The Evolution of a Collaborative Governance Model: Public-Nonprofit Partnerships in China

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Abstract:

Background: HIV sector is an interesting area to observe the emerging governance models for government “buying services” (购买服务) in China. Experimental points for outsourcing have been created by international cooperation programs, in which the government had substantial control over funds transferred to a growing number of non-profits. As foreign funding declines, local governments also started outsourcing services, despite the lack of overarching implementation framework and capacity gaps at both sides. As Chinese government prepares to fully fund HIV non-profits' new collaboration models have to be legalized and institutionalized. Method: We use theoretical models of outsourcing to conceptualize different, emerging governance models, examine their implications for upcoming scale up of service outsourcing and explore institutional changes that will enable effective service delivery and policy learning. This analysis is based on 39 interviews at national, provincial and city/county level with officials, practitioners and CSOs and two surveys conducted in July 2012 and April 2013 with 129 and 103 Yunnan CSOs. Studies were conducted by USAID-funded HIV prevention programs in Yunnan province. Results: We find that challenges remain for local officials to regulate versus provide services, as many arrangements perpetuate the corporatist model under the current service outsourcing mechanism. Field experience also proves that new models also emerge that go beyond basic service provision by CSOs funded by the state to include policy dialogue and learning. Regulatory and supportive environments necessary to the development of a partnership model are still lacking. For successful public-nonprofit partnerships in the Chinese context. First, stronger legal and financial frameworks must support building a true partnership with the managing agency. Second, implementation frameworks should recognize the existing variety of CSOs and of services needed. Third robust evaluation system feeding back into a policy review and joint problem identification and planning are needed. Lastly, capacity development programs for CSOs and public managers are essential.
In order to meet increasing demands for social services, local governments in China are collaborating with nonprofits to deliver services like health care and education. Authorized by the central government through contracting legislation, local governments “buy services (购买服务)” from a range of for and not-for profit organizations. This collaboration challenges existing governance models where local governments develop, provide, and evaluate all service provision. Now local governments must learn how to regulate the provision of essential services rather than provide them, which requires a different skill set including effective communication with nonprofit service partners. The privatization literature based on Western experience relies on a principal-agent approach where the government must develop regulatory capacity to monitor and sanction nonprofit contractors with often contradictory motivations (Savas, 1989). Recently many scholars challenged this model by arguing that trust and reputations might serve the same function as monitoring and sanctions in aligning the incentives of the principal and the agents (Davis, Donaldson, and Schoorman, 1997a). David Van Slyke (2007) and Yijia Jing (2012) argue that contracting may fit both the principal-agent and principal-steward models. Evidence from earlier studies (Jing 2012; Teets 2012) points to the existence of principal-agent and principal-steward model in China, but in our case study of HIV sector we find evidence of corporatist model and emerging elements of principal-steward relationships. We argue that without improving the legal mechanisms for monitoring and funding, contracting risks creating dependent relationships with nonprofits and providing suboptimal services. In the conclusion, we recommend several reforms to the existing system that will increase the quality of services provided and strengthen the innovative capacity of the nonprofit sector.

In this article, we evaluate social service outsourcing in the HIV sector in Yunnan province to analyze emerging models of collaboration between provincial authorities and social
organizations, specifically the institutional changes enabling contracting. Local governments started outsourcing HIV services at a small scale about a year and a half ago, despite the lack of overarching implementation framework and capacity gaps at both social organizations and the local authorities hindering effective collaboration. This analysis is based on approximately 39 interviews at the central, provincial and city/county level with government officials and social organizations participating in contracting, in addition to two surveys conducted with approximately 129 and 103 civil society organizations (CSOs) in the Yunnan province active in the HIV sector, in July 2012 and April 2013 respectively. As well as changing government responsibilities, this new governance model initiates many changes for nonprofits, by potentially creating a legal, contractual relationship between the local government and nonprofit that did not exist before when groups were operating in legal grey areas.

We find that there have been institutional changes supporting contracting at the local government level, but that many of these changes have not been fully developed yet and significant challenges remain for local officials to regulate versus provide services. Since 2005, many provinces such as Guangdong and Shanghai changed local regulations to create a legal structure for agencies to contract out social services, ranging from HIV care to migrant education. These regulatory changes created a competitive bidding process and a funding mechanism, although this varies across provinces from project-based grants encouraging innovation to more straightforward fees for service aimed at reducing costs. Although the contracts specify annual evaluations, there is little capacity at the provincial level to effectively monitor the contractors and to create feedback mechanisms to change policies or sanction poor performers.

