

Non-profit Sector and Charity Financing: Mapping the Field

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Abstract

The issue of charitable giving has been central to the interest of researchers in the international field for several decades. Charitable giving is closely connected with economic policy and directly affects issues within civil society with regards to the financing of the third sector (non-profit organizations).

The objective of this paper is to carry out a critical exploration of the facts based on a review of theories and data sources relating to charitable giving, as well as the volume and structure thereof. The search for and submission of appropriate explanatory paradigms enables the subject of charitable giving to be conceptually anchored, which in turn enables us to determine a theoretically grounded set of variables for it. Following on from these intellectual developments in the given area, this paper maps the current state of empirical knowledge in the Czech Republic.

Keywords: Charity, Czech Republic, economic value, giving, non-profit sector, philanthropy.

Introduction

The terms philanthropy, charitable giving or charity are not only relevant to the non-profit sector. What is interesting about these terms is that they are inherently cross-cutting themes. According to Lloyd (2004), philanthropy is essentially a mechanism through which people can express their humanitarian impulses and confirm their membership in the larger society.

The topic of charitable giving is inseparably linked with the idea of doing good for others, without entitlement to remuneration or profit (Frič, 2001). In parallel with the development of philanthropy (and the part of the non-profit sector which can be perceived as its representation), the relationship of government bodies to philanthropy has been developing as well. This relationship can be termed as a “partnership”, although the form of this partnership depends on the specific conditions of the respective country. Both sides need each other and are dependent on the activities of their counterparts. However, the non-profit sector in this spirit cannot be understood to be a derivative of the market or the State. This is because altruism historically preceded the existence of the market, and organized philanthropy preceded state interventions (Salamon, 1987).

To a great extent the topic of this paper predetermines the selection of the appropriate methods. They are in particular general scientific methods including the descriptive method, which allows to quantify exploratory findings, and the method of content analysis of relevant documents and professional literature, and their subsequent synthesis. The theoretical and methodological backgrounds of the researched issues are put to an analysis and synthesis. To detect and identify the possible variables affecting charitable giving, the triangulation method (a combination of different methods/data sources to obtain the greatest possible quantity of perspectives) and historiographic analysis of sources were used. This procedure was chosen due to the interdisciplinary nature of the topic.

Interdisciplinary Approaches Justifying the Existence of Charitable Giving

Today, the neo-classical paradigm of rationality represents the prevailing direction of economic teachings. However, it can be argued that this concept fails to satisfactorily explain the whole range of an individual's behaviour in a society. From the perspective of this paper, such behaviour finds expression in charitable giving when individuals give away a part of their resources for the benefit of someone else. Significant disparities can be observed between actually observed and theoretically expected behaviours, in particular with regards to philanthropic behaviour (e.g. Melzochová, 2013; Horký, 2011).

Economists and sociologists alike (e.g. Simon, 1986; Wilson, 1993; Etzioni, 1995) have been posing questions for several decades about what makes altruism possible and what is the motivation for altruistic behaviour. According to neoclassical economics, rational behaviour was incorporated in the concept of "homo oeconomicus". This concept facilitated mathematical modelling, but failed to adequately describe reality. An alternative point of view is that it became apparent that it was inappropriate for capturing some "irrational" aspects.

Although every model requires a certain degree of abstraction, simplification had gradually reached a degree whereby theoretical explanations significantly moved away from actual human behaviour. Since the mid-20th century, the neoclassical paradigm has been shaken up as a result of a cognitive revolution. The paradigm of subjective rationality is seen as the total concept of all behavioral criticisms. According to Boudon (In: Simon (1986, p. 123)), it can be concluded that: "*subjectively rational behaviour is such that it is in accordance with current motivation (in the context of the situation).*" Subjectively rational individuals therefore make decisions that fulfil their needs, needs that vary from person to person.

In reviewing the theories, three dominant theoretical models prevail which attempt to explain the causes of charitable giving. These are:

- 1) prosocial preferences;
- 2) pure altruism;
- 3) impure altruism.

