



Comparative Development and Policy in Asia

CHINA'S SOCIAL WELFARE REVOLUTION

CONTRACTING OUT SOCIAL SERVICES

Edited by
Jie Lei and Chak Kwan Chan



China's Social Welfare Revolution

The Chinese government has recently adopted a radical welfare approach by contracting out social services to non-governmental organisations (NGOs). This is a big departure from its traditional welfare model, whereby all public services were directly delivered by government agencies. This book examines this new welfare approach. It analyses the implementation of various types of services for individuals, families and communities – including medical social services, care of the elderly, probation services and much more. It discusses important issues arising from contracting out, considers the nature of the contracted NGOs and their services, and explores major problems encountered by both government agencies and NGOs. This book also compares the similarities and differences of contracting policies in different cities. Overall, the book provides an overview of one of the most important welfare policy changes in contemporary China.

Jie Lei is Associate Professor in Social Work as well as Deputy Director of the Centre for Social Work Education and Research at Sun Yat-sen University, China.

Chak Kwan Chan is Reader in Social Policy at Nottingham Trent University, UK.

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Contributors

Agnes Koon-Chui Law is Founding Director of Center for Social Work Education and Research, Sun Yat-Sen University. Her research areas include development of social work service models and service standards.

Chak Kwan Chan is Reader in Social Policy at Nottingham Trent University. His research areas include social security, poverty and comparative welfare policy. His research work has been published in *Journal of Social Policy*, *Social Service Review*, *Social Policy and Administration* and *Critical Social Policy*.

Fang Zhao is Associate Professor at the Department of Social Work at Fudan University. Her research areas include social work ethics, medical social work and family social work.

Huan Zhang is Professor at the School of Social Development & Public Policy, Beijing Normal University. His research areas include social governance, social policy, disaster policy and emergency management in China. His research work was published in *International Journal of Social Welfare*, *Management World* (*Guanli Shijie*) and *Statistical Research* (*Tongji Yanjiu*).

Jiapeng Lin is a master student of social work at the College of Psychology and Society, Shenzhen University. His main research area is theory and practice of social work.

Jie Lei is Associate Professor in Social Work at the School of Sociology & Anthropology, Sun Yat-sen University. His research areas include professionalisation of social work, social assistance and child protection in China. His research work was published in *British Journal of Social Work*, *Critical Social Policy*, *International Social Work* and *Social Policy and Society*.

Ren Wang is a PhD candidate at the Department of Social Work, The Chinese University of Hong Kong. Her research areas include long-term care, gerontology and social services for older people.

Tian Cai is Assistant Director of the Center for Social Work Education and Research at Sun Yat-sen University. His research area is professionalisation of social work in China.

Wei Lu is Research Associate Professor at the School of Sociology & Anthropology, Sun Yat-sen University. Her research areas include foster care of orphans, child welfare policy network and family services.

Xiao Li is Lecturer at East China University of Science and Technology. Her research areas include social work professional development in China, social work education and medical social work practice.

Xiaofeng Li is Professor at the College of Psychology and Society, Shenzhen University. Her research areas include theory and practice in social work, social work supervision, counselling and feminist sociology.

Yean Wang is Lecturer at the School of Social Development & Public Policy, Beijing Normal University. Her research areas include social work education, professionalisation of social work and elderly social work services. Her research work has been published in *Research on Social Work Practice*, *British Journal of Social Work*, *Social Work* and *International Social Work*.

Yiping Ke is Lecturer at the School of Public Administration, Fujian Normal University. Her research areas include care for the older and disabled people, community development and government purchasing social services.

Yu Cheung Wong is Associate Professor at the Department of Social Work, The Chinese University of Hong Kong. His research areas include information technology in social services, digital inclusion and social security. His research work has been published in *International Journal of Social Welfare*, *Journal of Technology in Human Services* and *British Journal of Social Work*.

Ziyu Liu is Research Assistant at the School of Social Development & Public Policy, Beijing Normal University. She is interested in researching leadership, social welfare and social enterprise.

