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Final Report on Government Procurement of Public Services People’s Republic of China

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Final Report on Government Procurement of Public Services People’s Republic of China

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Asian Development Bank
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Introduction

In the period of planned economy of the People’s Republic of China (PRC), all kinds of public services were provided by the government, or government owned enterprises and institutions. Along with the economic reform and the trend of increasingly diversified demands for public services, the role of government in public services has been transferred from a director provider to a public resources coordinator. With the characteristics of specialization, voluntariness, openness, non-profit organizations are becoming an important actor which helps the government in public services providing.

With expanding channels of utilizing public finance to support public services, especially when public services are outsourced to non-profit organizations, enterprises and other social organizations, by means of contracts, become significant measure to improve efficiency of public services. It also shows an international trend in modern public finance expenses. For this reason, it is necessary to establish the public-services-oriented procurement system, and to enhance the capability of non-profit organizations in providing public services.

Experts from RIFS (Research Institute of Fiscal Science, Ministry of Finance), Tsinghua University and Beijing Normal University took part in the project of “Policy Study on The Government Procurement of Public Service in People’s Republic of China”, which is supported by ADB and organized by Bureau of NGO Administration, Ministry of Civil Affairs. The project aims at researching the realistic basis of government procurement of public services in PRC, learning international experience of public services outsourcing and domestic innovations in local areas, and putting forward feasible ways to establish a public services purchase system as well as policy suggestions for relevant departments.

As a multidisciplinary research, this report obtains support from the following three aspects. Firstly, we visited relevant departments such as the Ministry of Finance to learn about fiscal policies for many times. In particular, we were invited to attend the symposiums held by the Ministry of Civil Affairs in September of 2007 and July of 2008, during which we had discussions and communication with Mr. Li Yong, deputy director general of Management of Nongovernmental Organizations, Mr. Wang Wen, Division Chief, and Mr. Xu Yun, who are very helpful for us to understand NGOs and relevant policies. Secondly, in the course of our research, we kept constant contact with ADB. Dr. Chris Spohr gave us a lot of assistance and guidance and provided us with abundant related materials. In March and May of 2008, Dr. Spohr attended two symposiums in ADB Beijing Office to add knowledge from ADB experts,
which was also helpful for us to broaden our thoughts. Thirdly, we went to Nantong City and Wuxi City of Jiangsu Province for investigation and research in March and April of 2008. We learn about the status quo of government procurement of public services in PRC. This research is a combination of theory and practice with reference to both domestic and international experience.

The final success of the research should also thank Ms. Junmei Yang (Senior Programs Officer of ADB) who performed as the TA task manager of the TA, Ms. Mary Gan (Assistant Project Analyst of ADB) who helped administer the TA finance, Ms. Lei Kan (Senior External Relations Officer of ADB) and Ms. Xuan Rong (Team Assistant of ADB) who helped with formatting, proofreading and printing the report.
Table of Contents

Introduction ............................................................................................................................ 1

1. What is government procurement of public services? ....................................................... 4

2. International experience in government procurement of public services ....................... 5

3. The necessity of government procurement of public services in PRC ............................. 11

4. The status quo of government procurement of public services in PRC ....................... 12

5. Main problems in government procurement of public services in PRC ..................... 15

6. The main principles of Chinese government to develop the procurement of public services ...................................................................................................................... 19

7. Policy recommendation ................................................................................................ 27

Case study 1: the “Sunshine Project” of job training for farm laborers looking for urban employment—illustrated by the case of Nantong, Jiangsu Province .......... 30

Case study 2: procurement of public health services in Wuxi — illustrated by the case of contact-based tuberculosis prevention and treatment services provided by the private Anguo Hospital ................................................................. 30
1. What is government procurement of public services?

1.1 Government procurement is a contract-based model of provision of public services

Government procurement of public services is a model in which the government establishes contractual relationships with non-profit organizations or other organizations to purchase public services, rather than government itself providing services with the public finances. In short, government procurement is a mechanism that social organizations are contracted to provide public services with funds from the government, the essence of which is a contract-based model of public services provision.

The core of government procurement of public services is to establish a contract-based model of service provision rather than an employment relationship. The contract-based model requires that the government and social organizations be independent of each other. In other words, social organizations independently make decisions, operate and assume responsibilities; the government supervises the services providing in accordance with the contract and evaluates their performance.

1.2 Service procurement is an important part of the government procurement

The government procurement comprises the purchase of goods, projects and services. The government procurement of services covers various areas, in which the public service is an important part. The government procurement is based on the fundamental principles of competition and openness. Service procurement should follow the same principles.

1.3 Non-profit organizations are important objects of government procurement of public services

The objects of government procurement of public services include non-profit organizations, enterprises, and public institutions, among which non-profit organizations are main providers of public services.

Non-profit organizations (NPOs) are non-governmental organization that does not aim to make profit. In accordance with the type of organizations and the objective of organizations, NPOs can be divided into two categories. One is mutual-benefit organizations such as guilds, institutes, and recreational...
and sports associations; the other is public-benefit organizations such as non-profit schools, hospitals, nursing homes, museums and foundations. In PRC, NPOs registered with Ministry of Civil Affairs comprise three types, they are: social groups, civilian non-enterprise units, and foundations.

1.4 Government procurement of public services differs from public welfare, fiscal appropriations or subsidies to non-profit organizations

Government procurement of public services is different from public welfare such as free medical care and free public transportation. Public welfare is a kind of finance expenditure offered to citizens or some vulnerable groups, and should not be considered government procurement.

Government procurement of public services is different from fiscal appropriations to public utilities. Fiscal appropriations are mainly allocated to specific organizations and compose part of the organization’s annual budget. The purchase mainly aims at specific targets of public services based on full and open competition. The government procurement is evaluated according to the service performance rather than the organizational process.

Government procurement of public services also differs from subsidies to non-profit organizations. Although subsidies are necessary, they are mainly for the development of non-profit organizations rather than for certain purposes of public services. Fiscal funds should be used to coordinate the relations between the procurement of public services and subsidies to non-profit organizations.

2. International experience in government procurement of public services

The government procurement system made its first appearance in US’s Federal Acquisition Regulation formulated in 1761. The government procurement of services has become a trend since the 1980s. In the 1990s, the United Kingdom initially put forward the concept of "partnership" between public and private sectors, which was well received and widely responded by the US, Germany, Japan and some other countries.