Under *prosocial preferences* the benefit to an individual directly depends on the benefit to other people i.e. people's utility functions are interdependent. In contrast, the model of *pure altruism* assumes that the needs of other people and their benefits enter the

utility function of the individual (Collard, 1979). People contribute to the public good (charity) because it gives them pleasure when others are doing well. Altruistic preferences are often used to explain a wide range of social behaviours: charitable giving, volunteering, etc. (Smith, 1995). The theory of pure altruism does not care about the source of the welfare of others. However, with respect to the aforementioned, the theory is subject to the problem of the crowding-out effect (Andreoni, 1988). Andreoni (1989) added the “warm-glow” motive to the model of pure altruism to create *impure altruism*. Under this model people do not only care about the benefit to others, but also get something in return for their prosocial behaviour. What the people receive in return is not goods (as is the case of models based on self-interest), but a satisfying internal feeling.

The core models, which can be applied to the interpretation of charitable giving in accordance with the economic apparatus, work with the level of benefit gained by the individual making charitable donations on the basis of selfish (egotistical) and unselfish (altruistic) motives. Charitable giving is based on various grounds, direct or indirect, overt or covert, and brings different benefits to the individual. Ziemek (2003) presents three basic benefits to the donor: altruistic benefits; personal benefits; and bartering benefits.

By using the definitions of these three benefits as the base upon which to build the following four micro-economic models it is possible to capture a donor’s decision-making process. In the Czech Republic, the models were studied by Hyánek (2011) and Špalek (2011), among others. The models and their underlying motives are listed in the following table.

Table 1: Models explaining the act of charitable giving

Model	Contribution	General motive
Public Goods Model	Altruistic benefits	To increase the supply of public goods
Private Consumption Model	Personal contribution	To take pleasure from the act of charitable giving, the "warm-glow" benefit
Investment Model	Bartering benefits	To gain experience, knowledge and contacts in the labour market
Impure Altruism Model	Altruistic/personal benefits	A combination of the first and the second models

Source: authors (*edited according to Ziemek (2003)*).

While the first three models represent comparative models and refer only to the benefit or motive specified in the table, the impure altruism model is a synthesis of the motives represented in the public goods model and the private consumption model. When interpreting charitable giving by means of a mix of different interests, the impure altruism model presents us the most realistic perspective on a donor’s decision-making principles.

Why do people give?

Many researchers have tried to answer the question of how to increase the share of funding of NGOs through private sources. The central question then is (Schervish, 2002; Bekkers and Wiepking 2010, Gittell and Tebaldi, 2006) which variables support or restrict charitable giving?

Contemporary literature on the factors that lead to charitable giving is extensive. The given variables are divided and classified differently. Although theoretical models of charitable giving work mostly with the question of what inner motives underpin a donor's behaviour, it is not possible to exclude extraneous variables - determinants from any empirical test. These determinants may influence some of the themes and it is therefore desirable to seek their mutual relations.

The following list, drawn up by the authors as part of their content analysis, represents those studies relating to the motives and determinants that were assessed to be the most important and most frequently tested: Becker, 1974; Collard, 1979; Andreoni, 1989; Wilson, 1993; Schervish, 2002; Lloyd, 2004; Carroll, 2005; Gittel and Tebaldi, 2006; Hewstome and Stroebe, 2006; Berger, 2006; Bekkers and Wiepking, 2010; James and Jones, 2007; Brown and Ferris, 2007; Bekkers and Schuyt, 2008; Wiepking and Maas, 2009; Snipes and Oswald, 2010; Showers et al., 2011; Andreoni and Payne, 2011; Michel and Rieunier, 2012; Marx and Carter, 2014. The motives and determinants are as follows: altruistic motives; selfish motives; affordability; tax policy; the size of the public sector; other economic variables: the number of children; household members; age; gender; education; socio-economic status; religious orientation; marital status; place of residence; models and experiences from people's youth; relations between the donor and the organization and the donor and the donee; and the nature of the situation.

Four research surveys were conducted in the Czech Republic on charitable donations made by individuals to NGOs: Frič (2001); Hladká and Šinkyříková (2009); Řežuchová (2011); Hladká (2015). All of them had a predetermined research objective and research questions, and were not a mere marketing probe lacking scientific potential. Hladká (2015) empirically tests all of the above mentioned factors affecting charitable giving. Furthermore, she tests the following set of motives with respect to *altruism*: empathy; affection; sympathy; compassion; solidarity; mercy; pity; respect; gratitude; social rules; faith in justice; conviction; social responsibility; moral obligation; and religious duty. The following were included among the *egoistic motives*: an opportunity to gain profit; rewards; desire for power; self-centeredness; acknowledgement; political influence; the feeling of irreplaceability; fear; worry; feeling good (warm-glow); reciprocity; conscience; desire for self-sacrifice; reputation; requital to society; and the need to belong. The conducted multiple linear regression analysis confirmed the statistical significance of the following factors: the level of income; repentance; faith in justice; relations with the organization and employees that received the donation; relationships to the ultimate beneficiary; and religious orientation.

