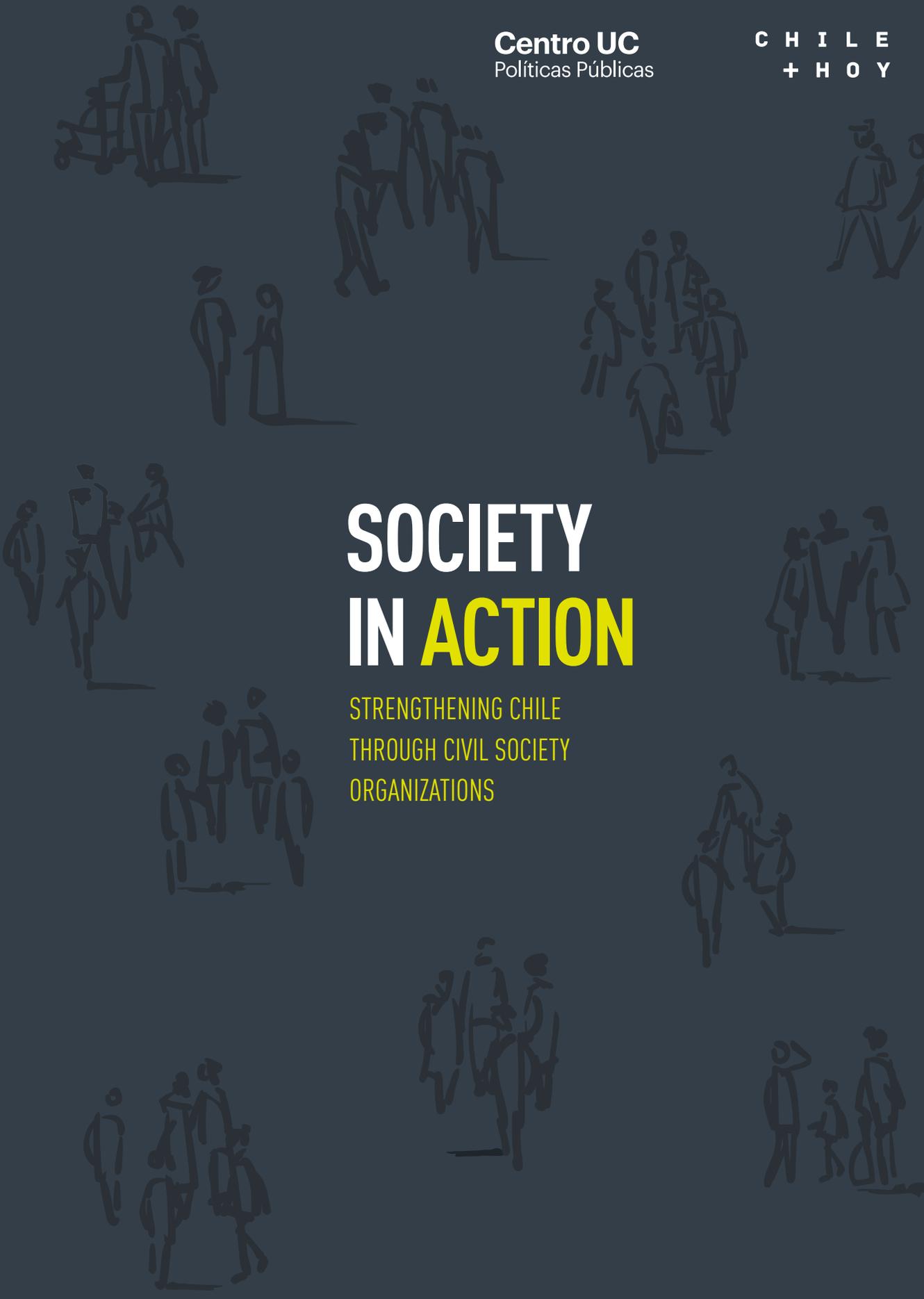


# SOCIETY IN ACTION

STRENGTHENING CHILE  
THROUGH CIVIL SOCIETY  
ORGANIZATIONS





Pontifical Catholic University of Chile  
Center for Public Policy  
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THROUGH CIVIL SOCIETY  
ORGANIZATIONS



