Exploring the Intersection of Political, Economic, and Philanthropic Trends: A Panel Data Analysis of the Global Philanthropic Sector

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# Abstract

The philanthropic sector has been rapidly evolving in recent years, with new players entering the market and new forms of giving emerging. While much of the research on philanthropy has focused on individual donors or single-year snapshots of giving, there is a growing recognition of the need to understand the broader trends and patterns in the sector at a global level. This project uses a fixed-effect panel data analysis to examine potential connections between national giving levels and factors of the political, economic, and philanthropic environments of the respective countries. The giving data come from the Global Philanthropy Tracker, while the Global Philanthropy Environment Index, the World Bank World Governance Indicators, and the Heritage Foundation’s Index of Economic Freedom provide the measures for the different environment factors. The data covers the years 2020, 2018, and 2014. The results show limited support for connections between international giving patterns and political, economic, and philanthropic environment factors, although limitations in the data warrant further research on the topic.

# Introduction

The philanthropic sector plays a critical role in addressing societal issues and promoting the general welfare of communities. Encompassing a wide range of organizations, including non-profits, foundations, and charities, the philanthropic sector uses its resources to support initiatives in areas such as education, healthcare, poverty reduction, and environmental conservation. However, the growth of the philanthropic sector is influenced by various social, economic, and political factors that affect the level of resources available, the incentives for giving, and the regulatory environment governing philanthropy. For example, according to the 2022 Bilanz des Helfens, giving in Germany to refugees increased significantly from February to April 2022 in in response to the Russian invasion of Ukraine (GfK Charity Panel, 2022). However, this trend is countered by both declining giving in all other areas, plus a drop in the overall number of individual donors. Understanding how these factors interact with the philanthropic sector and developing appropriate policies is crucial to unlocking the sector’s full potential.

Recent studies have begun using new research conducted through projects, such as the Global Philanthropy Environment Index, to define how certain factors affect the philanthropic sector. However, most of new studies have only recently published their inaugural report. This means that while these studies are informative, it is only a snapshot of the situation at that time. In this paper, I will build off these studies in order to expand the understanding of factors that influence the philanthropic sector and giving trends by examining their development over time. To accomplish this, I will employ fixed-effect panel data analysis on the levels of giving reflected in the data from the IU Lilly School of Philanthropy’s Global Philanthropy Tracker compared to indexes that measure factors of the political, economic, and philanthropic environments of the respective countries. The goal of this project is to better understand how factors of the enabling environment for philanthropy influence philanthropic activity at the country and individual level.

# Literature Review

## Philanthropic environment

One point that should be mentioned in this section is the current connotation with the word “philanthropy”. This can evoke images of rich men, often white, from more Western and industrialized countries giving parts of their immense wealth to causes they deem fit (Wiepking, 2021, pp. 198–199). This can cause problems with trying to discuss philanthropy on a global scale because it can limit what is considered philanthropy, even if charitable activity is common in a certain place or region. This particularly can affect discussions looking at formal vs. informal philanthropy. Informal philanthropy involves giving methods such as directly offering people money or time, outside of organizations, while formal philanthropy focuses on charitable activity done through more established channels. For this thesis, my main focus will continue to be leaning to the formal side of philanthropy, as that is what currently informs policy and what usable data currently exists. However, future studies will need to examine how these methods of giving can be brought into the discussion as different countries have varying levels of both forms.

A key assumption in the discourse on philanthropic environment is that it is made up of a number of conditions that result in the ability to freely participate in charitable activity. This assumption also supposes that these conditions can be changed through government policies. This constitutes what Thindwa et al would classify as enabling conditions, which include “factors [such as] the legal and regulatory framework, the political and governance context; socio-cultural characteristics, and economic conditions” (2003, p. 3). This combination of conditions is referred to as the enabling environment for philanthropy. Breen (2018) examines this space in the European context and defines this space as concerning “any legal, fiscal, or administrative obstacles (whether viewed as political or more simply “technical” problems) that prevent a free-flow of funds from donor to donee and its effective use thereafter by the recipient or which unduly restrict the creation and operation of philanthropic organizations” (p. 7). Under this definition, Breen offers three specific policy areas that are of particular importance to philanthropy within Europe: regulation around anti-money laundering and terrorist financing, fiscal regulation and tax law, and administrative guidelines and best practices.