Abbreviations

CAB	Civil Affairs Bureau
CABJ	Civil Affairs Bureau of Jinhua City
CCCC	Central Committee of the Communist Party
CCPOD	Organization Department of the CPC Central Committee
CCSD	Centre for Community Services Development
CDPF	China Disabled Persons' Federation
CGP	China Government Procurement
CPC	Communist Party of China
CYL	Communist Youth League
DAYTOP	Drug Abuse Yield to Our Persuasion
GZ	Guangzhou
IFSC	Integrated Family Service Center
JHFPC	Jinhua Health and Family Planning Commission
JHMG	Jinhua Municipal People's Government
NGOs	Non-governmental Organisations
NHFPB	Nanhai Health and Family Planning Bureau
NHFPC	National Health and Family Planning Committee
NHPMMCB	Nanhai Population, Medical Care, and Medicine Control Bureau
NHQCSWC	Nanhai Qi Chuang Social Work Centre
OHCHR	Office of the High Commissioner for Human Rights
SOEs	State-Owned Enterprises
SZCDPCC	Shenzhen Chronic Disease Prevention and Control Center
WF	Women's Federation

1 Introduction

Contracting out social services in China

Chak Kwan Chan

Introduction

Outsourcing public services has become a common practice in many market economies since the 1980s. It has been widely argued that the public sector's services are less efficient and their operation is costly and bureaucratic. Some Western countries believe that the state should function as a service purchaser only, leaving non-government sectors, especially community and voluntary organisations, to deliver welfare services. As a socialist country, most welfare services in China were provided by government departments. Since then, the Chinese government has launched dramatic reforms on its economic units, especially the restructuring of state-owned enterprises (SOEs) as part of the open door policy instituted in the late 1970s. China's economic reform has successfully transformed most SOEs into autonomous economic entities to reduce the state's financial burden and minimise the role of the government in its mixed economy (Chan, Ngok and Phillips 2008).

After reforming SOEs, the Chinese government in recent years has turned its attention to its welfare system by implementing the contracting out of public services. In 2013, the Central Committee of the Communist Party of China (CCCCP 2011) announced: 'We will promote government purchases of public services by means of contract and entrancement, and introduce a competition mechanism into general-affairs management services.' One of the main objectives of this reform was to reduce the welfare role of the public sector by building a multi-level, channelisation public service delivery system through the contracting out of public services (State Office 2013; Central Committee of the Communist Party of China (CCCCP) 2014). This is a significant departure from its traditional welfare model according to which central and local departments were sole providers of social services with the objective of promoting common well-being. Guided by a new ideology, the Chinese government now believes that public services that can be delivered by social abolitionists and the private sector should be outsourced through a competitive tender mechanism, while the public sector should focus on mainly commissioning and monitoring service provisions (State Office 2013; Ministry of Finance, Ministry of Civil Affairs and State Administration for Industry and Commerce 2014). The adoption of contracting out social

services, the split of service provider and purchaser, the government's withdrawal from direct services and the building of a multilevel welfare delivery system can be seen as China's second welfare revolution following its first revolution, characterised by the elimination of its mini-welfare state rooted in SOEs.

There are two unresolved issues with China's contracting out welfare policy. First, can China reap the benefits of outsourcing public services as stated in some literature? Second, are cost reduction and service quality improvement the main drivers for China's contracting out policy? This introductory chapter aims to address these two issues and is composed of three sections. The first section examines whether China can obtain the benefits of contracting out welfare services to non-governmental sectors. The next section investigates the relationship between China's public sector reform and its outsourcing strategy. The final section highlights the main concerns of this edited volume.

The benefits of outsourcing and China's conditions

This section will analyse whether China can obtain the benefits of outsourcing public services. Purchasing, contracting out, outsourcing and commissioning are used in different academic publications to describe the state's use of non-public sectors to deliver services. Contracting out is the 'opening up to competition a set of economic activities' to different types of organisations through a competitive tender exercise (Domberger and Jensen 1997a, p. 68). According to Jensen and Stonecash (2005, p. 699), contracting out is the 'transfer of service provision from the public to an external organization (which is typically in the private sector but may also be an in-house team)'. In the process of commissioning services, a purchaser and a provider have to reach 'an agreed deliverable or level of service for a predefined fee as stipulated in a contract' (Gill 2000, p. 281). In short, contracting out is the transfer of the production of services from the public sector to non-governmental organisations through a bidding or negotiation process after which a bid winner needs to produce the required amount and quality of services stated in a contract. In this chapter, purchasing, contracting out, outsourcing and commissioning will be used interchangeably to describe the Chinese government's adoption of market forces by using various types of organisations to provide public services according to the contractual terms.