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1 We use several labels to refer to the same set of organizations: social organizations which is popular in China, nonprofits which is popular in the policy management literature, and civil society organizations (CSOs) which is popular in the state-society literature.
Additionally, although nonprofits are professionalizing operations, there does not yet seem to be true collaboration through these newly created legal channels between local government and the groups. Instead, the relationship appears to be one of outsourcing, with little policy learning or fostering accountability for service provision on the part of local government. This type of contracting does not cultivate the creation and strengthening of a nonprofit sector capable of social innovation.

In this article, we examine the institutional changes necessary to support this new governance model, and argue that provincial governments in China need to enhance monitoring capacity, create mechanisms to capture feedback to change unsuccessful policies and sanction nonperforming contractors, and build the legal and financial infrastructure to strengthen nonprofits to engage in social innovation. In the concluding section, we outline the necessary conditions for successful public-nonprofit partnerships (PNP)\(^2\) and offer policy suggestions for reform.

**Successful Governance Models for Public-Nonprofit Partnerships**

Due to economic reform in China throughout the 1980s and 1990s, the central government encouraged the downsizing and streamlining of government at all levels, including the public service organizations (*shiye danwei*). This changing political economy motivated local governments to pass a number of new laws to legalize the outsourcing of government services to a variety of private firms and nonprofit organizations. In fact, Jing (2008) estimates that between 2002 and 2004, roughly a third of government service expenditures in China were outsourced, following a trend of 1 percent annual growth. By 2005, many local governments in

\(^2\) We use terms public-nonprofit partnerships (PNP) and social service outsourcing (SSO) interchangeably in this paper to denote the Chinese term of *zhengfu goumai fuwu.*
more developed areas like Shanghai, Beijing, and Shenzhen have experimented with using competitive bidding to deliver social services (Jing and Savas, 2009). Although the main goal appears to be cost reduction, central government officials have also stated that contracting and service competition might restructure government-nonprofit relationships and improve service delivery (CCTV, 2013).

At the national level, regulatory change to support contracting consists of the Procurement Law allowing government agencies to contract out selected services, creating a competitive bidding process, mandating an annual review of services, and a financing mechanism. For example, in 2012, the central government allocated 200 million yuan ($32.08 million) through the Ministry of Civil Affairs (MoCA), and the local governments invested another 120 million yuan to finance 377 social service projects (Xinhua, 2013). Additionally, to create a larger market for contracting, the MoCA encouraged 19 provinces to ease registration regulations to allow for direct registration of nonprofits since 2011. Wang Jianjun, director of the Bureau of Administration of NGOs at MoCA, stated that “There is no reliable data to show the exact number of unregistered NGOs, but I know that most NGOs providing services in communities are not licensed, including about 400,000 NGOs dedicated to senior residents. A direct registration policy will greatly boost their development and help these organizations to become better service providers” (He, 2013). Guangdong province adopted the direct registration policy in 2012 and had 4,200 NGOs register that year, and MoCA officials indicate that direct registration will shortly become national law. However these regulatory changes are only the beginning of the institutional transformation necessary to successful contracting. As we examine in the following section, international experience with contracting emphasizes the difficult institutional changes needed as state agencies transition from service providers to regulators and managers.
Internationally, but especially in the US and UK, governments pursued extensive contracting based on perceptions of greater efficiency and potential innovation from the private sector and political support for smaller government. This transformation from what Van Slyke (2007) calls “governance by authority to governance by contract” highlighted problems of public management and led scholars to develop models for effectively managing relationships between governments and contractors (Cooper 2003). This literature focused on the state’s shift from a provider of social services to a regulator (Savas 2000), and argued that for the government to realize the advantages associated with privatization, public managers must have expertise in contract management and the ability to negotiate, monitor, and communicate expectations and technical information (Kettl 1993; Van Slyke 2003). This transition necessitated the creation of a new model of governance constructed around partnerships with private firms and nonprofits rather than corporatist control or simple outsourcing. As Kelman (2002a, 90) notes, “the administration of contracts once they have been signed has been the neglected stepchild of these [contract management] efforts.” Contract management consists of monitoring the frequency, consistency, and quality of service delivery provided by contractors, and using that information to sanction poor performers and/or adjust the policy goals contained in the contract (Kelman 2002a; Romzek and Johnston 2002; Smith and Smyth 1996; Van Slyke 2003). Monitoring and sanctioning are vital functions for effective contract management because of the necessary distance between regulators and agents. This distance allows for discretion in the implementation of services, which can lead to goal divergence between the policy directives of the principal (government) and the implementation practices of the agent (nonprofit). The contracting literature in public administration and policy studies extensively addresses this
principal-agent problem. We expand beyond this literature to also analyze principal-steward theory and corporatist theories which focus on dependency between the state and organizations.