We can summarize the following points from the international experience in government procurement of public services:
Firstly, the government procurement has wide coverage of public services, particularly in the fields of education, public health, culture, and social services. The Procurement of public services in other countries comprises: 1. education, vocational education and special education; 2. public health; 3. elderly services; 4. handicapped services; 5. community services; 6. protection of culture and tradition; 7. employment promotion, low-income housing and solving of other social problems; 8. city planning, transportation, environment and other policy consultation. In some countries, non-profit organizations are the “first defense line” of public welfare. The purchase of public services in Hong Kong is shown in Table 1.

<table>
<thead>
<tr>
<th>Item</th>
<th>Appropriation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family and child welfare</td>
<td>$765.9 million</td>
<td>9.5%</td>
</tr>
<tr>
<td>Social security</td>
<td>$0.5 million</td>
<td>0%</td>
</tr>
<tr>
<td>Elderly Services</td>
<td>$2699.1 million</td>
<td>33.6%</td>
</tr>
<tr>
<td>Rehabilitation and Medical Social Services</td>
<td>$2556.9 million</td>
<td>31.8%</td>
</tr>
<tr>
<td>Guidance services for offenders</td>
<td>$44.3 million</td>
<td>0.6%</td>
</tr>
<tr>
<td>Community Development</td>
<td>$136.5 million</td>
<td>1.7%</td>
</tr>
<tr>
<td>Youth services</td>
<td>$1376.7 million</td>
<td>17.1%</td>
</tr>
<tr>
<td>Social Welfare Support</td>
<td>$456.9 million</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

Secondly, non-profit organizations are important subjects for the procurement of public services. No matter what model the country follows, NGOs are always considered as important partners of the government in public services. Some countries regard the non-profit organizations as the “first defense line” when dealing with public welfare affairs. According to international statistics, revenue from public financial resources accounts for 40% to 70% of the total revenue of non-organizations in Europe. The figure is 45% in Japan, and 70% to 80% in Hong Kong. In market-oriented countries like the United States, revenue from public sectors of the government accounts for about 31% of the total revenue of the non-profit organizations. As is shown in Table 2, the role of non-profit organizations in public services varies from country to country.
Table 2  NPO’s role in government procurement and its capital sources

<table>
<thead>
<tr>
<th>Country</th>
<th>Major capital source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>Loca</td>
</tr>
<tr>
<td>Hungary</td>
<td>Loca</td>
</tr>
<tr>
<td>Russia</td>
<td>Loca</td>
</tr>
<tr>
<td>Armenia</td>
<td>Contributor</td>
</tr>
<tr>
<td></td>
<td>NPO appropriate participation</td>
</tr>
<tr>
<td>Albania</td>
<td>Contributor</td>
</tr>
<tr>
<td>Croatia</td>
<td>Contributor</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>Loca</td>
</tr>
</tbody>
</table>

*Notes: the local includes all the domestic private resources and public resources¹

Thirdly, there are two types of procurement, namely the core cooperation (long-term cooperation) type and the short-term support type. The long-term cooperation type provides core and long-term grant to support the fundamental services. (For example, in Canada, women are provided with accommodation and accommodation maintenance. Usually, the contract is renewed annually in terms of contract duration, and the content of the contract is always consistent.) The short-term support type focuses on one or several specific projects.

Fourthly, bidding is the most typical pattern of procurement. For example, it is explicitly formulated in the Public Health and Community Care Law that 85% of the special appropriation from the central government should be used to procure services from private or non-governmental organizations by means of competitive bidding. However, the Canadian government always turns to the approach that the NPOs directly put forward project requests. In Cambodia, NPOs participated in government public services in two forms: the contract-out, of which the responsibilities and rights are defined by the procurement contract, and the outsourcing, which is administered by the government itself.

Fifth, there are various modes of subventions. For example, in Hong Kong, there are three modes of subventions, namely the Lump Sum Grant (LSG) Mode, the Non-Lump Sum Grant Mode and the Lotteries Fund. Under the Lump Sum Grant Mode system, non-profit organizations can independently

¹ Raymond J. Struyk, Nonprofit Organizations as Contracted Local Social Service Providers in Eastern Europe and the Commonwealth of Independent States, Public Administration and Development. 22, 432(2002)
and flexibly allocate resources to meet service requirements. The Lump Sum Grant Mode focuses on efficiency, encourages innovation, reinforces accountability and offers great flexibility. For those NGOs that have not decided to join Lump Sum Grant system, they will continue to receive subvention for the various units subvented under the modes of subvention as follows:

- **Modified Standard Cost System**: The Standard cost is based on Personal Emoluments calculated at mid-point salaries of the recognized posts.

- **Model System**: Subvention is provided on the basis of the recognized cost of the unit which is adjusted for inflation annually.

- **Subsidy Scheme**: For purchasing social welfare services from organizations, a fixed unit cost has been agreed in the form of a contract signed between the Department and the NGO administrator. As for the organizations that are not in the Lump Sum Grant Mode, they have other grant modes as follows:

The Lotteries Fund is primarily used to finance the capital expenditure of welfare projects and provide one-off grants to experimental projects with limited duration.

**Sixth, legislation on government procurement of public services is sound and comprehensive.** In such eastern European countries as Poland, Hungary, Croatia, Albania, Armenia, Russia and Kyrgyzstan, they all have legislation on the government procurement of services. As for Hong Kong’s legislation on procurement of services from non-profit organizations, there are Subvented Social Welfare Non-governmental Organizations-Procurement Procedures, Stores Management in Non-Governmental Organizations, Subvented Social Welfare Non-Governmental Organizations-Staff Administration, Subvented Social Welfare Non-Governmental Organizations-Staff Administration, Funding and Service Agreement, Service Documents, Sample Code of Conduct for Non-Governmental Organizations, Letting and Administration of Works Contracts in Non-Governmental Organizations, and so on.

**Seventh, there are series of strict procedures for procurement of public services.** For example, in Britain, there are 8 phases in the procedures of government procurement:

1) making procurement plans;
2) dominating a procurement chief and being equipped with lawyers, accountants or auditors;
3) lawyers drafting and publishing relevant information in designated publications;
4) receiving consultancy;
5) determining the list of qualified suppliers according to the standards;
6) bid invitation or direct procurement;
7) supervising the services provided by the supplier according to the contract;
8) Independent audit.

In the United States, government procurement of public services has at least 6 phases:

1) Making unified forms of documents, tender notices and statements, and setting a unified requirement for bid-invitation staff;
2) Formulating the detailed procedures for bid invitation and procurement;
3) Determining the list of qualified suppliers;
4) Bid invitation and bidding;
5) Delivery tracking;
6) Audit of procurement and management.