Supporters for contracting out public services believe that this approach can reduce costs, improve quality, transfer risks to the non-public sector and enhance accountability. The production costs of welfare services can be lowered through several means. First, welfare providers will offer 'efficient (competitive) prices' in a competitive bidding process in order to win a contract (Domberger and Jensen 1997a, p. 69). This means that the state can 'secure the provision of services at the lowest possible cost' (Domberger and Jensen 1997a, p. 68; Cohen and Eimicke 2008). After analysing various studies on the costs and quality of contracted services, Domberger and Jensen (1997b) conclude 'the benefits of

contracting are real and substantial'. This is because contractors that have better knowledge and facilities help reduce the production costs (Vaxevanoua and Konstantopoulou 2015).

It is argued that outsourcing can improve the quality of public services (Jensen and Stonecash 2005) because a bidder needs to propose better service plans in order to obtain a contract, and also because they have an incentive to improve services so that the contracted services can be renewed. More importantly, specialist organisations are equipped with high skills and more experience in delivering a high-quality service that also benefits from 'a greater economy of scale' (Gill 2000, p. 281; Keetch 2013). The combination of specialisation and competition 'yields efficiency gains' (Domberger and Jensen 1997b, p. 168). As pointed out by Gill,

Outsourcing lets the company offload its non-core tasks to an outside specialist provider who can deliver a higher standard of service and at a price that reflects a greater economy of scale. Many outsourcing suppliers invest extensively in technologies, people and processes and thereby gain experience and expertise by working with many clients facing similar challenges. This combination of specialisation and expertise, often of world standard, plus access to extensive resources, can give customers a significant competitive advantage.

(2000 p. 281)

Moreover, outsourcing can share or even transfer the risks of welfare provisions from the public sector to other agencies (Jensen and Stonecash 2005; House of Commons 2011; Vaxevanoua and Konstantopoulou 2015), including the increase in labour and equipment costs and compensation for sub-contractors and service users. In addition, contracting out public services is also seen as a means of enhancing accountability, as the state not only retains control over 'the specification of the service, the management of the contract and the evaluation of the service provider's performance' (Jensen and Stonecash 2005, p. 699), but also can address individual or organisations' harms and loss through a monitoring mechanism (Domberger and Jensen 1997a, p. 76).

The above discussion has highlighted the advantages of outsourcing social services. An unresolved issue is whether the Chinese government possesses the required conditions to reap the mentioned benefits. This is because the benefits assume having a large number of competitors in the social services market, forcing them to compete with each other in the tendering process; the result of which is downward pressure on service costs. However, the assumption may not be true in China because of its strict NGOs registration arrangements and the slow development of its civil society.

In China, the history of NGOs was 'a relatively short one' (China Development Brief 2011, p. 5) as independent social organisations were nearly non-existent because of the Chinese Community Party's strict control over the civil society during the Mao period (1949–1976). Social welfare NGOs started to

grow only after the 1980s as a result of financial difficulties of local governments and also the SOE reform that had weakened the welfare functions of China's traditional work-based welfare system. The growth of NGOs, however, was relatively slow as a result of China's complicated and strict registration arrangements. Before 2014, NGOs needed to be sponsored by a government agency such as the Disabled Persons Federation, Department of Education or Department of Health in order to register with the Ministry of Civil Affairs (Fisher, Li and Fan 2012). As a result, many local and international organisations chose to register as a business entity instead of a charity (Zhang 2003). Most small domestic organisations chose not to register at all, with many local government officials taking a lenient attitude on their welfare activities (Hsu and Jiang 2015).

It was not until 2013 that the central government lessened the registration of four types of social organisations, including professional and business associations, science and technology organisations, charities, and urban and rural services groups, allowing them to register directly with local civil affairs agencies (Xinhua Net 2013). According to Li, Minister for Civil Affairs, the main reason for this policy change was to transfer some government social services to non-governmental organisations (Xinhua Net 2013).