**Review of the Literature: Government-Nonprofit Contracting Relationship**

The literature regarding government-nonprofit contracting relationships and contract management practices for social services mostly examines agency theory and stewardship theory (Van Slyke, 2007). Although the general literature on contracting also uses agency theory, contracting with nonprofits to deliver social services might be even more difficult for public managers in that performance is not always easily observed and measured, and competitive bidding might be weak if there are fewer provider alternatives given supply-side imperfections in local markets (Van Slyke, 2007).

Agency theory posits potential conflicting goals on the part of the two actors in a contracting relationship: the principal and the agent (Dharwadkar, George, and Brandes, 2000). The principal-agent model offers a theoretical framework for predicting the potential opportunistic behavior of the agents resulting from exploiting asymmetric information (Eisenhardt 1989). Van Slyke outlines the two assumptions characterizing the principal-agent model: one, there is goal conflict between the budget/wealth-maximizing behavior of the principal and the utility-maximizing behavior of the agent, and two, agents have more information than principals, which agents can exploit for self-gain rather than for the collective interests of the contracting parties leading to moral hazard problems (2007: 162). These two characteristics highlight the uncertainty and costs associated with measuring agent behavior and outcomes. In response, principals must better align the actions of the agent with the goals of the principal through monitoring mechanisms, and a mix of incentives and sanctions (Eisenhardt,
1989: 63). In a PNP context, local officials representing government social-services agencies are principals and directors of nonprofit organizations are agents.

Stewardship theory challenges the assumptions of agency theory by contending that agent goals are not always utility-maximizing but often collective, in which a higher value is placed on achieving the goals of the principal. Stewardship theory “defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals” (Davis, Donaldson and Schoorman, 1997a: 21). The assumptions of stewardship theory are that contractual relations are based on trust, reputation, and collective goals. As Van Slyke argues, in the case of the government-nonprofit social services contracting relationship, stewardship theory might be the most “appropriate model because nonprofits by virtue of their organizational form, specialized missions focused on poverty reduction and client stability, governance structures, the resource-interdependent nature of their funding relationship with government, as well as the incomplete nature of social services contracts may well contribute to there being a closer alignment with government’s goals” (2007:164). According to this theory, the agent (steward) is motivated by intrinsic rewards, such as trust, reputational enhancement, and reciprocity, and views the successes of the organization or contract as accomplishment and incentive for achieving goal alignment, absent any immediate financial payoff or maximizing of individual utility (Davis, Donaldson and Schoorman, 1997b). A steward places greater value on cooperation, even when his/her goals are not perfectly aligned with the principal, over defection and other expressions of self-serving behavior because “the utility gained from [contractually aligned] behavior is higher than the utility that can be gained through individualistic, self-serving behaviors” at the expense of the principal’s goals (Davis, Donaldson, and Schoorman, 1997a: 25). Therefore, instead of relying on monitoring and
incentives/sanctions for achieving goal alignment, the principal invests in developing a trusting relationship with the steward through other types of contractual mechanisms focused on long-term goal alignment. These mechanisms have fewer monitoring and reporting requirements, more involvement in how the contract is defined, structured, and implemented, and trust and reputation are used as incentives for alignment and monitoring as a potential sanction but one that is less coercive and directed toward relational alignment (Van Slyke, 2007:166). Over time, the economic payoff for the principal may come in the form of lower transaction costs (Van Slyke, 2007).

Despite the position in the literature as alternative explanations, these two theories might describe relationships between different government officials and nonprofit contractors existing simultaneously, or might better describe one relationship at different times. For example, a specific principal and agent might have strong initial trust levels lending easily to more of a principal-steward relationship. As Van Slyke finds in his analysis of social service contracting in New York, principals use different tools and responses to managing contract relationships with their nonprofit contractors (2007:170). In this case, public managers developed principal-agent relationships with new contractors and existing providers they did not yet quite trust, but as trust is created over time, relationships often begun as principal-agent-type relationships evolved into steward-type relations. As one public manager interviewed by Van Slyke stated, “Trust is outcome based, based on success. You could have a history, but that history is built on success. We’re not a very trusting agency” (2007: 172). This statement illustrates the development of “strategic trust” as described by agency theory in that trust evolves between parties based on repeated interactions and transactions over time in which goals are achieved, but is not simply accepted as a relational starting position, as is the case with stewardship theory (Van Slyke,
In contradistinction, Yijia Jing finds intergovernmental preference incoherence and stewardship relations with social service contracting in Shanghai led to collusion between collaborating governments and nonprofits, and in response, higher-level governments intervened by adopting competitive contracting to change the steward nonprofits back to agents (2012a).