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Summary version, full book available in Spanish at:  
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*“I want to ask how far it is possible for  
a truly free nation to flourish in the  
absence of a vibrant civil society”.*

*Niall Ferguson*

If we undertake the exercise of thinking about those civil society organizations we know, it is impossible not to imagine a scene that emits commitment, passion, effort, opportunities, pride, love and dedication. This is how responsible and active people come together, freely and spontaneously, for a common purpose, to generate an important value for society. However, what provides daily motivation for those of us who work in, from and for civil society organizations (CSOs) seems, at first glance, to be something unknown and invisible. Even second- or third-order for the rest of the people and decision-makers.

The interest of our Chile+Hoy Foundation to understand and provide data and public analysis on the so-called third sector was born when we detected the lack of useful information about the CSOs, in a context of unawareness and disregard for their role and value. For this reason, in 2015, together with the Center for Public Policy of the Pontifical Catholic University of Chile, we started a process with a clear objective: to highlight the role that CSOs play in the economic, social and cultural development of the country, contributing to their recognition and fostering their work in the creation of public goods. This is how “Society in Action” was born, the initiative that has brought together more than a thousand social entrepreneurs, academics, opinion leaders, representatives of CSOs and businessmen.

Today, by sharing the complete study, with data and insights, we take a first step to understand where and how we are as CSOs, and thus assess our social contribution. In addition, this allows us to compare our local reality with that of other countries.

From our perspective, the role of civil society is crucial for Chile to continue making progress. The country has progressed exceptionally in the last 40 years, but there are still issues to be resolved. The answers will require the participation of responsible citizens cooperating with each other, while the organizations will generate, with dedication, flexibility and enthusiasm,

private and collaborative community solutions to public interest problems. In our country, and throughout history, CSOs have been characterized as forerunners, becoming pioneers and experts in public issues of high social value, and in most cases more timely, accurate and agile than the state itself. This should fill those of us who believe in the strength of civil society with pride and satisfaction.

CSOs, as defined in this study, must be constituted as organizations, not distribute profit, be voluntary, private and autonomous. These last three features are essential to understand their genesis and projection over time, as they interpret how private initiative –that is, how each person contributes their talents, knowledge and networks, without any coercion, to contribute to a specific cause– manages to generate better opportunities and facilitate access to solutions of all kinds. And more importantly, how it reclaims dignity.

For all the reasons above, we ventured into this study. CSOs, fulfilling the described role, possess an invaluable and incalculable power to transform things, being present throughout the national territory and having doubled in number of registered organizations of people actively involved during the last 10 years. As a differentiating element, we have a 70% positive social valuation by the citizens, significantly higher than the other sectors.

While the data and findings in the study support the importance of CSOs, it is necessary to bear in mind that new challenges and responsibilities are opening up. The first is to know how to “manage” this positive social valuation, to channel it, to generate changes and to influence. For this, it is essential to continue moving forward with ethical and transparency standards that arise from the organizations themselves. We must be at the forefront in these dimensions to safeguard public trust. Also, these standards must lay the foundations for sustainable and diversified financing that allows the institutions to be projected in the long term. Finally, free association and articulation must continue to be promoted. This will strengthen CSOs that work for common purposes at the municipality or province level, and even those that do not necessarily work in the same territory or serve the same public, but do have a common agenda to strengthen our sector.

It has been more than two years of intense work throughout Chile. Hundreds of people and territorial organizations, grassroots associations, foundations and corporations have participated and collaborated. It is a project with an

identity, inclusive and critical, and while it recognizes and values the achievements, also strives to continue generating changes in order to continue building Chile from the CSOs.