Although registration for domestic social organisations has been relaxed, the registration for international organisations has been tightened. Since China's open door policy, many international NGOs have provided various types of social services. For example, foreign NGOs are 'an indispensable component' in tackling the increasing HIV infection rate in China (Wu 2005). The Chinese government introduced a Foreign NGO Law in 2017 to check the activities of international social organisations. Under the new legislation, foreign NGOs are prohibited from conducting 'political activities'. There is concern that this will allow 'arbitrary and broad interpretations of the Law as it does not entail what the activities' (OHCHR – Office of the High Commissioner for Human Rights 2016). Moreover, foreign NGOs need to register with public security organs instead of the civil affairs departments. The organs have power to summon NGO representatives, conduct on-site inspections, seize documents, freeze bank accounts, suspend relevant activities, and detain and deport staff members. It is believed that the law will have 'a detrimental impact on the existence and operations of domestic NGOs that cooperate with foreign NGOs and/or are dependent of funding from them, and which carry out activities in the field of human rights, including economic and social rights' (OHCHR 2016). There are more than 7,000 foreign NGOs operating in China and the new law might force some of them to curtail or eliminate politically sensitive programmes, as well as forming a barrier to the registrations of organisations that promote religious freedom and work for the rights of workers and ethnic minorities (*New York Times* 2016).

Apart from international organisations, many local organisations under the new law will be excluded from bidding for social services as only officially registered organisations can submit tenders. It was estimated that more than

three million NGOs did not register with the government because of the sensitivity of their services as well as their distrust over the official monitoring system, with only about 675,000 are officially registered NGOs (Brookings 2016). This suggests that some local governments may not be able to lower the welfare production costs or choose experienced NGOs to deliver services because of a lack of capable social organisations.

Moreover, the number of NGOs that are providing services for users with special needs is relatively small. According to Fisher, Li and Fan (2012, p. 166), organisations that provide special services for disabled people on education, institutional care, rehabilitation, training, community centres and social welfare are ‘very limited in most locations’ in China. In terms of HIV preventive services, Wu (2005) pointed out that civil society in China is still ‘at a nascent stage’ and many social groups lack ‘self-capacity’. The China Association for NGO Cooperation stressed that ‘Many of the local NGOs are very small and don’t have a lot of capacity, or are not very professional’ (quoted in Hasmuth and Hus 2014, p. 946). Regarding mental health services, not only are there a small number of NGOs supporting mentally ill patients, but the government is still not fully aware of the importance of their supplementary services in the community (Liu *et al.*, 2011). Thus, this may not be a supportive environment for the growth of specialist welfare agencies.

In addition, local NGOs find it hard to attract highly qualified workers because of unattractive employment conditions. According to Deng and Ji (2011), Chinese NGOs are relatively small and also do not have sufficient resources to offer a competitive employment package to attract and retain good quality staff. They further highlighted that there is ‘insufficient evidence to suggest that the quality of NGOs’ services is better than that of the government’ (Deng and Ji 2011, p. 301).

In summary, when the Chinese government announced the contracting out of social services as its national welfare strategy in 2013, the number of NGOs was still relatively small and their capacity to deliver high-quality services was untested. This leaves a question of why China introduced the contracting out social services when it may not be able to reap the benefits from a competitive tendering scheme. As a representative from the Ministry of Finance (2017) admitted, social organisations in China, which are promoted to be contractors for public services, have several weaknesses, including small number and size and limited capacities. The central government’s promotion of purchasing public services, therefore, may be linked with other factors. This rest of this chapter will present an analysis of the relationship between contracting out social services and China’s public sector reform.

Public institutions reform and outsourcing social services

Contracting out public services in China seems to be a convenient policy for the Chinese government to support its public institutions reform. Public institutions are one type of government agency that is managed and financed by the state.

However, the employment conditions of the workers of public institutions come under the Labour Law instead of under the regulations that cover the national civil servants. These institutions provide social welfare, education, science and technology, culture, health and hygiene services to the public.