How much do we give?

There are currently three large surveys that included multiple European countries and which cover questions on philanthropy (Gallup World Poll, European Social Survey and the Eurobarometer). In these surveys, the number of people that report giving donations to different causes varies. There are even large differences in the percentage of people that claim to give within a country. Describing the available data on a national level is the most important aim of the combined voluntary efforts of researchers who are part of ERNOP (European Research Network On Philanthropy). By using a standard template, 43 researchers from 23 countries were asked (May, 2015) to describe the available data sets on giving from all sources. What amounts are donated by households, corporations, foundations, charity lotteries and through bequests? The preliminary results show that data on household giving are the most widely available, but that there

is a lack of comparability with other data sets. Data on other sources is less widely available, and as a result any estimation of the amount given is assumed to be at the lower end of the scale. For some countries it is however possible to give a best estimate of the total size of the philanthropic sector. Furthermore, for many countries, national data is available for secondary analysis (ERNOP: Mapping the Current State of Giving Research in Europe).

In the Czech Republic, researchers (Hyánek, Hladká, et al.) used the data sources listed below. These sources are characterized by a sufficiently high level of reliability and representativeness for the purposes of this extensive research (processed by Prouzová in: Mapping the Current State of Giving Research in Europe: State of Giving Research in the Czech Republic as yet to be published by the Centre for Non-profit Sector Research):

1/ Satellite Account of Non-profit Institutions

Czech Statistical Office (CZSO) collects and presents macroeconomic data about the aggregate amounts of donations made by households to non-profit organisations. The figures represent the outcome from the NI 1-01 survey; they are consequently adjusted according to the ESA 2010 methodology and balanced among the sectors. The dataset includes information about the donations given by corporations to non-profit organizations.

2/ Annual National Accounts

The CZSO presents macroeconomic data about the aggregate amount of donations made by citizens of the Czech Republic in the figure stated under item number D.75 (*Miscellaneous current transfers*) for donations. These are donations made by households to other institutional sectors (according to ESA 2010).

3/ Data from the NI 1-01 survey

- i) The data covers the amounts of donations from inhabitants of the Czech Republic to individual NPOs. The data are collected annually. The respondents are NPOs and the inquiry about donations is made with respect to the revenues of NPOs.
- ii) Individual data provided by non-profit organizations. This dataset contains individual anonymised data collected annually by the CZSO from non-profit organizations through the NI 1-01 survey.

4/ Individual data provided by corporations

This dataset contains individual anonymised data collected annually by the CZSO from corporations with 50 or more employees. The data are not publicly available; they can be purchased from the CZSO.

5/ Ministry of Finance - Financial Administration

Tax-deductible items are one of many forms of tax relief. Claiming the deduction for donations is restricted by legally established limits.

6/ Data sources on giving by foundations

- i) The data are collected by the CZSO. These data are the most reliable as they are exact in terms of the number of existing foundations. However, the collected data only covers those foundations with more than nine employees (i.e. about 1% of foundations).
- ii) Additional relevant data are provided in the special annual reports of the Government Council for Non-Governmental Non-Profit Organisations. However, these

data are substantially unrepresentative because they only describe the foundations that were funded by the public *Foundation Investment Fund*.

iii) The third type of data source on Czech foundations are the annual reports of the Czech Donors Forum which provides annual data on selected foundations.

7/ Data sources on giving by charity lotteries

This information is publicly accessible on the Ministry of Finance website. New legislation means that no data is available after 2012.

The following section of this paper presents the basic outputs based on the specified data sources. These outputs can not only be used for the needs of Czech users, but also for the purpose of making comparisons with other countries. The results and related comments are divided according to the particular types of giving.

Giving by individuals in VIVO

As there are no systematic statistical data on individual giving available in the Czech Republic, two separate indicators were examined. These indicators do not provide a full picture of individual philanthropy, but as the following tables show, they indicate trends over the past few years.