Eighth, the supervision system is result-oriented. In Canada, accountability requirements of the contract include administrative requirements and project requirements. The administrative requirements of a procurement contract consist of a series of provisions of statistical reports, external evaluation, delivery targets, service prediction, provincial-level project standards, audit of financial statements and financial statements, particularly the financial provisions. The project requirements are relevant to specific services, e.g. service requirements, methods and procedures of service delivery, and staff requirements. In Cambodia, there are mainly 3 approaches to the evaluation: baseline survey and index determination, midterm independent evaluation, and final investigation and evaluation.

Ninth, apart from purchasing services, the public financial funds also give support to non-profit organizations in 3 forms, namely subsidies, competitive or casual appropriation, and indirect subsidies by means of tax relief. Subsidies include providing offices to NPOs and giving a discount on fees that the NPOs should pay. In such countries as Hungary and Russia, the process of haphazard grants is not transparent; yet in Poland and Croatia, competitive grants are very common. Currently, Hungary and Russia are developing more competitive grants than ever before.

Tenth, the international trend in government procurement of public services is twofold, i.e. the internal model and the external model. The internal model is mainly seen in few developed countries which started the reform, e.g. New Zealand, UK and US. The external model is mainly in
developing countries and transforming countries supported by International Development Enterprises (IDE). The internal model can be further divided into the Westminster model, represented by New Zealand, and the US model. The Westminster model actively pushes forward the privatization of government administration; and the US model does not reduce the scope of government activities. Some northern European countries combined the characteristics of both models under the internal model.

**Eleventh, procurement of services is combined by the trend towards decentralization and enhancing capacities of communities and local government.** Such trend is more obvious in developed countries than in other countries, and it also exists in developing countries and transforming countries. In those countries whose governments procured public services from NPOs, a large number of NPOs sprang up at the community-level. In this process, the functional migration from the central government to local governments is very obvious in federal countries. For example, the 1867 Constitution Act of Canada stipulates the responsibilities that local governments have for local public welfare. Although the Canadian government is continuously enhancing its national-unified policies and regulations, the local governments are still playing an important role in providing local welfare. The responsibility of social assistance in Poland was transferred to the local governments in the year of 1990. In 1999, other services were transferred to 350 Family Assistance Centers all over Poland.

**Twelfth, the problems in the procurement of public services and the difficulties in measuring public services are related to the characteristics of NPOs.** The major problems are as follows:

- The short-term contract and small amount of procurement have a negative impact on the long-term planning and development of NPOs.

- There is a contradiction between the flexibility of the NPOs and the strict procurement procedure of the government.

- NPOs are widely dispersed in different fields, thus it is hard to formulate a unified procurement standard, and the evaluation system of procurement is loaded down with trivial details.

- To some extent, the signing and operation of contracts relies on trust and individual factors.

- Competition could possibly influence cooperation between NGOs.
3. The necessity of government procurement of public services in PRC

3.1 The government's capacity for providing public services is limited, which create the needs for diversified public services provision mechanism.

Due to some barriers in cost, efficiency and specialization, public services provided by the government are inadequate or limited, and can not meet the growing needs of people in this regard. Under the condition of limited public resources, there is a need for a diversified public services provision mechanism. The mechanism could enhance the provision of public services in terms of both quality and quantity, and realize a more effective utilization of public resources.

3.2 Government procurement is conducive to the improvement of the quality and efficiency of public services

Compared with the government, non-profit organizations or for-profit organizations are capable of providing more specialized services and high-quality public services. The professional staff of these organizations is conducive to the improvement of management efficiency and services production efficiency.

3.3 Government procurement of public services promotes the efficiency of public finance usage and the transformation of the government’s function.

PRC is increasing the effort to establish its public finance system which suits the market economy. The public finance takes market failure as the economic basis to position the financial function, and public demand as the precondition for financial expenses. By means of government procurement, some types of public services that can be provided by the market are truly provided by the market; and the government functions are migrated into the fields where the market mechanism does not work.

Government procurement is generally targeted at quasi-public goods. Along with the development of science and technology, there are less and less so called "pure public goods", and more and more quasi-public goods. In other words, there will be more public services that the government could procure.
3.4 Government procurement of public services promotes the development of social organizations, realizes the equalization of public services, and facilitates the harmonious and sustainable development of society.

Government procurement of public services promotes the development of social organizations and realizes the diversification of subjects of public services. We need diversified channels to establish the public finance system and achieve the equalization of public services. Government procurement is an important approach to achieve the equalization of public services by means of diversified provision of public services.

4. The status quo of government procurement of public services in PRC

4.1 It has been over 10 years since PRC started government procurement, and now the government procurement is in the stage of comprehensive promotion.

Since 1996 when PRC launched its pilot project of government procurement, there have been four main development stages. Currently we are in the stage of comprehensive promotion.

First Stage (from 1996 to 1998): start-up stage of pilot projects. Research on government procurement of public services is put on the agenda in 1996. At the same time, Shanghai Civil Affairs Bureau started its pilot projects of government procurement.

Second Stage (from July of 1998 to June of 2000): scale-up stage of pilot projects. Shenzhen Municipal People’s Congress promulgated the first local regulation on government procurement, Regulations of Shenzhen Special Economic Zone on Government Procurement. After that, PRC’s Ministry of Finance promulgated Provisional Regulation on the Procedure of Government Procurement, the first national regulation on government procurement in April of 1999. Till 2000, a majority of local governments had promulgated regulations on government procurement; the government procurement law was on legislative agenda of the National People’s Congress; relevant organizations of government procurement were established and improved; the scope and scale of government procurement increased at a rapid rate.
Third Stage (from June of 2000 to December of 2002): transforming stage from piloting to comprehensive promotion. This stage is featured by the standardization construction. On June 29, 2002, the National People's Congress approved Government Procurement Law of People's Republic of PRC.

Fourth Stage (from January of 2003 till now): developing stage to normalization and legalization. Based on the enlargement of government procurement, PRC's Ministry of Finance started the procedure of applying to be one party of the Agreement of Government Procurement in WTO in 2007.

4.2 Innovation has been made in government procurement of public services at the local level

As early as 1995, the government of Shanghai Pudong New Area started exploration in new models of government procurement of public services. Pudong Social Development Bureau entrusted Shanghai Young Men's Christian Association with the management of Luoshan Citizen's Club, which was called “Luoshan Citizen's Club Model”. This is the earliest attempt by the Chinese government to purchase public services from non-profit organizations by means of authorization, which is quite different from the mechanism that the provision and management of public services are conducted by the government itself.

Since 2003, more and more efforts have been made in the exploration of government procurement of public services from non-profit organizations in Shanghai, Beijing, Wuxi and some cities in Zhejiang and Guangdong Province. The procurement involves education, public health and AIDS prevention and treatment, poverty alleviation, elderly and handicapped service, community development, community correction, culture, urban planning, citizenship education, environmental protection, policy consultation, and so on.