In 2011, a policy paper entitled *Guidance on Reforming Public Institutions* (CCCP and State Office 2011) explained the direction and rationale of the public sector reform. First, the Chinese government should transform itself into a service-oriented state in order to meet the increasing expectation of the public. Second, some public institutions lack incentives, their management is ineffective and services are inefficient. Third, it is the Chinese government's aim to restructure the public institutions so that their operations are responsive to market forces. Fourth, some public institutions will be transformed into autonomous enterprises, managed by a board of directors or an executive committee. Fifth, based on the nature of their functions, the public institutions are classified into three categories: (a) institutions with administrative functions, (b) institutions with commercial and business functions and (c) institutions with social service functions. Public institutions with social service functions are further classified into categories one and two. Category one is those organisations that provide basic social services such as compulsory education, public hygiene and basic health services, essential research and cultural activities. These basic and essential services will continue to be run by the workers of public institutions and will not involve market forces. Category two organisations, however, are those that provide higher education and non-basic health services. Some services from the category two organisations can be provided through market forces (CCCP and State Office 2011). More importantly, as the policy paper emphasises, contracting out public services should support the government's reform of the category two public institutions.

The relationship between purchasing public services and the public sector reform was further stressed in another policy paper titled *Managing Issues on Government's Purchase of Services (Tentative)* (Ministry of Finance, Ministry of Civil Affairs and State Administration for Industry and Commerce 2014). The paper defined the difference between service purchasers and service providers. Service purchasers are all levels of government administrative units and public institutions with an administration function. Service providers include registered social organisations, category two public institutions and business enterprises. The paper also emphasised that purchasing public services should be linked with public institution reform, supporting the institutions to transform to become enterprises or social organisations.

In 2015, the Ministry of Finance published a policy paper called *Supporting the Trade Associations and Chambers of Commerce to Purchase Public Services*. This paper urged local government purchasers to support Trade Associations and Chambers of Commerce, which are public institutions, to bid for public services so that they can steadily separate from the public sector's administrative system and become independent entities. Thus it is apparent that reforming the Trade Associations and Chambers of Commerce and encouraging them to bid for public services

is a consistent and long-term strategy of the Chinese government. In 2007, the General Office of the State Council published a paper titled *Some Opinions of the General Office of the State Council about Accelerating and Promoting the Reform and Development of Trade Associations and Chambers of Commerce*. The paper demanded these organisations to improve their organisational management, strengthen their service capacities and be competitive in the market.

In summary, after reforming the SOEs, the Chinese government has turned its attention to restructuring its public institutions, with the objective of transforming them into independent entities, separating their administrative relationship with the state and integrating them into the market mechanism (General Office of the State Office 2007; CCCP and State Office 2011). After China's adoption of the contracting out welfare approach, its public institutions reform has mixed with outsourcing public services by offering the public institutions the opportunity to obtain welfare contracts to continue their activities. As a representative from the Ministry of Finance (2017) requested, public sector agencies need to offer more projects and financial investments to support the public institutions to bid for social services.

The mixture of the public sector reform and the contracting out of welfare approach has three implications for China's social policy development. First, the number of potential contract bidders has dramatically increased as more public institutions and their units are transformed into independent social and business organisations. Second, the open bidding mechanism might be negatively affected by the potential conflicts of interest between purchasers and providers as both of them have some relationship with the public sector. Third, the competitive tendering system might have been weakened by the central government's guidelines urging local governments to support the public sector reform while outsourcing their services. Against the complicated relationships between welfare purchasers and service contractors from the public institutions, the contracting out process in China will be subject to 'corruption vulnerability' (Hamlin and Cobarzan 2006). This will negatively affect the quality of services and reduce the benefits for the public sector.

If reforming SOEs is a revolution on China's economy, contracting out social services can be seen as a revolution on its welfare provision. This is because reforming China's welfare delivering has affected the role of three major welfare institutions, including the traditional welfare providers of government agencies, non-governmental organisations and public institutions. Local governments have to release their welfare activities to be run by other sectors. They have to transform themselves to be service purchasers and monitors. Li Guo-li, the Minister of Civil Affairs, stressed in 2012 that the role of civil affairs offices 'should be policymaking, supervision, investigation and assessment', while the delivery of direct services could be handed over to NGOs (*China Daily* 2012). This new welfare approach seems to be an open admission of failure for the public sector as a direct provider under socialism.

On the other hand, registered NGOs are offered opportunities to expand services by taking up the role of public welfare providers. Obviously, these organisations

have been institutionalised as part of China's welfare delivery system. With support from the central government, the public institutions are given advantages to bid for social services so that they can run similar services following their separation from the state. Service users now have to deal with new welfare providers, which are expected to be more responsive to their needs. As a result of the social services delivery reform, some institutions will take up new roles, while the relationships between the state, local officials, NGOs and service users will become more dynamic. Since the national contracting out policy was only officially announced in 2013, it will take a longer time to see whether this welfare delivery revolution can benefit service users and improve their quality of life.