Additionally, much of the research on civil society in China introduces a third model – the corporatism model (Hsu and Hasmath, 2012; Foster, 2002). The corporatist approach contends that CSOs are used by the state to advance its interests rather than those of societal constituencies, and that these organizations lack independence from the state. These parastatal groups serve to execute government projects using government resources, such as funding and employees. The state creates issue monopolies for these organizations, disallowing any other organizations from forming and working in these areas. As seen with the principal-agent and principle-steward models, this model too does not exactly fit contracting in China. However, we argue that all three models exist in China with different types of CSOs. While we might not see state corporatism as defined above because there is more competition in each sector and the groups have more project independence than described, we do see high levels of dependency that are concerning for the development of CSOs and innovation in government services. In the following case study, we find that CSOs in China are stewards, agents and appendages, meaning that local governments maintain different relationships with varying types of organizations.

If relationships differ by contractor and perhaps evolve over time, then the most appropriate contracting model depends on monitoring as described by the agency theory, but also creates incentives to develop the CSO sector that allow the development of trust and social

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3 The literature also describes “social corporatism” where the state does not directly organize groups but there is still a high level of dependency. However, we find this category so broad that it is hard to determine which PNPs do not fit that category, and instead focus our analysis on the type and levels of dependency that we find in Yunnan.
innovation. Regardless of which relationship exists initially, local governments need to be able to regulate the contracting process through monitoring and sanctioning, and create a strong legal and financial infrastructure to support the development of an independent nonprofit sector.

**Public-Nonprofit Partnerships to Deliver HIV Services in Yunnan Province**

Over the last decade, civil society organizations (CSOs) have emerged as an important player in HIV response in China, despite lack of formal recognition from the Chinese state as legal entities. In 2011 the number of CSOs operating in the HIV sector in China was estimated at about 1,500 (Non-Profit Incubator et al; 2011). In 2013, we were able to identify and survey ninety-nine CSOs that were operating in Yunnan alone, one of the provinces most severely affected by HIV. According to our study, CSOs in Yunnan province deliver more than twenty-five kinds of HIV-related services of different levels of complexity, ranging from basic service delivery to people living with HIV (PLHIV) and most-at-risk populations (MARPs), to provision of training and oversight to other organizations, to action research, to policy advocacy. With respect to provision of basic services, CSOs shoulder a considerable part of the overall work linked with HIV services in the province, in many cases functioning as an indispensable support for local health officials. For example, sixty-three organizations provide a regular follow-up service for PLHIVs (*suifang*), out of which forty-four report having had experience covering 100 PLHIV or more over a period of a year; the three organizations with the largest coverage in the province report having covered more than 1,000 PLHIV.

Several factors have contributed to the rapid growth in numbers among CSOs. As political space for HIV/AIDS programs expanded after the political crisis caused by the SARS outbreak in 2003, it became apparent that health authorities faced several challenges in reaching
out to hard-to-reach, stigmatized populations such as PLHIV, people who inject drugs (PWID),
commercial sex workers (CSW), and men who have sex with men (MSM). CSOs formed by
and/or employing members of these communities became a vehicle through which these
marginalized communities could be identified and reached with services and prevention
messages. Collaboration with CSOs has also become a means of alleviating local health officials’
workloads, which increased rapidly as HIV response grew in its complexity and sophistication
together with reporting systems that hold local authorities accountable for meeting the work
targets. Another major, important factor behind the proliferation of CSOs in the HIV sector has
been the fact that several foreign-cooperation programs focusing on HIV that have entered China
made CSO participation in HIV response a prerequisite of their support.

While health authorities officially recognized and benefited from the contributions of
CSOs to HIV response, the legal and operational environment for CSOs remained very
restrictive. Very few organizations have been able to register as nonprofits. Widespread lack of
registration among CSOs has enabled the authorities to develop several mechanisms of control
over funding that CSOs receive from foreign donors. For example, as CSOs did not have
organizational bank accounts, the donors were compelled to pass funding for CSOs through
accounts belonging to CSOs’ local government partners. In another mechanism created under the
Global Fund, the Chinese Association of STI&AIDS Prevention and Control (CASAPC), an all-
China registered government organized non-governmental organization (GONGO) with strong
links to the government and a network of branches in each of China’s provinces, was used as an
umbrella organization and tasked with financial control and management of unregistered CSOs
participating in the Global Fund’s program in China. As a result of such mechanisms CSOs were
able to receive funding and capacity building support from foreign donors as well as deliver
services strengthening and complementing the government’s work, but at the same time remained in a gray legal sphere that made them vulnerable and, in most cases, did not enable much organizational growth.