On December 19, 2005, the “pilot project of village poverty alleviation program co-implemented by NGOs and the government” was launched in Beijing by the State Council Leading Office of Poverty Alleviation and Development, Asian Development Bank, Jiangxi Poverty Alleviation and Development Office and PRC Foundation for Poverty Alleviation. It was the first time for Chinese government to try to purchase public services through standard bidding process, which marks the beginning of normalization of the government procurement of services.
4.3 Government Procurement of public services has gradually been put on the policy agenda

At the national level, the *Development-oriented Poverty Reduction Program for Rural PRC (2001-2010)* in line with the basic principles of poverty alleviation work in the eleventh five year plan encourages the intermediaries and social organizations to carry out poverty alleviation projects. In 2002, social mobilization program of national AIDS prevention and treatment set up special funds to support social organizations to participate in AIDS prevention and treatment by means of annual bidding. In 2006, Ministry of Finance, NDRC and Ministry of Health issued *Opinion on policy of urban community health service allowance* to provide guidance for the pilot project of government procurement of urban community public health services. *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* by the General Office of the State Council pointed out that the institution of government procurement of services from industry associations shall be established, and the government shall pay for those services by funds included in the budget. All the above illustrates that the government is considering the participation of social organizations in public service provision funded by fiscal capital.

At the local level, in 2005, Shanghai Pudong New Area government promulgated Opinions on Fiscal Support of the Development of Social Work in Pudong New Area, Guidance of Focusing on the Transformation of Government Functions and Establishment of a New Type of Cooperation between Governments and Social Organizations, Opinions on Promoting the Development of the Nongovernmental Organizations, and Opinions on Government Procurement of Public Services (for Trial) in succession. In 2008, Jing’an Civil Affairs Bureau and Jing’an Finance Bureau co-issued Rules on Qualification of Social Organizations in Jing’an District to Conduct Projects of Government Procurement (New) of Public Services which regulates the process, evaluation and standards of services procurement. In 2005, Wuxi Municipal Committee of CPC issued the Guidance of Government Procurement of Public Services (Trial) stipulated by Wuxi Reform Work Leading Panel Public Financial System Reform Office, which puts forward the public services provision models of government funded, targeted authorization, contract-based management and evaluation and encourages the government to entrust non-profit organization with public services. In 2006, Ningbo Finance Bureau issued the Opinions on Promoting the Development of Government Procurement of Public Services, which covers education, science, culture and social security.
5. Main problems in government procurement of public services in PRC.

5.1 Institutionally, procurement of public services has not been incorporated into the scope of government procurement, and there is a lack of relevant laws and regulations.

The Government Procurement Law of People’s Republic of PRC was put into effect in 2003, and the scope of government procurement was released after that. Though the scope of procurement stipulated in Government Procurement Law includes commodities, projects and services, services involved in the scope of procurement are limited to logistics services of the government, with wider and more important public services not included. Some innovation has been made locally, but the institutionalization of public services shall depend on the improvement of laws or regulations on government procurement and relevant financial system.

5.2 The development of procurement of public services still has a long way to go, with small amount of capital for procurement, a narrow scope of procurement and limited procurement objects.

1) Small amount of capital for procurement. The procurement of public services is still in the primary stage, either in eastern regions with developed economy or in central and western regions with less-developed economy. The scale of government procurement of public services is still limited.

2) Limited procurement scope, with little procurement of predominant public services. Procurement of public services in PRC mainly concerns elderly services, social services and services provided to exercise some functions of government departments. The procurement of public services is rarely seen in such predominant fields as public health, education and culture. Internationally, government procurement of public services acts as one of the main capital sources for non-profit organizations, which accounts for about 40% of total average income of NPOs. Public funds invested in such social welfare fields as health and medical care, education and social services take the predominant position in the income of non-profit organizations.

3) Limited procurement objects, most of which are public institutions or organizations established by the government. Many government procurement services are directly entrusted
to affiliated non-profit organizations or organizations established and managed by the government, so as to exercise certain functions of the government. There is a lack of open and equal competitive procurement.

5.3 Independent competitive procurement still needs to be improved in the procurement model.

In accordance with the definition of procurement of public services, procurement of services should meet the necessary conditions of definite public service target and independent contract parties, following the general principle of open and equal tendering. The procurement can be divided into independent procurement and non-independent procurement according to the relationship of procurement entities, and competitive procurement and non-competitive procurement according to the procurement process. Figure 1 below shows the models of government procurement.

**Figure 1  Models of government procurement of public service in PRC**

![Diagram of government procurement models]

Non-independent procurement mainly refers to the procurement which is funded by projects or other resources and performed by the government and its affiliated non-profit organizations to exercise certain functions of the government regarding service and management. The procurement under this model can be referred to as formalized procurement as the services purchased by the government from non-profit organizations is neither independent nor contract-based. This model is common in PRC. Independent procurement meeting the requirements of definite public service target, independent subject and contract-based relationship shall be further developed.
5.4 In procedure, procurement of public services lack of normative process, public capital information and general principle of open competition, and rely too much on internal supervision.

1) The budget of procurement of public services is not open to the public. In western countries where government procurement of public services has been exercised for a long time, the government publishes budget of public services to the public, and non-profit organizations can compete for appropriation from the government by open tendering and provide services in accordance with the requirements of the government. In PRC, the budget of government procurement has already been included in the budget plan prepared by various levels of government departments, but it is not open to the public. In this case, it is hard for non-profit organizations to understand government's demands in procurement of public services, which puts the NPOs in a disadvantageous position to compete for the public services project that the government is going to procure.

2) There is lack of normative process and general principle of public competition for government procurement of public services. According to international practice, open bidding is normally required for government procurement. One of the reasons why few competitive procurement characterized by open bidding was exercised in PRC is that non-profit organizations in PRC is short in quantity and competitive market is insufficient. The other reason is that laws and institutions related to equal and open competitive bidding still are not established.

3) The supervision and management regarding government procurement of public services are not normative, giving priority to internal supervision. On one hand, independent third-party supervision and management mechanism should be attached most importance to, as professional acknowledge is needed to determine the return of capital and price, account cost, and set up quality standards for public services. In addition, due to the information asymmetry among operator, consumer and supervisor, independent supervision institutions can evaluate the authenticity of the information and ensure equity of competition. On the other hand, some local governments are keen on boosting the marketization of public service provision. They possess privileges on examination, service price and service quality such as operation concession during the process of procurement of public services. Thus it is easy to breed corruption due to lack of external supervision.