However, more recently, there have been discussions about how to best measure growth in the nonprofit sector. The Donor and Foundations Networks in Europe measured growth in the sector during 2014 through registered organizations and annual expenditures (McGill, 2016). In their 2019 study, Pennerstorfer and Rutherford (2019) explain how even with their two-country comparison between Austria and Scotland, correlations between indicators were very low, and each indicator used could tell a very different story about the sector. For example, in Scotland, while income concentration and total funds concentration showed steady growth, current asset concentration showed constant decline (Pennerstorfer & Rutherford, 2019, p. 451). In contrast, Austria showed relatively similar trends for all three measures. The authors conclude that these results present clear reasoning for how certain measures for sector growth are limited in their explanatory power, and why it is crucial to know these limits when conducting research with these measures.

These changes become more important as cross-border philanthropy becomes not only more popular, but more convenient, as the environment in both the sending and receiving country plays into how donations must be managed. However, the rules around such donations often differ greatly from other forms of philanthropy. A key issue discussed in the literature (Wiepking, 2021) is that not only are international sources on philanthropy limited, they often either rely on outdated information or are very costly to produce. This has led to a need to create new sources that more accurately display the philanthropic situation across the globe, particularly in countries of the Global South. While some regional studies have emerged, such as the Doing Good Index from the Center for Asian Philanthropy Studies, and Philanthropy in the Arab Region from Philanthropy for Social Justice and Peace, only the Doing Good Index has released multiple editions. These regional studies also do not put these countries in a broader global giving context.

Starting in 2006, the Hudson Institute tried to address this lack of up-to-date information on international giving by launching the Index of Global Philanthropy and Remittances. In 2015, to expand the focus to the overall environment towards philanthropy, the Hudson Institute released the Index of Philanthropic Freedom. This study was intended to contribute to policy discussions on improving the operating environment for the nonprofit sector. In 2016, the Hudson Institute decided to transfer ownership of the projects to the Indiana University Lilly Family School of Philanthropy, which relaunched the reports as the Global Philanthropy Environment Index (formerly the Index of Philanthropic Freedom) and the Global Philanthropy Tracker (formerly the Index of Global Philanthropy and Remittances). Prior to the relaunch, a group of researchers (Garcia et al., 2017) looked at the results of the Index of Philanthropic Freedom as compared to other established indexes measuring similar factors, as well as examining the concept of the enabling environment. The study revealed somewhat contradictory results. While the evidence supported the hypotheses about enabling political and economic environments being associated with enabling environments for philanthropy, the hypotheses looking at relationships between development and civic engagement levels were not supported.

Following the launch of the Global Philanthropy Environment Index, the Indiana University Lilly Family School of Philanthropy conducted an analysis of the first edition of the index and compared the index’s scores for certain factors against scores from other indexes, many of them used in the 2017 study. However, in contrast to that study, the results found that there were direct and statistically significant relationship between the Global Philanthropy Environment Index’s scores and most of the aspects of the enabling environment being measured (Garcia et al., 2019). Specifically, the evidence supported that political, economic, and social factors are associated with a better philanthropic environment. However, the relationship between development and philanthropic once again returned mixed results, showing the closest correlation within highly developed countries. The report also supported the need to expand the factors within the Global Philanthropy Environment Index, in particular the need for an economic environment score (Garcia et al., 2019, p. 28). This resulted in the current version of the index with six distinct factors: Operating/Regulatory Environment, Tax Incentives, Cross-Border Giving, Political Environment, Economic Environment, and Socio-Cultural Environment.

## Regulatory and Fiscal environment

The regulatory environment for philanthropy covers policies that govern philanthropic organizations’ formation, operation, and dissolution, while the fiscal environment encompasses the laws and regulations related to making and receiving donations, including tax policies. Young (2006) argues that one factor that affects the regulatory part of the philanthropic environment is the government’s desire to control how society operates. As many developed countries do not often struggle with this impulse from administrations, the theoretical frameworks used to explain their situations may not apply as well as to situations in certain developing countries. He also points out that poor regulatory conditions can hamper the ability of the nonprofit sector to grow, even if the society sees a need for it to address issues that governments cannot solve. This theory has also been supported from research looking at organizations in East Asia (Ye & Onyx, 2015). However, these issues are not solely present in less developed countries. A study looking at the G20 nations found that only within full democracies was there notable improvement in conditions related to the formation of philanthropic organizations and governmental interference in philanthropic activities (Anheier et al., 2019).

In contrast to developing countries where a lack of regulation can be a stumbling block, Anheier et al. (2019) argue that the opposite issue can and is occurring in developed countries. Often, the bureaucracy becomes too cumbersome, and inconsistences and roadblocks also make necessary reforms to stem the erosion difficult. In addition, the authors identify three key areas that hamper regulatory effectiveness for civil society organizations across countries. First, civil society organizations can use various organizational structures, the key ones being associations, non-profit corporations, and foundations. Yet, many policies that govern the establishment of organizations do not cover all potential forms into account, which can cause some organizations to be denied registration. Second, the roles these organizations play within the given society are often not reflected in these policies, ranging from providing services to advocacy. Lastly, civil society organizations have inherent weaknesses, such as inadequate resources, free-rides, and accountability issues. Failure to develop necessary regulatory measures can exacerbate these issues.