However, the need for replacing this informal arrangement with formal institutional solutions with regard to CSO management has emerged with introduction of social service outsourcing (SSO) programs. Foreign funding flows have been diminishing over the last two years, with the major funding source for CSOs in China—the Global Fund—scheduled to close its China program in late 2013. Political commitment by the government to fill in the funding gap in the HIV sector after foreign donors leave China, including provision of funding to CSOs, is strong among top leaders in Beijing. After meeting representatives of twelve grassroots AIDS CSOs on World AIDS Day in 2012, Premier Li Keqiang recognized that grassroots organizations are an “irreplaceable and unique force” in HIV response and commented on the need to build a more supportive environment and conditions for development of CSOs and a more comprehensive and effective management mechanism for CSO participation (Xinhua; 2012). Premier Li has also reportedly asked officials in the interministerial meeting to explore setting up an AIDS prevention fund, purchasing services from CSOs, and offering tax breaks to CSOs (SCMP; 2012).

Interviewees in Beijing have reported that central-level health authorities are currently working on rolling out a national-level SSO program in the HIV sector together with implementation frameworks for outsourcing programs, but no such policies have been released as of yet. Concurrently, in late March 2013 the State Council committed to soon develop regulations and procedures making registration of some types of CSOs in all sectors easier.
At the same time, faced with decreases in funding available for CSOs, health authorities at county and city district levels have already been outsourcing services for the last one and a half years in order to sustain the previous level of services, regardless of the lack of implementation frameworks. So far this year we have identified thirty-eight CSOs in Yunnan province that are being funded directly from government budgets at that level. The Yunnan provincial health bureau also initiated its own SSO program in late 2012.

**CSO types in the HIV sector in Yunnan**

Experiences of state-CSO collaboration from the period when nonprofits were funded by foreign cooperation programs as well as from early SSO programs in the last two years provide interesting material for assessing the emerging models of cooperation and their implications for future outsourcing programs as well as for formulating initial recommendations for government-buying service schemes. To facilitate such analysis, we classify the CSOs in Yunnan and their relationships with authorities into three currently most commonly observed types using the data from survey and interviews. The classification is based on two characteristics that are likely to influence CSOs involvement in SSO: the organizations' technical and organizational capacity levels and the level of dependence on the government. The primary three types we have identified are: Groups of Volunteers, Community Based Organizations, and NGOs. We also briefly describe the local Yunnan branch of the umbrella GONGO organization. The types are described in detail below.

**Groups of Volunteers (GVs) — fifteen organizations identified in Yunnan Province**

GVs are very loosely connected groups of individuals from target communities. The GV's typically have been created to make use of foreign cooperation programs,
especially the Global Fund program, often on the initiative of local health authorities. Currently, some of them have started to benefit from local SSO pilots.

GV groups are often embedded in government departments and perform work under government officials’ close supervision. These groups have either very limited or no organizational structures, do not possess or attempt to obtain legal registration, and rarely undertake any external communication activities. All members work only part time (fewer than 30 hours a week) and are in essence volunteers, as they only receive subsidies and not salaries and have not signed any contractual or binding agreements.

The GVs generally do not share a vision of what they hope to achieve as a group; rather, they exist to support a local government partner to deliver basic services the health officials need to complete and for which they are accountable. The services the groups carry out are decided on and fundraised for by local government entities. When GV members discover new needs at the community level, they usually lack the skills and power to negotiate new or adopted services with the government. GVs receive technical guidance on service delivery from the health authorities that manage their work.

During interviews, local health officials shared the fact that collaborating with GVs significantly reduces their workloads. Among gains mentioned were the ease to identify and reach out to hard-to-reach groups as well as the fact that GVs could perform their tasks outside of traditional working hours, which is often necessary.

Community Based Organizations (CBOs)—Seventy-eight organizations identified in Yunnan Province
CBOs are groups that have developed basic organizational structures and are able to manage their work and make decisions on work and strategic priorities. CBOs have full-time staff members who carry out 30 hours or more of CBO-related work per week. Similar to GVs, staff members are typically volunteers who receive subsidies rather than salaries.

The level of dependence on government within this type of group varies. Some CBOs are actually GVs with more developed organizational structures and procedures, as they are attached to local health authorities and primarily follow government work priorities (Attached type CBOs—36 organizations identified). Other organizations can collaborate closely with the local government. This includes joint service delivery. However, at the same time, they develop and provide services independent of government and based on what the CBO perceives as a community need while using fewer funds the CBOs have raised themselves. But these funds typically still must pass through the government system (Partner type CBO—34 organizations identified). Other CBOs have very little contact and no collaboration with the local government, usually using funds they can access without government control (Disconnected type CBO—eight organizations identified). CBOs are linked with other organizations and actors, not only locally, but sometimes at a provincial level as well. CBOs are typically unregistered, but there is one case in Yunnan in which an Attached-type CBO was able to achieve legal registration with support of its government partner.