5.5 Non-independent and unequal statues among different procurement entities, government leading process, low-cost procurement and authority interference

On the one side, due to the lack of normative process, procurement objects that the government
purchases services from are mainly organizations affiliated with the government. That is to say, procurement entities are not independent, so it is hard to form contract-based relationship which can make the most advantage of service procurement. On the other side, as the government occupies a dominant position in the process of procurement, the government might purchase services from non-profit organizations by lower cost under the condition of lack of regulations. Meanwhile the government can take advantage of its power to help non-profit organizations to operate in profitable markets, and the loss can be filled up by monopoly operation. Though this practice can keep the operation in balance if there is only a single procurement object, market order might be interfered and other problems such as regulation violation, monopolization and under-the-counter operation can be raised.

5.6 In policy coordination, there is lack of relevant supporting policies and the coordination among government departments. Other problems include target overlap in procurement of different departments, policy uniformity, lack of counterpart funds for the development of the organization and lack of relevant laws on supporting NGOs.

1) Target overlap in procurement of different departments. It is observed from the investigation regarding Sunshine Project in Nantong that the objective and capital in different sectors involved in public services are crossed more or less. For example, the training funded by Sunshine Project is conducted by the Ministry of Agriculture, while job training for farm labor looking for urban employment is conducted by the Ministry of Labor and Social Security. The multi-management caused by crossed objective and capital can reduce the efficiency of public service provision.

2) Policy Uniformity. Let us take Sunshine Project as an example. The training allowance is distributed averagely, no matter whether local economic level is high or not. In regions with developed economy, high-technological training is required, so the allowance can not play the role of incentive; in regions with less-developed economy, farmers can not afford the remaining cost for training which is not covered by the allowance, so they can not receive the training though they might be willing to learn certain technology. The anticipatory goal in two regions might not be achieved due to the uniformed policy.

3) Lack of counterpart funds for the development of organizations. Different from enterprises, non-profit organizations can not always support themselves by making profits. In many foreign countries, apart from result-oriented service procurement, the government sets up special funds to promote the development of non-profit organizations. In PRC, there is lack of the consideration for
the long-term and sustainable development of non-profit organizations and supporting funds for the development of organizations.

4) Lack of laws on supporting NGOs. In most countries, non-profit organization is closely connected with tax free. The non-profit organization registered in Britain and America is also called tax-free organization. The management of non-profit organizations in PRC is mainly political management. Non-profit organizations are nothing to do with preferential tax treatment. The development of the management of non-profit organizations should follow the direction of freedom of association and tax-free registration.

6. The main principles of Chinese government to develop the procurement of public services

6.1 Boosting contract-based public services by means of government procurement

Government procurement of public services is a mechanism that social organizations are contracted to provide specific public services with funds from the government, which is one of the major models of public services provision and also a new international trend since the 1980s. The procurement of public services shifts the role of the government from a direct user of financial funds to an indirect supervisor, the essence of which is contract-based public services provision. Compared to direct services provision by the government, the advantages of procurement of public services are as follows: remedy the limitation of the bureaucratic government in meeting public services demand; improve the quality and efficiency of public services; promote the transformation of governmental function based on “small government, big society”; enhance the equalization of public services, and so on. Thus, it is of significance for the construction of Chinese public services system and governmental function transformation to strengthen the idea of procurement of public services.

6.2 Establishing procurement mechanisms in public services field with financial funds

International data show most public services can be purchased, among which education, health, social welfare service, culture are the most important targets of procurement. The procurement of
public services from non-profit organizations is the first defensive line of social welfare.

In PRC, the procurement of public services is still not an official form of expense of fiscal funds; it is explored in some fields and regions. Currently, the procurement of public services should serve as a main approach of public services provision supported by financial funds. The procurement mechanisms and the procurement process should be established, and the procurement of public services should be one of the official channels for the expense of financial funds. The following fields have been put into practice.

1) Elderly services: elderly service is a field in which government procurement has been conducted for a long time; it is also a field with a lot of practice and the presence of private services institutions. The qualification of service institutions can be determined through open bidding. On this basis, purchase of services and quality control of elderly services can be conducted by means of providing subsidies to bed space or by other means; for home elderly services, the qualification of services institutions or service teams can also be determined by open bidding. The labor services can be purchased by purchase coupons. The equality between public elderly services organizations and private organizations should be emphasized in the purchase of elderly services. Instead of directly organizing elderly services organizations, the government should provide elderly services through by means of procurement or funds, so that financial resources can be equally and openly put into elderly services.

2) Handicapped services: Private organizations are also active in the procurement of handicapped services. Similar to elderly services, handicapped services should be developed from the welfare factory model to the government procurement model.

3) Poverty alleviation services: The pilot project of competitive procurement of poverty alleviation services provided by social organizations in Jiangxi Province has accumulated relevant experience and created a good model for other provinces to learn about. The procurement of poverty alleviation services by poverty alleviation funds is a feasible method to promote the involvement and development of local social organizations, and sustainable development.

4) Education services: Sunshine project is the procurement of training services by means of training coupons supported by financial funds. Similarly, other vocational training, special education and even foundational education can also be purchased by financial funds on the basis of contract, which could change the situation that the government is solely and directly involved in the cause of education.

5) Public health services: Public health services, including AIDS prevention and control, epidemic
6) Urban planning: environmental evaluation and other policy consulting services. Along with the development of private-sector think tanks and research institutions including some professional research institutions, the procurement of services could raise the involvement in policy-making and the independence of policy research, and improve the ability to make scientific decisions.

7) Private sectors can play their roles in such areas as cultural heritage protection, natural resources protection, water resources protection, environmental protection, community development. The utilization efficiency of fiscal funds can be improved on the basis of combination of services procurement by fiscal funds and services delivered by civil charity organizations and social enterprises.

The procurement of public services is not limited to the above aspects. It is of great importance for fiscal funds to formulate procurement procedures, so as to boost procurement of public services in all fields.

6.3 The local government is the major player in public services, and the central government is responsible for payments transfer and regulation

During the process of government procurement of public services, in theory, the central government should purchase nationwide public services, and the local government should purchase local public services. Apart from the procurement of nationwide public services, the central government still takes responsibilities for transfer payments and legal rules. The detailed responsibilities that the central government takes in the procurement of public services are shown as follows:

Firstly, the responsibilities of central government and local government in the procurement of public services should be clearly divided. In other words, business power and financial power between the central government and the local government should be reasonably divided, so as to reach the optimal allocation of public resources. For example, such nationwide public services as nine-year compulsory education, primary health care services in rural areas and farm labors training can be purchased by the central government; while such local public services as vocational education and training, community correction and special education should be purchased by the local government.
Secondly, the central government should establish and improve laws and regulations related to the procurement of public services, and standardize procurement procedures. By means of laws and regulations, the central government could set up fundamental principles and standards of government procurement of public services regarding service quality, technology, price, and so on, which is the basis of government expenditure. The standards should be adjusted in accordance with the objective circumstances. Besides, the central government should formulate laws and preferential policies related to social organizations.