Moving to the fiscal environment, the policies governing this factor cover both regulations for donations and the organizations that receive them. The literature has a relative consensus around the theory that the more complicated the policies, the less likely donors are to give. For example, Wang et al. (2011) found that in Japan, China, and South Korea, complicated tax policies for donations to philanthropic organizations led to decreased engagement from donors. This effect has also been seen in studies such as the Doing Good Index. China has reformed their charity laws and made them more understandable, which had allowed them to improve their ranking in the index, while Japan and Korea have made no clear improvements (Centre for Asian Philanthropy and Society, 2022).

Another key concept in the literature is that tax incentives can help encourage giving. Tax incentives are one method of reducing the cost of donations, which in turn encourages donors to donate more. In a study of giving patterns in the United Kingdom between 2006 and 2013, Almunia et al. (2020) use policy reforms introduced in 2010 to test whether there is a change in giving and whether increasing the tax incentives for giving. The results show that the reforms and the resulting giving behavior support increasing incentives. Looking at cross-border giving, Silver and Buijze (2020) conducted a comparative study with Australia and the Netherlands to compare the impact of differing tax regulations on cross-border giving. The study finds that the more permissive structure in the Netherlands brings considerable benefits, such as most cost effective donations, more clarity around registration and deduction eligibility, and greater ability to redistribute resources to those in need. In contrast, the more restrictive regulatory structure in Australia led to more unregulated giving through intermediary organizations, and the government is already considering a more permissive approach.

## Political environment

Looking at the conditions that make up the political environment for philanthropy, scholars in the field have examined the connection between philanthropy and the ability to act freely, whether as an individual or an organization (Anheier, 2014, 2017; Thindwa et al., 2003). For example, Payton (1987) showed that pluralism was vital to the development of philanthropy. As he pointed out, the representation within power structures as well the decentralization of political power that was vital to a pluralistic society also provided ample space in public discourse for civil society to grow.

As Lee (2010) pointed out, democratic systems tend to inherently provide this space for philanthropy. His study of international non-governmental organizations (INGOs) across 126 countries found that democracies supported growth for INGOs, as such governments tend to support freedom of expression and association. On the other hand, in countries with less established democratic traditions, such freedoms are much more subject to attack, straining the philanthropic sector and making it hard to work effectively. The study also noted that high-income countries not only had more resources to facilitate INGO growth, but that citizens of these countries were more inclined to participate in INGO activities. However, the way and extent to which more restrictive philanthropic environments arise depends on a number of factors.

Latin America has experienced this sort of regime in multiple countries, which has been described as “the sway of demagogic leaders who have accrued executive power, weakened pluralism and undermined effective institutional checks and balances” (S. M. Appe & Layton, 2016, pp. 117–118). This has also required nonprofits and civil society to find ways to cope with their local governments, including at formal, semi-formal, and informal levels. In Ecuador, all three forms of philanthropic activity were forced to the actions of the Correa administration, and their responses ranged from creating a nonprofit collective in order to establish unity within the sector, to establishing diffuse, informal social movements to continue their work (S. Appe et al., 2019). The authors argue that this case provides examples of how countries in both the Global North and Global South can address the threat of authoritarian and populist regimes.

More recent additions to the literature have questioned this stability in developed democratic countries, in light of the rise of populist movements in the developed world. The common understanding in the literature until the past few years is that civil society organizations inherently support democratic tendencies, and therefore are incompatible with established hybrid or autocratic government styles (Toepler et al., 2020). However, recent examples show that if these autocratic or hybrid governments are stable, civil society can survive and even thrive in these societies. However, Toepler et al. (2020) point out that this often comes with certain concessions from the civil society sector. Often, they are allowed to push for policy changes in certain areas as long as they avoid any attempts to change the overall political status quo. A comparative study of Algeria, Mozambique, and Vietnam supported this position. In addition to supporting the political status quo, organizations allow or do not oppose interference from the state in their internal operations and tend to reject any views that stray from the official goals of the organization (Wischermann et al., 2018).

In their study, Anheier et al. (2019) discuss that within G20 countries, experts note that erosion of the philanthropic sector in more consolidated democracies has not necessarily created an adversarial environment as discussed in Young’s research, but at least an indifferent one. This can cause policies to have unintended consequences on civil society, such as anti-terrorist legislation that can limit nonprofits’ ability to send and receive cross-border donations. The experts also bring up so-called “pendulum policies”, which expose more pronounced differences between when center-left and center-right governments are in power and the impact those administrations have on the philanthropic sector (Anheier et al., 2019, p. 7).