Table 2. Donations by individuals over the period 2005 - 2013 (in EUR millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Amount of giving	478	441	598	418	406	397	396	407	365

Source: Czech Statistical Office, Satellite Account of Non-profit Institutions

The figures do not indicate any clear pattern of change in giving by individuals over the past few years. We can assume that the figures reflect the impact of the economic crisis in some way, however, there is insufficient evidence to confirm this statement.

The second indicator describing individual giving is found in the Ministry of Finance statistics on the number of natural persons applying for tax deductions on charitable donations made to NPOs.

Table 3. Number of taxpayers and total value of donations (in EUR millions)

	Number of taxpayers	Total value of donations (in EUR millions)
2006	132 470	49
2007	141 093	53
2008	110 614	52
2009	113 928	54
2010	116 959	55
2011	121 216	53
2012	124 096	57
2013	138 966	55

Source: Ministry of Finance

Data on giving and the philanthropic behaviour of individual donors are not collected on a regular basis and are therefore only available to a limited extent. The data that are available are typically from ad hoc surveys conducted by market research companies at the request of local non-profit organizations.

Giving by corporations

The Ministry of Finance publishes aggregated data based on the income tax reports filed by corporations. The data only include those donations for which companies applied for a tax deduction and represent all tax-deductible donations, including those for non-profit organizations, organizations in public administration or public universities. While it is generally assumed that this number is close to reality, it is also significantly below the amount published by the CZSO. For 2013, we can therefore say only the following (Stehlíková, 2015):

Approximately 5% of all legal persons (17,505 corporations) donated a total of EUR 88 million. The average donation was EUR 5,014. In 2012, 17,571 corporations donated a total of EUR 94 million. The average donation was EUR 5,376.

When comparing this data for 2012 with that of the data from the CZSO for the same period, the differences are clear. In 2012, according to the CZSO, non-profit organizations received EUR 157 million from corporations i.e. 60% more than the amount published by the Ministry of Finance.

Giving by foundations

There are three basic indicators for foundations in the Czech Republic. The first, the total number of registered foundations is provided by the CZSO. The second, data on the mean amount donated by a foundation in a given year may be retrieved from the annual reports of the Czech Donors Forum. Finally, data can be collated from the same source on the total value of donations provided by foundations in 2013.

The number of foundations in 2013 donating to different goals was in total 1,854 (Czech Statistical Office). The mean amount donated was EUR 278,788 (Czech Donors Forum). In 2013, the total value of donations by foundations totalled EUR 33.7 million (Czech Donors Forum).

Conclusion

The problem of the quality of available resources characterizing giving in the Czech Republic still remains. The problems lie in two areas:

Firstly, there is a lack of reliable and systematically collected data. Academic production in this direction is totally inadequate. This is disturbing because it shows a lack of interest in the surveyed area in the academic world. It is evident that a similar lack of interest is to some extent present in the Czech Republic too.

Secondly, some data and information are collected by specialized sectoral agencies, umbrella NGOs, and professional organizations. This can happen in the form of ad hoc surveys, regular yearbooks, limited member databases, etc.

Given the fragmented nature of the data collection methods, the different nature of each resource, and a lack of complete data, it is only possible to provide aggregate data in a much reduced structure. In addition, data of this kind only enables a limited analysis of

the various financial flows and makes it almost impossible to build an analysis of the individual or corporate donor's motives. However, it is precisely these topics that are the focus of researchers today (most recently Wittek and Bekkers, 2015). The authors of this paper set out in a similar direction. However, they utilized a data collection method for their research activities that is both demanding in terms of time and funds. The research activities were based on the use of quantitative methods such as regression analysis, the method of the analysis of variance (ANOVA), etc. The authors consider this article to be the necessary first step in the right direction.

Acknowledgement

This paper was written as one of the findings of the research project entitled "The Impact of Public Financing on the Structure of Resources and Production of Non-Profit Institutions", as supported by the Czech Science Foundation. Project identification no.: GA14-06856S.

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HLADKÁ M. a V. HYÁNEK. Non-profit Sector and Charity Financing: Mapping the Field. *Littera Scripta* [online]. České Budějovice: Vysoká škola technická a ekonomická v Českých Budějovicích, 8 (2), 37-45 [cit. 2015-12-17]. ISSN 1805-9112. Dostupné z:
<http://portal.vstecb.cz/publishingportal/littera-scripta/rocnik/8/cislo/2>