Finally, and on behalf of the board of the Chile+Hoy Foundation, a philanthropic institution that promotes the construction of a freer, more prosperous and responsible country, I would like to thank the entire team that has led the project, as well as the hundreds of people and institutions that have been part of this long process that today completes a stage. However, we still have a new challenge that we must assume with the same responsibility with which we work daily: make visible and involve more actors, articulate initiatives, open the dialogue and create the conditions for sustainable development all in order to build a better country from the CSOs.

*Nicolás Ibáñez S.*<sup>1</sup>  
President, Chile+Hoy Foundation

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1. This letter was written as a presentation of the book *Society in Action: Strengthening Chile through civil society organizations*.



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## UNRAVELING THE PUZZLE OF CHILE'S CIVIL SOCIETY DEVELOPMENT

*Lester M. Salamon*<sup>2</sup>

This book represents the latest phase in a productive partnership between the Johns Hopkins Center for Civil Society Studies and Dr. Ignacio Irarrázaval and his colleagues at the Center for Public Policy of the Pontifical Catholic University of Chile, along with colleagues from over 40 other countries throughout the world within the framework of the Johns Hopkins Comparative Nonprofit Sector Project (CNP). This initiative has been the largest systematic effort undertaken to date to analyze the scope, structure, financing, and role of the private nonprofit sector in countries around the world, in order to enrich our understanding of this sector and to provide a sounder basis for both public and private action towards it.

Begun in 1991, this project grew out of a desire to rescue the world's nonprofit sector from the obscurity to which it had long been consigned in both academic research and public policy circles. To do so, the project formulated a first consensus definition of the sector variously known throughout the world as the “nonprofit,” civil society, NGO, voluntary, or social sector, developed a common methodology for estimating the basic contours of this sector, and recruited an exceptional team of international scholars, of whom Dr. Irarrázaval was a leading exemplar, to carry out the work in the project's numerous countries.

Out of this work has come a number of important insights: that this nonprofit or civil society sector is a considerable economic force in countries throughout the world; that this sector engages a workforce, paid and volunteer, that is far larger than that in a number of major industries, such as construction, transportation, and finance; that philanthropy plays a much smaller part, and government a much larger part in the financing of this sector than is widely believed, and that Europe does not have a “welfare state”, but rather a “welfare partnership” in which the state relies heavily on nonprofit organizations to deliver state-funded social welfare services.

At the same time this work revealed a number of important puzzles for which no ready explanations were available, and indeed that seemed to run counter to the prevailing theories in existence, most of which had been formulated a priori, with little or no empirical validation for the good reason that no solid, comparative

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2. This preface was written as a presentation of the book *Society in Action: Strengthening Chile through civil society organizations*.

data were available to substantiate or refute them. Thus, to name just a few, we learned that enormous variations exist in the scope and structure of the nonprofit or civil society sector among different countries, and even within given regions; that in some countries nonprofits focus their attention on service functions and in others on expressive activities such as sports and culture; that government has been mobilized as an important fundraiser for nonprofits in some countries but not in others.

Chile has not been immune from either the surprises or the puzzles that this work has generated. Already in the first application of the CNP Project methodology in Chile (Irrarázaval et al. 2006) we learned that Chile's nonprofit workforce (paid and volunteer) exceeds that in all but one of the Latin American countries on which data are available, and this pattern finds further confirmation in the present update. Also surprising is the unusually sizable presence of volunteer workers in this labor force. This finds confirmation in the present report's finding of a generally positive attitude toward nonprofit organizations among Chile's population. Also surprising and a source of puzzlement is the fairly substantial role that government support plays in the financing of Chile's civil society sector, which is quite typical for Western Europe but very unusual for Latin America. At the same time, however, compared to a broader range of countries, including particularly the other upper-income countries with which it is grouped in World Bank rankings, Chile's civil society sector workforce falls well below the international average.

Armed with this mountain of empirical data, our attention naturally turned to the question of how to explain the confusing pattern of surprises and puzzles that these data revealed, both generally and for Chile in particular?<sup>3</sup> We began this search, understandably, by exploring how far prevailing theories of nonprofit development could take us in making sense of the empirical patterns that emerged. As it turned out, our answer was: not very. Three such theories were available.