The issue of policy implementation in regard to the nonprofit sector can cause problems, even when these policies are properly enforced and friendly to the sector. Philips and Blumberg (2017) argue that it also depends on the overall philosophy that the government accepts about what the relationship between it and the nonprofit sector should entail. This determines then, in part, how the government decides to regulate, monitor, and support philanthropic organizations. The authors indicate that most such “meta-policies” are not predicated on mutual agreement, and that this philosophy affects certain parts of the sector more than others. Looking back at the Ecuador example from Appe et al. (2019), Correa targeted indigenous and environmental rights groups, which he saw as directly opposed to his administration.

## Economic Environment

A country’s economic environment, as it relates to philanthropy, can be defined, as the “economic conditions that nurture or hinder individual and institutional philanthropy” (IU Lilly Family School of Philanthropy, 2022, p. 59). Another key aspect is to what extent government policies intervene in the economy. These policies, along with the level of economic freedom that results, are two key indicators for philanthropy as they can influence private social investment. Economic freedom is measured by the presence of the stable legal framework for entering contracts and protecting private property, and the level of government intervention in the economy through ownership, regulation, and taxes (Berggren, 2003). As Pritchard (2017) argues, charitable giving increases with increased economic freedom since this increases the resources available to the private sector.

In addition to private social investment, economic climate and freedom can affect foreign direct investment, as countries with more conducive environments may benefit more from these flows. For example, a study by Feldmann (2017) looked at data specifically on human capital investment from 109 countries over almost 40 years and found that levels of investment were affected by the level of economic freedom in the recipient country. Specifically, he found that protections for property rights and economic agents, an existing but not overbearing regulatory structure, and facilitation of credit markets most affected the human capital investment in these countries. This finding has also been supported by other researchers studying this relationship in other regions of the world, such as Bengoa and Sanchez-Robles (2003) in Latin America or Imtiaz and Bashir (2017) in South Asia. However, more recent studies have started examining the causal links between these factors, and which direction the casualty flows (Ciftci & Durusu-Ciftci, 2022) and if this effect can vary by region (Singh & Gal, 2020). For most of these studies, the researchers employed a panel data analysis comparing FDI levels to a measure of economic freedom, often the Heritage Foundation’s Index of Economic Freedom.

While these two factors have been the focus of a lot of research, other economic factors have been used to explain increases in philanthropic activity. Frumkin (1995) pointed to personal wealth accumulation and an increased propensity to donate and assist those in need, while others pointed to household wealth, along with GDP growth, as promoting higher income and therefore giving households both more money to donate and the opportunity to support more causes (Havens & Schervish, 2014). Wiepking and Handy (2015) found a linear correlation between the level of social expenditure as a percentage of GDP and the number of nonprofits per 1,000 habitants in the countries.

# Research Strategy and Hypotheses

Looking at the information and theories presented in the literature, the best approach to answer my main research question will be to focus on the conditions for the philanthropic environment, as referenced in Thindwa et al. (2003). These provide the context for giving at the country level, both for organizations and individuals. Of these aspects, this study will primarily focus on three key areas: political environment, economic environment, and regulatory and fiscal environment. These three function the best as they have been shown throughout the literature to be correlated with better outcomes for the philanthropic sector. In addition, data on these three factors is easily available. Although socio-cultural factors have been shown to play a role, comparable data on areas like efficacy and philanthropic culture is scarce.

However, this study still provides two key additions to the discourse. First, this moves the focus of research away from comparisons between measures of the environment and examines the relationship between this environment and actual giving behavior. This is now possible thanks to new research providing more comparable country-level data. Second, as mentioned throughout the literature (Barman, 2017; Wiepking, 2021), macro-level analysis is a weakness of the philanthropy literature. This study will provide new insights at this level. I chose to use panel data to perform fixed-effect regression analysis because this approach allows me to both take advantage of the multiple years of data available, while also controlling for potential changes within the countries and over time. This gives a more refined picture of the effect of the changes in the philanthropic environment.

Given this context, I propose three hypotheses:

**H1.1:** Increased levels of charitable activity are positively related to improved conditions in the philanthropic environment, particularly the regulatory and fiscal environments.

**H1.2:** An increase in philanthropic activity is directly related to improvements of its political environment, including political stability, regulatory quality, and rule of law.

**H1.3:** Increased economic freedom and well-established economic regulation, as well as economic growth, are positively related to increased levels of philanthropic activity.