Thirdly, apart from resources allocation by means of transfer payment to local government, the central government also directly purchases public services which should be provided by the government itself. Departments of central government procure these kinds of public services from non-profit organizations or for-profit organizations.

The local government is mainly in charge of procurement of local public services, which can be divided into two parts.

Firstly, the local government should organize and purchase local public services. The local government should determine the category and quantity of local public services according to local demand, and strictly follow the modes of the procurement of public services stipulated by central government and relevant regulations and policies. The public service providers should also be selected in accordance with the law.

Secondly, the local government should supervise and manage local public service providers. Local government is responsible for the supervision of the quality and quantity of public services purchased. Due to the information asymmetry, the local government needs to depend on the cooperation with the public, the media, intermediaries and experts when supervising public services.

6.4 Improving open, transparent and standardized procurement process of public services and developing diversified procurement mechanisms

It is necessary to establish and perfect the financial procedures for government procurement of public services, and standardize procurement processes regarding bid invitation and bidding, inquiry, and some other operation processes.

The government should make the budget of procurement of public services to provide effective financial guarantees for the development of public services; the budget of government procurement
should be accessible to the public, and the transparency of procurement budget should be improved. After the publication of procurement budget, the procurement processes of public services should include the following five phases: firstly, services providing sectors (public sectors of government) submit the budget plan of the year to the financial sectors; secondly, financial sectors review and approve the budget plan, then return it to the services providing sectors; thirdly, services providing sectors entrust the procurement of services to the procurement centre; fourthly, in accordance with the *Government Procurement Law*, the procurement centre purchases services by means of open bidding. If the condition does not allow an open bidding to be conducted, such procurement models as invitation bidding, competitive bidding and single source purchase can be adopted; fifthly, services providing sectors should monitor the quality and quantity of these services, and financial sectors should supervise the effectiveness of the utilization efficiency of fiscal funds. Figure 2 shows the general processes of government procurement of public services.

**Figure 2** The processes of government procurement of public services

6.5 Establishing diversified and professional supervision mechanisms and ensuring the legal expenditure of public finance

Supervision is the institutional guarantee for the procurement of public services. The supervision over government procurement of public services can be divided into internal supervision and external supervision.

First of all, independent, professional and diversified external supervision mechanisms should be developed. External supervision includes the following aspects: the first aspect is the independent
third-party supervision institutions. The third-party supervision institutions such as accounting firms, law firms, audit firms and professional investigation agencies have two advantages when monitoring government procurement of services: on the one hand, the independent third-party supervision institutions can ensure the objectivity and fairness of the supervision. Compared with the supervision by the general public and the media, supervision provided by the independent third-party institutions is more professional and objective. On the other hand, the third-party supervision institutions have expertise and ensure that the supervision is conducted on a specialized and scientific basis.

The second aspect is the supervision by the general public and the media. The supervision conducted by the public directly reflects the results of government procurement of public services. The media provides a very good platform and channel for the supervision of the public. The general public usually turns to two channels for complaint, namely the higher authorities in charge and the media.

The third aspect is the expert supervision mechanism. The expert can participate in the government's evaluation process by conducting independent and professional assessment or joining the evaluation discussion.

The internal supervision of government procurement of public services can be divided into two aspects. The first aspect is the supervision on procurement funds conducted by financial sectors; the second aspect is the supervision on the quality and quantity of services conducted by service procurement sectors. The supervision on funds is normally carried out by supervision and management bureau under financial sectors, and the supervision on the quality and quantity of services is conducted by government procurement sectors. Currently, the supervision on performance evaluation is a popular model, the core of which is the establishment of performance evaluation system.

The performance evaluation system regarding government procurement of public services is twofold. One is the efficiency evaluation system which evaluates the efficiency of government procurement of services by means of determining whether lowest fiscal funds are spent on specific services, or more public services are procured at the same cost. The other is the result assessment system which evaluates the satisfaction on public services to measure the results of government procurement of public services.
6.6 Refining the rules on procurement of public services in the *Detailed Rules for Implementation of Government Procurement Law*

The *Government Procurement Law of People’s Republic of PRC* was put into effect in 2003. Public services, as an important objective of government procurement, are still not covered by the law and the detailed rules for implementation of that law. Internationally, public services have been one of the most important objectives of government procurement for a long time. There is a trend that the scope of public services and the cooperation between the government and the social organizations continuously expand. In order to meet the demands of construction of PRC’s public services system and the requirements of government functional migration, it is necessary for the relevant government departments to change thoughts, establish procurement mechanism of public services, and improve the process of the procurement of public services by public fiscal funds.

First of all, public services should be clearly selected into the catalogue of government procurement. Secondly, the contract-based mechanism featured by well-defined power and responsibility, clear procurement targets and objective management should be established, so that non-profit organizations can participate in services procurement as an independent decision-maker, and contract-based services can be delivered. Thirdly, open, equal and competitive procedures of bid invitation should be guaranteed. Especially for procurement whose amount is above a certain level, the *Government Procurement Law* should be strictly followed, and open bidding should be adopted. Fourthly, the policy-making procedure and the procurement process should be improved and standardized, which includes earlier consultation, the balance of effective information, reasonable estimation of costs, the third-party supervision, and so on. The procurement of public services and the procurement benefit can be promoted by perfecting the procurement procedures.

6.7 Boosting the procurement of public services at different levels such as the establishment of contract, introduction of competition and improvement of procedure based on local practices

Before the procurement of public services is brought into the unified procurement catalogue in financial system, local innovation provides useful experience for the development of service procurement.

There are three different models in the practice of local government procurement of services.
1) Competitive Procurement: it is a typical model of procurement of public services, which can meet the requirements of independent parties of the contract, explicit procurement target, selective and competitive market and the open tendering process. There are few examples of this model in PRC, one of which is "pilot project of village poverty alleviation planning conducted by the cooperation between NGOs and the government" in Jiangxi province. In addition, there is also non-typical competitive procurement. Although the non-typical model meets the three requirements, it belongs to the internal decision-making competition since there is no open tendering procedure. The purchase of community psychological correction services by Beijing Dongcheng Justice Bureau from Beijing Huizeren Consultancy Services Centre belongs to the non-typical model.