CBOs vary in the levels of technical capacity, but they typically focus on direct service provision. The services provided include the basic service package as well as more advanced services. Given their slightly more independent position and the trust they
have built with the local authorities, Partner-type CBOs have been able to successfully engage in non-confrontational policy dialogue and advocacy with local authorities at the county and city district level. For example, CBOs that have been trained and supported by RTI (an international development agency funded by USAID) have been able to bring about positive changes regarding several issues they identified through their community work. Examples of issues that advocacy actions centered on include reduction of fees for methadone maintenance treatment, addressing discrimination against people living with HIV in health care settings, improving affordability of health services for PLHIV, increasing accessibility and quality of HIV testing services, protecting the rights of people who inject drugs, and improving access to social assistance for low-income people with HIV.

CBOs have received technical guidance from the local health authorities for whom they provide services and have been the target of numerous technical and organizational capacity development efforts by international cooperation programs and local NGOs that support them.

From the local health officials’ perspective, cooperation with the Attached and Partner type of CBOs has all the benefits of working with a GV plus the additional one of the time and effort saved from not needing to supervise the organizations extremely closely—the CBOs can manage themselves, especially in daily matters, and are often able to perform more complex tasks such as report or proposal writing. Detached type of CBOs have limited contact with local governments and in some cases, they have been in conflict with them due to the confrontational advocacy approaches that Detached types of CBOs have taken and the lack of coordination with the government in service delivery.
Non Governmental Organizations (NGOs)—Five organizations identified in Yunnan Province

NGOs are organizations with considerable experience and technical expertise in HIV response. They also have quite developed organizational structures, some systems and procedures, and a developed mission and vision of the organization. Their staff members are typically professionals, some coming from the affected communities. Staff members of NGOs can generally expect to have written contracts with the organization and to receive salaries.

In Yunnan, we were able to identify five such organizations: AIDS Care China, Yunnan AIDS Initiative, Ruili's Women and Children's Center, Daytop, and AIDS Home. NGOs’ development trajectories differ significantly one from another. Some are set up by members of communities affected by HIV, and others are established by former doctors or staff members of health authorities. Several foreign cooperation programs have typically funded an NGO’s work, and if NGOs received any funding support from the government, the funding constituted a small fraction of their budgets. NGOs usually have some type of legal identity, either as nonprofits or as businesses.

The activities NGOs implement range from the delivery of more advanced services to devising new and innovative services to applied research and advocacy. These organizations have been at the forefront of social innovation in HIV response. For example, AIDS Care China has developed a model for delivering integrated service to PLHIV at antiretroviral treatment (ART) sites in collaboration with hospitals. The ACC model complements medical care provided by doctors with counseling, emotional
support, and care delivered by the NGO’s staff. In 2010, this model was assessed by NCAIDS and UNAIDS and found more effective with regard to ART adherence than were the sites where hospitals were administering ART without support from an CSO (Li et al. 2010). More recently, ACC itself conducted an action research on the cost effectiveness of two different approaches to HIV testing among MSM. One approach, used by local governments, consisted of monetary incentives to individual MSM community members to help invite them to attend meetings without fully disclosing the purpose. Then, during the meeting, health officials would conduct HIV testing and ask for a person's ID if he or she tested positive. In another approach that ACC developed, a small group of community mobilizers was formed that received regular remuneration for its work. The group also mobilized the communities for HIV testing but emphasized full information disclosure and informed consent before the test was done. Because the former approach suffered from repeated testing and lack of follow up, when total average costs of identifying one person living with HIV were calculated, they amounted to 2900 RMB, while the latter approach based on community mobilization proved much more cost effective with an average cost of 1,050 RMB per person identified (Interview 15).

In another example of the development of an innovative approach, Yunnan AIDS Initiative, with funding and technical support from an international donor, implemented a pilot prevention project of mother-to-child transmission of HIV using a different method from what was commonly used by the health authorities. The results of the pilot program demonstrated that the new approach was safe, feasible, and more effective, even in resource-limited, remote, and rural regions of China. (Zhou et al. 2010). The director of
Yunnan AIDS Initiative was later involved in creating the new operating procedures for prevention of mother-to-child transmission interventions in China (Interview 7).

NGOs also hold an important function by providing support and capacity development services to other, less-developed CSOs, such as training and mentoring. These organizations sometimes manage networks of smaller, less-developed groups or sites in the province. In terms of their own capacity development, NGOs rely on technical support provided by international donors.

NGOs' relationships with the government differ in terms of degrees of trust maintained. Most of these organizations are capable of and experienced in policy dialogue with the different levels of the government, some of them also at a central level. As NGOs have established their position in HIV response—through technical expertise and contributions—they have been able to collaborate with the local governments in partnership-based relationships, but this occurred previously, when NGOs were funded by external donors and not by the government.