# Methodology

The first section of this study will deal with the analysis of the macro level of giving. The analysis will be dealing with a comparison of environmental factors for the philanthropic sectors, along with examining the relationship between these factors and the levels of private philanthropy observed at the national level. To conduct this examination, I will use a fixed-effect panel data analysis research design. The analysis will be run using the *plm* packages in R.

The equation for the fixed effects is seen below:

Where: GPT = Dependent var (giving amount);

= Regression coefficient;

IND = Independent var (factor in index);

= country fixed effects;

= error term;

i = 1, …, n; and

t = 1,…, t

This version of panel data analysis was chosen because it addresses variation within the “individuals” being measured, in this case the countries, which allows for better isolation of the effect of policy on changes in philanthropic activity. It also allows for easy control of variables such as income level and region. For the political and economic factors, two-way fixed effects will be employed to better address both individual and time-related factors. The error term for this equation will use clustered standard errors to address heteroskedasticity within the country error terms over time. For comparison, a normal cross-section regression with also be conducted so the effect of controlling for the individual and time effects can be seen.

To obtain giving levels for each country in the study, I will use data from the Global Philanthropy Tracker and its predecessor, the Index of Global Philanthropy and Remittances. This reports measures four flows that contribute to cross-border philanthropy: Remittances, Official Development Assistance, Private Capital Investment, and Private Philanthropy. The total sum of all four flows will be used as the dependent variable for the analysis since the log-transformed data passes the Shapiro-Wilks test for standard distribution. Standard distribution is one of the key assumptions in panel data. Both the original and log-transformed data will be assessed for comparison, but only the log-transformed data will be presented in the results. Using both reports allows this analysis to cover three time periods (T=3). However, while the Global Philanthropy Tracker cover 47 countries, the final edition of the Index of Global Philanthropy and Remittances only cover 40. Therefore, the panel analysis will use an unbalanced panel in order to have the maximum number of countries represented in the data. In order to address potential correlations between factors, both overall and subscores will be used where possible.

The relationship between philanthropic environment and national giving trends will be measured with the Global Philanthropy Environment Index, or GPEI (IU Lilly Family School of Philanthropy, 2022). This study of the global environment currently encompasses 91 countries and compares their respective philanthropic environments based on legal, political, economic, and social-cultural factors. For this analysis, both of the available editions of the index will be used, released in 2018 and 2022. To avoid any correlation between the political and economic scores in the GPEI, these will not be included in the analysis. The analysis will focus on the remaining four factors: Ease of Operating, Tax Incentives, Cross-Border Giving, and Socio-Cultural Environment. The Overall Score will also be examined to see to what extent improvements in the GPEI factors relate to increased levels of giving.

Looking at the political factors for this study, the indicators will come from the World Bank Governance Indicators. These indicators capture three aspects of the political environment that are key for philanthropy: regulatory quality, rule of law, and political stability. When a country has high regulatory quality, the policies implemented by the government are more robust and better implemented, which provides clear guidance for private sector development. Rule of law, in addition to capturing the extent citizens abide by societal rules and norms, also reflects the ability to enforce contracts and property rights, as well as the effectiveness of the court system for redress. Finally, political stability allows philanthropic organizations to make plans for their operations, knowing that regime change or political violence are unlikely if their focus is not necessarily a popular one. To develop an overall score for these indicators, I took the average score of the relevant indicators. The years I used for this index align with the years of the data from the Global Philanthropy Tracker: 2020, 2018, and 2014.

The economic factors will be assessed according to three aspects: freedom, quality, and growth. The Heritage Foundation’s Index of Economic Freedom will represent economic freedom, illustrating concepts such as open markets and ease of trade across borders. Similarly to the GPEI, the combined score will be used along with subscores for Regulatory Efficiency and Market Openness. Regulatory Efficiency covers aspects such as Business Freedom, Labor Freedom, and Monetary Freedom. Open Markets deals with Trade Freedom, Investment Freedom, and Financial Freedom. Lastly, economic growth will be measured by measures of GDP and GNI. Looking at the relevant editions of the index, a slight difficulty arises from the fact that the index measures these factors in fiscal years. For example, the 2023 study measures the fiscal year 2021-2022, so the timeframe from July 2021 to the end of the June 2022. I decided to use the editions where the second half aligned with the giving data, as this would most likely influence how people gave in those years. Therefore, the 2022, 2019, and 2015 editions of the index will be used in this analysis.