The structure of this book

Although central government departments have published guidelines on contracting out public services, the actual implementation of this new welfare approach will be shaped by local governments' policies as there are regional variations on social and economic conditions. Also, the needs and conditions of NGOs vary from region to region and service to service, resulting in differences in the modes of welfare delivery. Thus, this book examines regional variations on outsourcing practices and also investigates how NGOs deliver services in the context of China's radical welfare reform. The main concerns of the chapters are as follows:

Wang, Zhang and Liu discuss 'community building' in China's capital, Beijing in Chapter 2. They highlight various models of community building; in particular, the 'three clubs linked' project that is based on collaboration between the government, professional social workers, and residents, and which has effectively delivered community services.

Lu and Cai examine the provision of the Integrated Family Services in Guangzhou in Chapter 3. Guangzhou is one of the pioneers in purchasing social services in China. Before the central government's announcement of the national approach for purchasing public services from NGOs, the Guangzhou Municipal Civil Affairs Bureau in 2010 had already planned to establish the Family Integrated Service Centres. In 2014, seven third-party evaluation teams were used by the Guangzhou government to assess the performance of the providers of Family Integrated Service Centres.

Li and Lin present their study of the purchase of Drug Prohibition Social Work service in Shenzhen in Chapter 4. The Shenzhen government commissioned NGOs to run 7,000 community service centres. One of the tasks of these centres is to offer drug prohibition services. Drug prohibition projects were launched in ten districts. Although there is an increasing number of social workers and agencies that are engaged in delivering drug prevention and rehabilitation services, there are several limitations, including small organisations with limited resources, heavily depending on government funds and restrictions on social work activities.

In Chapter 5, Law investigates the purchase of medical social work services in Nanhai district of the Foshan city. Law discusses how the local government in

Nanhai invited established NGOs from other cities to bid for the delivery of medical social work services in hospitals because of a lack of organisations with the necessary expertise in the local region.

Wong and Wang examine the purchase of elderly services in Wuhan in Chapter 6. They highlight that the Wuhan government uses a short-term contract of one year and also places two organisations in the same street-office area to enhance competition between NGOs for future contract renewal. Also, university social work programmes were encouraged to set up NGOs to bid for welfare contracts. Two of the main barriers for the development of NGOs are officials' poor understanding of social work duties, as well as low salaries and carer prospects for NGO workers.

Li analyses services for migrant workers in Jin hua in Chapter 7. The source of financial support for the Jin hua Venture Philanthropy Project came from China's Welfare Lottery instead of the local authority. Based on the case study of two programs from the project, it was found that the two small-sized delivery organisations lacked required skills and knowledge in working with the migrant population.

In Chapter 8, Zhao investigates the Shanghai municipality's purchase of Community Correctional Social Work Services. Like Guangzhou, Shanghai is another local authority that uses NGOs to deliver social services before the national policy. In 2003, the Shanghai government published the Implementation Opinions on Government Procurement of Service Items in Pilot Sites, allowing the city-district-level government to procure community correction services. The expenses for the community correction services were also included in the Shanghai City-Level Special Fund. The author argues that one of the challenges for contracting out services is the nuanced relationship between the purchaser and the provider, as the autonomy of the contracted organisations is relatively weak because their establishment and management has been shaped by the local government.

In Chapter 9, Ke mentions that the Xiamen municipal government has been actively outsourcing disability services to non-government organisations. Using a barrier-free home improvement project as an example, she critically points out several existing policy limitations. First, there are limited specialist organisations and qualified professionals to deliver the barrier-free home improvement project. Second, the fund for developing the service is relatively limited so that lower-level governments only purchased a small number of projects that are unable to meet service users' needs. Third, local officials lack sufficient experience to set up an effective service monitoring mechanism. Finally, there is a lack of legislation in position to regulate the purchase and delivery of public services and protect the rights of service users.

In addition to the discussion of the specific service areas, the authors of Chapters 2 to 9 also analyse the development and requirements of purchasing social services in their service regions. In light of China's dramatic departure from its state welfare delivery model, the chapters of this volume examine this development by showing the similarities and differences of outsourcing practices