism.

- (a) *Cause-related marketing* means that a business promotes or sells its products by co-branding with nonprofit organizations. Businesses benefit from the brand equity of nonprofits, and nonprofit organizations usually receive a portion of sales revenues as a reward. For example, Citigroup promotes its credit card by contributing to the United Way in Taiwan.
- (b) *Corporate sponsorship* is an approach frequently adopted by high technology companies. For example, the purpose of the Acer Group's sponsorship of the Cloud Gate Dance Foundation, a famous performance arts group, is to increase public awareness of the corporation's investment in the social sector, since the program combines technology with the arts (Shia, 2000).
- (c) *Gift in-kind* means that a business donates inventory or stock to nonprofit organizations. For example, in 1998, the Elite Franchise Bookstore donated used books to the An-jia Poverty Associations in order to set up a "Street Library" in Taipei (Chang, 1999). Similarly, in order to improve the information infrastructure within the organization, the Acer Group and Microsoft Taiwan launched a project that donated computer hardware and software to 40 nonprofit institutions.
- (d) *Corporate volunteerism* encourages employees to participate in community services or charitable programs. For example, the Advantech Company has a volunteer program that allows its employees to spend 24-56 hours per year working on community service programs (Shia, 200). Businesses in Taiwan have established corporate foundations to strategically design and implement corporate philanthropy.

CHALLENGES AND CONSTRAINTS TO SUSTAINABLE FUNDING

In the past year, the combined efforts of all sectors of society have been directed toward reconstruction of and recovery from the disastrous September 21, 1999 earthquake that devastated central Taiwan. The earthquake caused 2,347 deaths, injured thousands more, and left tens of thousands homeless. Rebuilding homes and businesses destroyed by the earthquake has proven extremely difficult and requires substantial amounts of money. Relief and reconstruction projects following the 921 Earthquake consumed so much financial resources that many of Taiwan's NPOs now face severe funding shortages.

In the second half of 2000, the world economy experienced a significant downturn, with stock markets falling, some by 50 percent or more. As an integral member of the global trading and financial system, Taiwan was not spared the ill effects of the recession. Both the private sector and government struggled to find appropriate solutions to the problems besetting the economy. Economic depression also severely influenced the NPO sector by increasing such social needs as joblessness and suicide, and decreasing the potential for donations to NPOs.

GOVERNMENT ATTITUDES AND BEHAVIOR (LAWS, REGULATIONS, ADMINISTRATIVE GUIDANCE)

In Taiwan, the widely dispersed nature of regulatory authority reduces the ability of the public to hold NPOs accountable. No single agency is responsible for collecting data from all NPOs. The various agencies governing NPOs often do not communicate or share information with one another (Feng, 1999). It is important to emphasize that information about nongovernmental organizations (NGOs) and the rules that apply to them should be in the public domain and available to any person. The Taiwan government wants reports from NGOs, but is reluctant to make the information available to the public. Of course, it is essential to protect truly confidential or proprietary information from public disclosure, but the public is entitled to basic information about NGOs.

Currently, the "Unified Donation Regulation," enacted in 1942 and revised in 1951, provides a basic guideline for NPOs to operate fundraising campaigns. Due to the lack of clear definitions and a lack of functioning rules for dealing with unethical behavior, this regulation is outdated and unsuitable in today's environment. For example, after the 921

Earthquake, there was a flood of donations, providing an opportunity for Taiwan residents to witness how disaster relief programs mobilize social resources, with funds flowing out like tidewater. Under these circumstances, the more funds that were gathered, the more concerns were raised. The public began to worry about how the money would be used, and the government was worried about how to monitor the money, the relief programs and the organizations involved in rebuilding projects.

Reacting to the pressures of public sentiment, some NPOs have worked together to draft an advocacy proposal for a new law to replace the old “Unified Donation Regulation.” According to the draft, the new “Donation Law” would emphasize accountability and transparency. NPOs would take responsibility for exhibiting integrity and making the public aware and willing to participate. When running a fundraising campaign, the NPO would submit a clear plan to the government and open information to the public about how the money is collected and allocated. Finally, NPOs would make public the results of their work and financial reports.