# Results

## Philanthropic Environment

I will begin the analysis with analysis of the GPEI Overall Score, looking at the cross-section and the fixed-effect analysis. As seen in Figure 1, the cross section shows that for the Overall Score, if the score increases by 1, the total amount of the flows measured by the GPT would roughly double in size.[[1]](#footnote-1) However, when the fixed effects model is used, this effect not only becomes statistically insignificant, but also changes direction and becomes negative. However, this regression is only controlling for country-level effects, as there are only two time periods for the GPEI data.

|  |  |  |
| --- | --- | --- |
| **Figure 1: Results for GPEI Overall Score** | | |
|  | | |
|  | Dependent variable: | |
|  |  | |
|  | log (Total 4 Flows) | |
|  | OLS | panel |
|  |  | linear |
|  | (1) | (2) |
|  | | |
| Overall Score | 1.074\*\*\* | -0.136 |
|  | (0.304) | (0.313) |
|  |  |  |
| Constant | 4.399\*\*\* |  |
|  | (1.247) |  |
|  |  |  |
|  | | |
| Observations | 89 | 89 |
| R2 | 0.141 | 0.004 |
| Adjusted R2 | 0.131 | -1.039 |
| Residual Std. Error | 1.731 (df = 87) |  |
| F Statistic | 14.268\*\*\* (df = 1; 87) | 0.154 (df = 1; 43) |
|  | | |
| Note: | \*p\*\*p\*\*\*p<0.01 | |

When looking at the analysis for the specific indicators within the GPEI in Figure 2, the results mostly follow the pattern seen with the overall score. Three of the indicators (Ease of Operating, Tax Incentives, and Socio-Cultural Environment) all have significant results. Like the Overall Score, Tax Incentives and Socio-Cultural Environment indicate that a one-point increase in the respective score coincides with roughly doubling the total philanthropy amount. However, Ease of Operating indicates the exact opposite, that a 1-point increase would result in the total amount being cut in half. Very notably, Cross-Border Flows is the only factor that is not statistically significant.

Additionally, once the fixed effect regression is used, a similar result to the Overall Score appears. All of the slope estimates switch direction, and almost all become insignificant. However, Tax Incentives remains significant at the 5 percent level. This result indicates that if the Tax Incentives score increases by 1 point, the overall giving amount will decrease by roughly 48 percent.

|  |  |  |
| --- | --- | --- |
| **Figure 2: Results for GPEI Subscores** | | |
|  | | |
|  | Dependent variable: | |
|  |  | |
|  | log (Total 4 Flows) | |
|  | OLS | panel |
|  |  | linear |
|  | (1) | (2) |
|  | | |
| Ease of Operating | -0.907\*\*\* | 0.271 |
|  | (0.304) | (0.246) |
|  |  |  |
| Tax Incentives | 1.058\*\*\* | -0.477\*\* |
|  | (0.312) | (0.196) |
|  |  |  |
| Cross-Border Flows | 0.092 | -0.047 |
|  | (0.301) | (0.130) |
|  |  |  |
| Socio-Cultural Environment | 1.188\*\*\* | -0.137 |
|  | (0.244) | (0.138) |
|  |  |  |
| Constant | 3.329\*\*\* |  |
|  | (0.960) |  |
|  |  |  |
|  | | |
| Observations | 87 | 87 |
| R2 | 0.431 | 0.204 |
| Adjusted R2 | 0.404 | -0.801 |
| Residual Std. Error | 1.427 (df = 82) |  |
| F Statistic | 15.545\*\*\* (df = 4; 82) | 2.437\* (df = 4; 38) |
|  | | |
| Note: | \*p\*\*p\*\*\*p<0.01 | |

## Political Environment

The political environment factors, captured by the World Bank’s Governance Indicators, tell a similar story to the scores above. Looking at the cross section for the combined average score, it is statistically significant like the GPEI overall score. There is the slight decrease in the level of expected increase for the GPT values, reaching roughly an 86 percent increase for every point increase. In the fixed effect regression, once again the regression line changes direction and goes negative, and also loses statistical significance. This is notable considering this analysis incorporates both country-level and time fixed effects. The exact results are shown in Figure 3.

|  |  |  |
| --- | --- | --- |
| **Figure 3: Results for World Bank Combined Score Average** | | |
|  | | |
|  | Dependent variable: | |
|  |  | |
|  | log (Total 4 Flows) | |
|  | OLS | panel |
|  |  | linear |
|  | (1) | (2) |
|  | | |
| Combined Score Avg | 0.863\*\*\* | -1.111 |
|  | (0.166) | (0.678) |
|  |  |  |
| Constant | 7.805\*\*\* |  |
|  | (0.194) |  |
|  |  |  |
|  | | |
| Observations | 132 | 132 |
| R2 | 0.144 | 0.030 |
| Adjusted R2 | 0.137 | -0.588 |
| Residual Std. Error | 1.680 (df = 130) |  |
| F Statistic | 21.846\*\*\* (df = 1; 130) | 2.512 (df = 1; 80) |
|  | | |
| Note: | \*p\*\*p\*\*\*p<0.01 | |

Looking at the cross-section results for the individual factor scores, Rule of Law and Political Stability both show statistically significant coefficients, and Regulatory Quality shows a weak positive correlation. For Rule of Law, a one point increase in the score would correspond to nearly tripling the total amount for giving. For Political Stability, on the other hand, it indicates that a 1-point increase would lead to a 150 percent decrease in giving.