**Yunnan Association of STI & AIDS Prevention and Control (YNSAA)**

YNSAA is a unique actor in the system, and as such, merits a separate description. YNSAA is a legally registered association formed by retired medical professionals and officials with experience working in the STI and HIV fields. The organization is registered in Yunnan Province, but it is closely associated with the national China Association of STI & AIDS Prevention and Control (CASA-PC). Due to its government roots, YNSAA has enjoyed a good relationship with health authorities and has been a lead partner with the Yunnan government in its response to the HIV epidemic,
particularly through YNSAA’s involvement in the GFATM program implementation as a grant sub-sub-recipient and a corporatist type of umbrella organization for most CSOs in the province. In this role, YNSAA was responsible for grant making to all local CSOs providing services under the GFATM program.

**An Analysis of state-CSO relationships**

As demonstrated above by the review of various types of CSOs and their relationships with the state, currently, most of the state CSOs’ relationships manifest pervasive elements of corporatism. GVs and Attached type CBOs function as extensions of their government partner institutions and cannot be considered separate, independent entities. When CSOs were able to achieve a somewhat more independent status via their access to funding that was less controlled by the government along with higher levels of capacity, such as with the case of Partner type CBOs and NGOs, a relationship that included elements of the principal-steward model emerged. In these cases, goal alignment resulted from a shared mission and from the desire to build trust and a strong reputation. This suggests that such relationships are possible in the Chinese context; however, until now, they have rarely been observed when the funds emanated directly from the government.

Experience indicates that in most cases authorities do not view CSOs as independent entities for whom an enabling environment should be created so that they can develop and contribute to the HIV response. Rather, the government seems to view collaboration with CSOs as a way to accomplish tasks defined by the government in a cost-effective manner. This is demonstrated in emerging SSO programs by several recurring traits. First, pilot SSO schemes lack provisions to help CSOs cover core operational costs such as venues, utilities, staff salaries,
and so on, while at the same time, CSOs currently cannot conduct any fundraising activities among the public or private industry. Second, the services outsourced are primarily the basic direct services that GVs and CBOs can deliver, and extremely limited attention is given to support services that all CSOs must receive to improve their capacities. Third, the SSOs have not created channels for CSOs to provide policy feedback, even though CSOs have previously proved, while funded by international programs, that they are quite capable of contributing to social innovation and to better policies. The form used for outsourcing—a strict contract based on a predefined protocol of service delivery—also discourages innovation and responsiveness to changing community needs and epidemiological trends. Furthermore, the procedures used for CSO partner selection under SSO pilot programs in Yunnan also indicate that local policy makers are not receptive to the idea of open competition for contracts. At the county level, the selection of CSO partners was undertaken arbitrarily by the local authorities, who, in the words of the local officials, “divided the cake” among the CSOs with whom they had previously collaborated. In the case of the provincial level SSO pilot, the selection process used had the appearance of a competitive bidding process; however, in reality, through controlled information and pre-selection processes at the lower administrative level, only those CSOs that were informed and recommended by their partner governments were presented to the final selection panel.

In our case, it thus appears that corporatist approaches to state-CSO relationships in many aspects clash with the logic of public–nonprofit partnerships. The corporatist approaches stifle competition among CSOs, deepening the supply-side imperfections, and are likely to hamper innovation. As central level authorities are preparing implementation guidelines for service outsourcing in HIV and other sectors, it becomes crucial to review past and emerging practices
and to ensure that new mechanisms help build effective state-CSO collaboration rather than perpetuate the challenges of the past. With this in mind, in the following section, we present several recommendations that may help shape the new policies.

**Policy Recommendations for Successful Public-Nonprofit Partnerships**

In this section we provide recommendations to improve contracting in China. First, we describe the phases of contract monitoring and sanctioning in an ideal model, and compare current Chinese practices to this model, to then discuss changes needed in supportive environment and legal and implementation frameworks in order to improve PNP in China.

For all social-service contracting, government managers must go through three distinct phases: pre-contract planning, contract management, and post-contract learning. The pre-contract phase consists of identifying the service to be contracted, establishing service levels, identify baseline costs, assess the market, outline contract, invite submissions and conduct a tender and contract award. Once the contract has been awarded, the government manager must now monitor and evaluate service provision, which often is the most difficult aspect of the process (Romzek and Johnston, 2002).