One of these theories links variations of the size of the civil society sector to variations in the level of economic development of a country. The higher the level of economic development in a country, this theory holds, the more likely it is to be democratic and the more likely it is to have a robust nonprofit sector. The problem with this theory is that even if the relationship it posits holds, it remains unclear what it is about a high level of economic development that generates more robust civil society sectors (Rueschemeyer, Stephens and Stephens, 1992). What is more,

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3. For a fuller discussion of our answer to this question, see: Lester M. Salamon, S. Wojciech Sokolowski, and Megan A. Haddock, (2017) *Explaining Civil Society Development: A Social Origins Approach* (Baltimore: Johns Hopkins University Press).

at best this theory can explain only one facet of civil society development: the size of the civil society sector. In the case of Chile, however, even this statistical relationship between level of economic development and size of the civil society sector fails to hold. According to the World Bank, Chile ranks among the world's high-income countries, but Chile lags far behind other high-income countries in the relative size of its civil society workforce, and particularly far behind when it comes to the paid portion of its civil society workforce. Whatever accounts for the shape of the civil society sector in Chile, therefore, cannot be attributed solely to its level of economic development.

A second line of theory attributes the variations among countries in the size and shape of their civil society sectors to variations in the dominant sentiments, or cultural values, present in the countries, particularly as they relate to impulses toward charity and altruism rooted in different religious traditions. But this explanation falls flat for the simple reason that virtually every religious tradition strongly encourages altruism and charitable impulses. Yet enormous variations still exist among countries in the size and other dimensions of their civil society sectors. This situation is especially clear in the case of Chile, which differs from its neighbors along multiple dimensions of its civil society sector yet, with one possible exception, shares with virtually every one of its neighbors not only the same dominant religious tradition (Roman Catholicism) but also the same cultural heritage rooted in Spanish colonization of the New World, the same language and the same shared sense of cultural identity. And even the one exception, Brazil, still shares most of these social and cultural features. It is therefore clear that cultural values and sentiments cannot explain the markedly different contours of Chile's civil society sector as compared to its Spanish-speaking, and even Portuguese-speaking, Latin American neighbors.

A third explanation of variations in the size and character of civil society sectors among countries borrows from classical economic thinking and focuses on the preferences of consumers and voters for so-called collective goods (i.e. the goods and services like clean air) that, once produced, are available to everyone whether they have paid for them or not. Classical economics predicts that few people will therefore choose to pay for such goods, leading to their perennial under-supply, giving rise to the need for government to meet the unsatisfied demand for such public goods through taxation. But according to economists of the nonprofit sector, in countries with a high level of religious, ethnic, racial or other diversity, it is hard for different sub-groups of people to agree about the collective goods they want governments to produce, and they therefore join together to form nonprofit

organizations to provide these goods instead. The higher the level of heterogeneity, therefore, the larger the nonprofit sector this theory leads us to expect.

In the case of Chile, however, there is little evidence that population heterogeneity is any greater or lesser than in other Latin American countries except, perhaps, for Brazil, where the heterogeneity is particularly extensive, but the civil society sector proportionately smaller than in Chile rather than larger as this theory would predict. And statistical analysis has failed to find any significant relationship between the levels of ethnic, religious or cultural heterogeneity in countries and the size of their civil society sectors.

The failure of these theories results from what economic sociologist Mark Granovetter (1985:483) once termed “an under-socialized conception of human action”: they assume that decisions about whether to turn to nonprofits, markets, or governments to supply collective goods are made by free-wheeling individuals operating in perfectly functioning markets and democratic political regimes. Instead, we have formulated a “social origins” theory that takes account of the power relationships among key socio-economic groupings—landed elites, commercial and professional business interests, workers, and government and military officials—during key periods of historical development (Salamon et. al. 2017).