With the fixed effect regression in Figure 4, Rule of Law switches to negative and loses statistical significance. However, the slope for both Political Stability and Regulatory Quality remain in the same direction, although both are now statistically insignificant.

|  |  |  |
| --- | --- | --- |
| **Figure 4: Results for World Bank Subscores** | | |
|  | | |
|  | Dependent variable: | |
|  |  | |
|  | log (Total 4 Flows) | |
|  | OLS | panel |
|  |  | linear |
|  | (1) | (2) |
|  | | |
| Rule of Law | 1.862\*\*\* | -1.085 |
|  | (0.565) | (0.762) |
|  |  |  |
| Political Stability | -1.483\*\*\* | -0.455 |
|  | (0.339) | (0.618) |
|  |  |  |
| Regulatory Quality | 0.186 | 0.430 |
|  | (0.631) | (0.580) |
|  |  |  |
| Constant | 7.146\*\*\* |  |
|  | (0.236) |  |
|  |  |  |
|  | | |
| Observations | 132 | 132 |
| R2 | 0.330 | 0.061 |
| Adjusted R2 | 0.314 | -0.577 |
| Residual Std. Error | 1.498 (df = 128) |  |
| F Statistic | 20.993\*\*\* (df = 3; 128) | 1.686 (df = 3; 78) |
|  | | |
| Note: | \*p\*\*p\*\*\*p<0.01 | |

## Economic Environment

Lastly, I will look at the results for the economic factors measured in the Heritage Foundation’s Index of Economic Freedom. The cross section, which consists of the total score and the log of GDP, both show high significance. For the score, a 1-point change would correspond to a 5 percent increase in total giving amounts. Given that the point range here is much higher, it makes sense for this number to be somewhat lower than the previous two indexes. However, if GDP rises by 1 percent, giving would be expected to increase by roughly 84 percent. When fixed effects, as presented in Figure 5, is used, both variables lose statistical significance. However, while the regression for GDP changes direction, the overall score coefficient remains positive.

|  |  |  |
| --- | --- | --- |
| **Figure 5: Results for Heritage Foundation Overall Score** | | |
|  | | |
|  | Dependent variable: | |
|  |  | |
|  | log (Total 4 Flows) | |
|  | OLS | panel |
|  |  | linear |
|  | (1) | (2) |
|  | | |
| Overall Score | 0.049\*\*\* | 0.021 |
|  | (0.010) | (0.022) |
|  |  |  |
| ln(GDP) | 0.844\*\*\* | -1.109 |
|  | (0.051) | (0.839) |
|  |  |  |
| Constant | -17.564\*\*\* |  |
|  | (1.292) |  |
|  |  |  |
|  | | |
| Observations | 132 | 132 |
| R2 | 0.741 | 0.059 |
| Adjusted R2 | 0.737 | -0.602 |
| Residual Std. Error | 0.927 (df = 129) |  |
| F Statistic | 184.652\*\*\* (df = 2; 129) | 2.395\* (df = 2; 77) |
|  | | |
| Note: | \*\*\*p < .01; \*\*p < .05; \*p < .1 | |

For the subscores for Regulatory Efficiency and Open Markets, Open Markets is nearly significant at the 0.05 level, but with clustered standard error barely falls above it. The log of GDP remains relatively stable in its position around 0.85, which is still statistically significant. When the fixed effects are added in, the slopes for all three factors turn negative and are no longer statistically significant. These final results can be seen in Figure 6.

|  |  |  |
| --- | --- | --- |
| **Figure 6: Results for Heritage Foundation Subscores** | | |
|  | | |
|  | Dependent variable: | |
|  |  | |
|  | log (Total 4 Flows) | |
|  | OLS | panel |
|  |  | linear |
|  | (1) | (2) |
|  | | |
| Regulatory Efficiency | 0.021 | -0.019 |
|  | (0.015) | (0.012) |
|  |  |  |
| Open Markets | 0.022\* | -0.034 |
|  | (0.011) | (0.028) |
|  |  |  |
| ln(GDP) | 0.853\*\*\* | -1.020 |
|  | (0.049) | (0.776) |
|  |  |  |
| Constant | -17.564\*\*\* |  |
|  | (1.301) |  |
|  |  |  |
|  | | |
| Observations | 132 | 132 |
| R2 | 0.732 | 0.081 |
| Adjusted R2 | 0.725 | -0.584 |
| Residual Std. Error | 0.948 (df = 128) |  |
| F Statistic | 116.406\*\*\* (df = 3; 128) | 2.239\* (df = 3; 76) |
|  | | |
| Note: | \*p\*\*p\*\*\*p<0.01 | |