2) Non-Competitive Procurement: this model meets the requirements of independent parties of the contract and clear procurement targets; since the procurement policy is established by the government and service providers are selected by the government through non-competitive procurement process, the contractual relationship between them can either be clear or unclear. The case of Shanghai Luoshan Resident Clubhouse is a good illustration of this model.

3) Formalized Procurement: this model meets none of the three requirements, namely independent parties of the contract, explicit procurement target, selective and competitive market and open tendering process. For example, the government can establish a "civil organization" supported by relevant resources to take some responsibilities of the government. The unclearly-defined power and responsibility may cause troubles and supervision flaws when public funds are transferred.

In the future, one-off procurement of some public services may not be possible, thus it is helpful to promote the standardization and development of services procurement according to different situations of varied public services. For competitive procurement, details of the procurement should be further improved, in view of such issues as the long-term mechanism, cost accounting, evaluation localization, and participation in the negotiation during the process of policy making; for non-competitive procurement, great effort should be made to establish open and equal procedures and upgrade the model to the competitive procurement model; for formalized procurement, it is of utmost importance to establish contractual relationship and to turn this relationship into the purchase relationship featured by explicit targets, well-defined power and responsibility and independent subjects.
6.8 Promoting the development of non-profit organizations and creating policy environment for their participation in the procurement

Non-profit organizations are the main subjects of procurement of public services, and the development of non-profit organizations is based on the contractual relationship.

To promote the development of non-profit organizations, first and foremost, we need to create an open legislative and policy environment under which non-profit organizations’ legal positions can be ensured. At present, non-profit organizations exist in various legal patterns; for example, some are registered as social organizations, some as enterprises, and some even do not have legal positions. Although the recording system has been experimented in community & civil organizations in some localities, most social organizations still do not have official legal positions. These organizations may encounter restrictions when participating in the procurement of services. The procurement of public services with public funds should be based on the breakthrough in legal positions, standardized organization behavior and the broad social organization market.

7. Policy recommendation

Given the development of non-profit organizations, we need to create policy environment which is favorable to the non-profit organization’s participation in the procurement of public services, so as to establish the procurement mechanism of public services. We have the following 6 recommendations for the improvement of existing policies.

**Firstly, add the public service procurement into the range of government procurement.** There is already a law regarding the government procurement in PRC, and the procurement process is gradually being standardized. Further breakthroughs can be made in extending the range of services stipulated in the *Government Procurement Law of People’s Republic of PRC* from those services accepted by administrative institutions to public services. Regulations on procurement of public services should be refined so as to ensure the independence of services providing entities, guarantee open, equal and competitive bidding procedure, promote the early participation in policy-making, the balance of effective information, reasonable cost estimation and localization of the evaluation, strengthen the third party supervision mechanism, and develop long-term contracts.
Secondly, further improve the open, transparent and standardized procurement procedure of public services. It is necessary to establish and improve financial procedures, enhance the transparency of procurement budget, and formulate relevant management measures, so as to standardize government procurement of public services. The procurement procedures consists of five phase: the services providing department formulates budget for the services for the year; financial department approves the budget; the services providing department entrusts the procurement of services to the procurement centre; the services providing department authorizes procurement centre; the procurement centre purchases services by eligible means such as open tendering or selective bidding stipulated in the *Government Procurement Law*; the performance of procurement is evaluated.

Thirdly, take non-profit organizations as an important participator in the governmental procurement. At present, the main participants of governmental procurement are enterprises. The non-profit organizations’ participation is often neglected. Along with the extension of procurement of public services, non-profit organizations should be taken as subjects of the procurement of public services to enhance the formation of a wider market of social services.

Fourthly, provide more equal policies for non-profit organizations for their competition in the procurement of public services. The non-profit organizations are still in the weak stage, and there is a long-standing tradition that services institutions and public institutions are always sponsored by the government; in the field of public services, public institutions, which act as enterprises in the process of the socialization of public services, possess a lot of public and market resources, while non-profit organizations have to struggle for survival. The procurement of public services neither means that the specific public institutions are operated by the fixed appropriation granted by the government, nor the public resources are withdrawn from the field of public services. It should be on the basis of the guarantee of public resources, and oriented toward societal needs for open and equal competition to improve the service efficiency of public resource. In the transformation stage, as the public institutions with financial support are in an unequal position with non-profit organizations with fully social operation in terms of operational cost, policy tendency, and so on, full attention should be paid to the equality between institutions sponsored by the government and civil non-profit organizations. It is necessary to provide more equal policy environment for civil non-profit organizations in the procurement of services. In light of the socialization of the demand for public services and the complexity of services evaluation, it is helpful for different kinds of non-profit organizations to participate in the development of public service policies as early as possible, especially those concerning the procurement of public services, and negotiate on the potential issues in order to develop realistic and equal policies.
Fifthly, evaluate public service providers not only by their prices, but also by services quality and participatory mechanism. The procurement of public services is more complicated than the purchase of goods. For example, the result of poverty alleviation services is not only the road built and the increase of average income, but also the improvement of the involvement, awareness and self-development ability of villagers. Therefore, the evaluation factors which can reflect service characteristics of non-profit organizations should be brought into the policies regarding the procurement of public services as the requirements to select service providers and evaluate services quality. The evaluation factor of lowest price can put non-profit organizations in disadvantageous position in the competition with enterprises, which ignores the service characteristics of non-profit organizations.

Sixthly, support the development of social organizations while boosting procurement services. Much attention is given to the accomplishment of ongoing task in government procurement of public services; however it is also essential to support the achievement of long-term objectives and capacity building of social organizations, in order to develop long-term contractual relationship. As procurement service normally is open to the market for equal competition, non-profit social organizations can compete with for-profit organizations with equal qualification. Apart from procurement funds, many countries set up special grants to support the capacity building of social organizations for the preparation of service delivery in the future.
Case study 1: the “Sunshine Project” of job training for farm laborers looking for urban employment—illustrated by the case of Nantong, Jiangsu Province

Since 2004, the Ministry of Agriculture, the Ministry of Finance, the Ministry of Education, the Ministry of Science and Technology and the Ministry of Housing and Urban-Rural Development has co-organized and implemented the “Sunshine Project with Job Training for Farm Laborers Looking for Urban Employment”(referred to as “Sunshine Project”). Government accredited public and private training organizations provide training services and receive financial support from the government. In the past three years, the central government has arranged 1.25 billion RMB for the training for 8.6 million farm laborers, of which 7.40 million have found urban employment, with the transfer rate of 86%.