Most of the literature on monitoring analyzes only formal mechanisms, but informal mechanisms may also be employed (Smith and Lipsky, 1993). Formal monitoring strategies include housing government officials at the nonprofit organization’s office, or, as often seen in context in China, housing the nonprofit in the government institution, conducting performance and/or financial audits, contacting providers regularly, conducting site visits (scheduled or surprise), requiring updates from contractors, mandating client surveys as an evaluation tool for demonstrating contractor performance and service quality, reviewing a provider’s plans, paying a
third party contractor to conduct monitoring and collecting feedback from other providers. As Van Slyke notes, these formal and direct monitoring mechanisms are recommended by agency theory, and the stewardship theory would also recommend frequent contact, feedback, and periodic reporting techniques to achieve goal congruence (2007). In democracies, monitoring also may occur via third parties through media and citizen feedback. Additionally, government managers also use informal monitoring mechanisms, such as the reputation of providers, past experiences with providers, and the past experiences of colleagues with certain providers (Teets, 2013; Van Slyke, 2007: 179).

In the post-contract phase, government officials must assess performance based on goals and sanction providers with performance or compliance issues. Although this process also occurs during the contract management process, post-contract learning may lead to redesigning the policy and/or future contracts, and efforts to build a market of CSOs able to engage in future contracting. This learning process entails collecting and utilizing feedback from citizens receiving services, other providers, and the nonprofit itself in addition to any evaluations conducted by the managing agency. We argue that this stage is a vital and often overlooked part of improving contracting to deliver services that are more targeted (less one-size fits all), encourage social innovation to service/governance problems, and strengthen the nonprofit sector without creating a dependent relationship.

Government contracting is often criticized for altering nonprofit governance practices, causing mission drift, de-professionalization of staff, and contributing to a position of government-funding dependency (Alexander, Nank, and Stiffers, 1999; Saidel 1991). This could compound already strong tendencies in China to use outsourcing to control the CSOs, strengthen the corporatist tendencies and in long term negatively affect service delivery. However, we argue
that if the legal and financial infrastructure for contracting is correctly designed, PNP contracting may instead strengthen the nonprofit sector and encourage social innovation to deliver more cost-effective and targeted services.

First, we recommend that the central government creates a stronger legal and financial framework for contracting that seeks primarily to enable versus control groups providing services. The infrastructure required includes; one, a legal framework supporting the formation of independent CSOs; two, regulations legalizing and institutionalizing a compulsory competitive tendering process that are monitored at the national level to prevent local collusion; three full cost recovery (i.e., paying for programs and administration) under outsourcing schemes; and four, access to diverse funding sources such as shared financing with client fees (when appropriate), foundation grants, and fundraising through public foundations and businesses.

Second, implementation frameworks for outsourcing programs should recognize the existing variety of CSOs, their functions, relationships with the government and capacity levels, as well as variety of services needed. Each type of civil society group may have a different role to play in the service delivery system. For example, among HIV sector CSOs described above, while GVs and CBOs may be tasked with direct service delivery, the developed NGOs may be given more advanced tasks such as “servicing” the less developed groups with capacity building or monitoring and evaluation services, as well as with testing and delivery of social innovation. A continuum of outsourcing mechanisms should be offered, so that an appropriate mechanism can be selected for a service contracting, for example contracts for specific service delivery based on well defined protocols, grants to encourage innovation and new services and vouchers for capacity development. Outsourcing of different types of services may also happen at different
levels. In HIV sector for example, NGOs can compete at national and provincial level, including for services delivered at larger scale through networks, while GVs and CBOs can compete at county/city district level for service contracts in specific localities. Also, as this is an emerging nonprofit market, the government might need to be more flexible in contract design as the scale and the duration of contracts can have a major impact on the number and type of potential contractors. Short contracts and those that do not cover program pilots may make it difficult to stimulate innovation.

A third group of mechanisms needed for effective PNP are robust evaluation system that clearly feeds back into a policy review process and offers mechanisms for joint problem identification and planning. Lastly, capacity development programs for nonprofits, government contract managers, and outsourcing policymakers at different levels should accompany PNP implementation.

These groups of policies would allow more innovation in service delivery, create channels for government learning about serving as a regulator of services, and strengthen the emergent nonprofit sector in China. Although this model still depends on the monitoring mechanisms outlined above, it allows for more coordination of services and interaction with nonprofit contractors in order to encourage innovation. In short, it sacrifices some government control for more social innovation.

We also would like to point out that even though China is now committed to funding CSOs participation in service delivery and foreign cooperation programs are withdrawing from the country, there is still a role for the international cooperation in supporting the transition to a new system, help build capacity in both civil society and public managers, and support NGOs which are at risk of being excluded from outsourcing programs if only local level basic service
delivery through smaller CSOs is funded. Through collaboration with the Chinese government and civil society in their transition to a system based on outsourcing valuable lessons may be also generated for other countries, which plan to strengthen service outsourcing as foreign aid diminishes.

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