# Discussion and Conclusion

Looking at factors in the philanthropic environment, I offered the following hypothesis: increased levels of charitable activity are positively related to improved conditions in the philanthropic environment (H1). However, the data from the Global Philanthropy Environment Index paints a different picture depending on which analysis is being discussed. The cross sections supported my hypothesis in most cases, with the exception of Ease of Operation. While Cross-Border Flows was insignificant, it was still positively correlated, and thus follows my expectations. However, when fixed effects were introduced, not only were the effects no longer statistically significant, but they also often went in the opposite direction than expected.

In addition, the fact that the Tax Incentives score showed a significant negative score in the fixed-effects analysis indicates that over time, this may actually be relevant. However, there may also be ways to explain this. As discussed in the literature, incentives for cross-border philanthropic giving are not often a priority in many countries. The example of Australia and the Netherlands from Silver and Buijze (2020) shows clearly how this can affect tax regimes. In addition, Anheier et al. (2019) mention how even when policies develop, they can work against the sector under certain circumstances. I would venture a guess that this could be at work here. As countries aim to incentivize giving within their countries, similar incentives for cross-border giving fall behind or are deliberately not created. Especially as GDP continues to seem to be a strong indicator of giving according to this study and the literature, and increased institutionalization is often associated with higher GDP countries, these domestic incentives could turn away givers from supporting international causes, and thus explain the relative negative correlation between tax incentives and giving.

For the political environment, my hypothesis was as follows: an increase in philanthropic activity is directly related to improvements of its political environment, including political stability, rule of law, and regulatory quality (H2). This hypothesis saw more mixed support than the first, as the two significant subscores had opposing relationships. However, the results of the fixed-effect analysis were roughly the same. These cross-section results indicate that if policymakers are looking to increase philanthropic giving, focusing on policies that strengthen rule of law likely matter more than political stability. However, over time, it seems that increases in both areas would correspond to decreases in international giving. This could also link back to the tax incentive explanation. If the country is relatively stable with respected rules on how to give, it would make sense that donors might chose to support causes there instead of looking to spend money elsewhere where they may perceive doing “more good”.

Lastly, my theory for economic factors posited that increased economic freedom and well-established economic regulation, as well as traditional measures such as GDP, are positively related to increased levels of philanthropic activity (H3). This hypothesis, like the last two, only shows moderate support, and only within the cross section. The overall score, log of GDP, and Open Markets show some level of significance within the cross section, but none hold over to the panel data analysis. In addition, all of the regression slopes except for the overall score become negative in the panel data analysis. The strong correlation of GDP in the cross section could potentially indicate some significance, especially in respect to the theory above about the potential for GDP to be related to giving amounts, but potentially indicate decline due to more money being focused inwards.

This initial analysis goes against both my own expectations of potential outcomes, as well as the likely outcomes presented by the bodies of literature on these factors. However, some considerations must be taken into account when discussing this data and its ability to represent the true situation for international giving. First, there is the potential for collinearity between some of these factors. While this wasn’t an issue with earlier studies using these studies, such as Garcia et al (2019), this can cause problems with regression analysis. Additionally, the scores from the World Bank and Heritage Foundation are composite scores, examining a large range of concepts. While these studies may have worked for earlier research, they may not be as suited to this level of analysis.

However, the question still remains as to why so many of the factors continue to demonstrate a negative relationship to the data when using fixed effects. Currently, I can offer two potential ideas as to why this may be the case. One may be related to the literature currently available in the field. Most studies use general regression tactics, *if* those are used at all. This means that there is potential that these trends may never have been considered or observed in previous studies. The second option is that the limited sample available through the Global Philanthropy Tracker and through the lack of available usable data in general may provide an unbalanced picture of the levels of international giving across the world.

Looking forward, I have one goal for myself and a suggestion for future research. First, instead of using the full total for giving presented in the Global Philanthropy Tracker, I would repeat the analysis with the 4 flows that make up the total, particularly the private philanthropy flow. This may lead to a result more in line with the findings in the literature. Beyond this study, important considerations for future research would include expanding this analysis from international giving to total philanthropic giving and increasing both the number of countries included and the number of time periods in the analysis. This may help establish whether these surprising outcomes are just a result of this study’s limitations, or if there may be new considerations to be made in how we evaluate the effects of the philanthropic environment on giving.

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1. The calculation for this is [↑](#footnote-ref-1)