As NPO activities gradually attract more public attention, the Ministry of the Interior will soon hand its version of the “Donation Law” to the Legislative Yuan for formal review. For the sake of building a healthy environment for NPOs and reducing the problems caused by the division of authority, a task force has recently been organized by the Ministry of Justice. Following orders from the Executive Yuan (Cabinet), the task force will draft suggestions for unifying the various regulations on foundations.

PUBLIC AWARENESS, CORPORATE ATTITUDE AND INDIVIDUAL ATTITUDES: CHALLENGES OF MULTI-SECTORAL PARTNERSHIPS IN TAIWAN

Despite their efficiency and effectiveness in responding to various societal needs, multi-sectoral partnerships in Taiwan face several challenges and obstacles. These include endangering the autonomy of the nonprofit sector, a lack of sufficient managerial capacity to accomplish accountability and performance requirements, and the blurring of boundaries between government, business and the nonprofit sector. When nonprofit organizations partner with government, their institutional behaviors are changed due to dependence on public funding. For example, in a study of women’s social welfare groups in Taipei, Liu (2000) indicated that many of these groups had become the client agencies of government, significantly restricting their role in public policy advocacy. Similarly,

nonprofit organizations are at risk of compromising institutional goals when they become over-dependent on corporate sponsorships and donations to sustain their programs. Accountability and performance requirements can reduce the effectiveness of multi-sectoral partnerships. Many studies point out that when nonprofits partner with government or businesses, they allocate more organizational resources to compliance with administrative regulations and performance requirements. Although NPOs may increase their managerial capacities in order to deal with government contracts and corporate sponsorships, this transformation can create tension among managers, volunteers and the boards of social movement organizations in Taiwan.

In addition, multi-sectoral partnerships may reduce donors' trust in the nonprofit sector. For example, when nonprofits partner with businesses in cause-related marketing activities, they may not easily assess the impact of the partnership programs. Shia (2000) indicated that some corporations in Taiwan attempt to partner with nonprofit organizations on the rationale of market exchange behavior. These corporations try to maximize their profits by neglecting nonprofits' objectives in addressing social issues or encouraging social change. Likewise, the growth of corporate sponsorships may intensify concerns over commercialization in the nonprofit sector.

RESPONSES AND NEW DEVELOPMENTS

Michael Hsiao (1999) points out that there are three issues confronting the NPO sector. The first is the need for organizational reform from within; the second is dealing with concerns over the quality of management and the level of professionalism; the third is insufficient and unreliable financial resources. Similarly, Wu (1997), extrapolating from previous studies, said that the most common problems faced by social welfare organizations in Kaohsiung (a city in southern Taiwan) are a shortage of financial resources, a lack of service-related resources, the lack of a network for integrated services and the inability to assess local needs.

In June 2001, the Kaohsiung City government invited non-profit organizations, especially those providing traditional relief services, to begin a dialogue for working more closely together. One idea is to transfer various assets and programs (in education, medicine, research and culture) from the governmental sector to the NGO sector if the programs could be run more efficiently by NGOs or if they can be supported in whole or in part by

private donations. The city government would provide resources to enhance NGO capacity, including a handbook for strategic planning, information management systems and the Himalaya Foundation's directory of 300 leading foundations.

In the past two years, the varied political, economic and social environment in Taiwan has seriously affected NPO fundraising efforts. According to the feedback of numerous NPOs, the average drop in fundraising is 30 percent from previous years. Although most NPOs have seen revenues fall significantly, some NPOs have kept the decrease below ten percent through successful fundraising strategies and management capabilities. Under current circumstances in which donors have become more careful in choosing where they donate funds and more concerned about how their donations are used, NPOs must take action to strengthen their strategic fundraising plans.

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