There are three kinds of training systems. The first is the designated training system. The government appoints qualified schools or training organizations with favorable conditions in locations, facilities, and teachers as the designated training institutions. The second is the bid-determined training system, by which the government chooses training organizations. The third one is the training coupon system. Farm laborers can choose one training organization by themselves through spending the training coupon from the government; and training organizations exchange training coupons into financial capital. Since 2006, the training coupon system, which concerns subsidies to job training for farm laborers looking for urban employment, has been put into practice; and farm laborers’ options for training was greatly increased. The amount of subsidy was 200 RMB/person before 2007; after 2007, it was increased to 350 RMB/person, of which the provincial government is responsible for 300 RMB, and the county (municipal) government for 50 RMB.

Supervision mechanism: labor employment management institutions at all levels are in charge of supervising and managing the designated training organizations. After training organizations submit the rosters of trainees, such government departments as the employment department and the financial department verify the information by means of spot check, field interview and telephone interview. The training budget is allocated to the account of those designated organizations after the confirmation of relevant information.

Problems are as follows: Firstly, the amount of subsidy is relatively low. It may cost a farm laborer hundreds or even thousands of RMB to master a technique. The training coupon is far from enough for the study of advanced techniques. The role of government subsidies in motivating the study of
advanced techniques is quite limited. Secondly, the scope of techniques that the training program
provides is relatively narrow. The techniques eagerly required by the farm laborers are not covered
by the training. Thirdly, the sources of trainees are unbalanced. Due to the shortage of labors, fewer
farmers in regions with high level of economic development attend the training, compared to that
in regions with low level of economic development. Fourthly, department functions and capital are
overlapped, and there is a lack of unified assessment standards. For example, trouble may be caused
for the work of basic-level training management sectors, as different governmental departments, such
as labor department, agricultural department, financial department and poverty alleviation department,
release different tasks with overlapping targets. Fifthly, the assessment is not independent. Normally
there are two types of assessment: top-down assessment and self-assessment. And the assessment
lacks the participation of independent third-party evaluation institutions. Sixthly, service procurement
does not include the support for the training organizations. The cost of training supervision and
assessment of these training institutions is not considered, which goes against with the long-term
development of the training organization.
Case study 2: procurement of public health services in Wuxi—illustrated by the case of contact-based tuberculosis prevention and treatment services provided by the private Anguo Hospital

The tuberculosis prevention and treatment used to be a thorny problem for the disease control and prevention system in Wuxi. It is not only because of the losses in economy, but also the low prevention and control indicators. In 2004, the practice of entrusting private Anguo Hospital with the services of tuberculosis prevention and treatment in Yuncheng, Shanxi Province was introduced to Wuxi after the responsible officer of the health department in Wuxi learned about the experience in Yuncheng; and Wuxi Anguo Tuberculosis Hospital of Traditional Chinese and Western Medicine was established. The operation of Anguo Hospital is based on the utilization of fixed assets and in the form of government procurement of services. The management of services procurement is regulated by the Tuberculosis Prevention and Treatment Contract signed by Wuxi Health Bureau (Party A), Wuxi Anguo Tuberculosis Hospital (Party B), and Wuxi Infectious Disease Hospital (Party C).

The roles that different parties play in this procurement are as follows. In accordance with the tuberculosis prevention and treatment requirements stipulated by the central government, some examination such as the sputum culture, X-ray, hepatic function and therapeutic medicine are free of charge; Wuxi Health Bureau, as the trustor, is responsible for formulating services tasks, determining the amount of subsidy, and supervising task implementation and budget usage; Anguo Hospital, as a municipal medical institution for tuberculosis diagnosis and treatment, carries out tuberculosis prevention and treatment in the whole city; Wuxi Infectious Disease Hospital guides, monitors and evaluates the services. In addition, Chinese Centre of Disease Control and Prevention (CDC), which used to fulfill the function of tuberculosis diagnosis and treatment in the traditional model, now plays a role as technical director in the Wuxi model.

Operation of funds and procurement accounting: The government procurement consists of seven parts, namely tuberculosis examination and treatment, diagnosis and treatment of multi-drug resistant tuberculosis patients, drug resistant surveillance for tuberculosis patients, rescue of patients in poverty, tuberculosis patients tracking, professional training, and publicity and education. The standard of single task or the amount of subsidy for one specific task is determined, and the services are paid according to the workload.
Evaluation and performance: The funds are allocated quarterly based on the result of evaluation conducted at the end of each quarter. The evaluation, co-organized by Wuxi Health Bureau and relevant financial department, is conducted in accordance with the indicators released by the Ministry of Health. There are nine detailed indicators assessed for quality control and financial examination, namely organizational administration, case finding, disease report and management, free examination and treatment, reexamination of sputum culture, recovery rate, special network report on tuberculosis, feedback of the information on tuberculosis patients and healthy education.

The tuberculosis was effectively controlled in Wuxi by the year when Anguo Hospital was introduced into the tuberculosis prevention and treatment field. Two years later, the referral rate reached 100%, and the recovery rate was 89.2%. The ranking of tuberculosis prevention and treatment work in Wuxi soared to the third from the next-to-last among in Jiangsu Province.

Problem and dilemma: Firstly, due to limited capital input, the government procures public services provided by non-profit organization at below-cost price. The fact that government procurement is counted by estimated cost, not by market price, was the main reason why the public hospital providing tuberculosis prevention and treatment services kept suffering a loss. Anguo Hospital is delivering tuberculosis prevention and treatment services at below-cost price. This model can only work when non-profit organizations are on policy disadvantageous status and require authorization from the government. In the long run, this model needs to be improved. Such problems in services procurement as equal negotiation and reasonable cost valuation should be further explored. Secondly, special conditions are attached to services procurement, and contradictions are caused by the unclear definition of rights and responsibilities. For example, Anguo Hospital also has a responsibility of providing jobs for staff members who used to work in the state owned hospitals. The employment and remuneration of these staff members have to be ensured, regardless of market fluctuations. Since the definition of rights and responsibilities is not very clear, the relationship between Anguo Hospital and state owned infectious disease hospitals is always not good, which has a negative impact on the flexibility of the private mechanism.

Wuxi Health Bureau purchases tuberculosis prevention and treatment services from Anguo Hospital. In the above case, the scope of services procurement is public health service which is one of the main public service functions of the government. The procurement targets are clear, and the independent non-profit organizations provide these public health services. Meanwhile, the government procurement of public health services has a standardized procedure, financial process and evaluation mechanism, which makes the practice in Wuxi significant in terms of institutional innovation. Such problems as
below-cost procurement and administrative intervention demonstrate that equality between contract parties in government procurement of public services needs to be improved.