Armed with this theory, we are able to identify certain distinctive patterns of civil society outcomes, each of which can be traced to a particular pattern of power relations in society. Most of the Latin American countries for which data are available fall squarely into the “statist pattern” characterized by a relatively small civil society workforce, limited volunteer participation, and a low level of government support to civil society organizations. The social origins theory attributes such an outcome to the persistence into the modern era of strong landed elite power eventually broken by reformist political revolutions that install reform-minded governmental or military elites allied with strong commercial or industrial elites and committed to rapid economic change, often through top-down programs of import-substitution industrialization. Chile’s civil society sector comes close to fitting this pattern in terms of its overall size, though that size is well above the average for the countries in this pattern. With regard to its other dimensions, such as its reliance on volunteers, its involvement in service activities, and the extent of its government support, however, Chile’s civil society sector diverges sharply from the statist pattern, suggesting that it is in transition, most likely toward a pattern we term “welfare partnership”.

How well does the social origins theory account for these developments? The answer, as laid out in more detail elsewhere, is “fairly well” (Irarrázaval, Salamon,

and Sokolowski, 2017). Chile entered the late nineteenth century with a social and economic structure typical of Spanish colonial areas, with a powerful landowning and mining elite, a fairly conservative Catholic hierarchy, and limited civil society development. However, a political power struggle and a brief civil war at the turn of the 19th century led to an outcome fairly unusual for Latin America: a social compromise among conflicting class interests of landowners, middle-class commercial and professional groups, and the working classes. Brokered by a set of newly emerged political parties and supported by the Catholic Church, this compromise established a relatively peaceful period of political stability by creating a redistributive mechanism that channeled public funds to civil society organizations affiliated with the main political parties and the Church to carry out service activities on behalf of the state. This quasi “welfare partnership” arrangement persisted in Chile throughout most of the 20th century, and resulted in a substantial expansion of the civil society sector’s capacity. However, a 1973 military coup d’etat in response to the rise to power of a left-wing government led to policies that severely squeezed the organizational capacity of the sector for an extended 20-year period and cut back sharply on its governmental support. The end of the military dictatorship in 1990 re-established the earlier compromise pattern and led to a resumption of the building of a welfare partnership model, a process that the data presented in the body of this report remains very much still under way.

Whether Chile can serve as a model for how civil society sectors in other Latin American countries might evolve remains to be seen. Much will depend on how social and political relations in these other countries evolve. What is clear, however, is that this book stands as a model for how useful it is for Chile to generate regular empirical data to chart its evolution and alert sector leaders, government officials, and citizens generally of the important role that Chile’s civil society sector plays in the evolution of Chilean society and possibly of the entire Latin American region. With the key methodological and definitional components of the Johns Hopkins Comparative Nonprofit Sector Project recently broadened and integrated into the United Nations-mandated System of National Accounts, the official guidance system for international economic statistics, Chile has available to it an established process for generating such internationally comparable data regularly into the future. It is to be hoped that this book might help encourage Chile’s government and central bank to undertake such a task. For now, the country owes a debt of gratitude to the band of scholars at the Center for Public Policy of the Pontifical Catholic University of Chile, and the funders that underwrote their effort, for the fine portrait of Chile’s civil society sector presented here, in which we were proud to lend a hand.

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Salamon, Lester M., S. Wojciech Sokolowski, and Megan Haddock (2017), *Explaining Civil Society Development: A Social Origins Approach* (Baltimore, MD: Johns Hopkins University Press).

Civil society is constituted by citizens who gather freely to procure a collective good. Considered also as the expression of sociability and creativity, characteristic of the human person, it is an area that operates beyond the realm of the state and the marketplace, rather being a space of mediation between these entities and the individual. Civil society acts as a place where solidarity and autonomy prevail, and where the expression of public interest is manifested.

The concept of civil society organization (CSO), used in this study, has been previously defined by the Center for Civil Society Studies at Johns Hopkins University (JHU) and considers five fundamental characteristics: being an organization, being autonomous, not sharing profits among members, being voluntary, and being private.

Just like the state and the marketplace, civil society organizations require information that makes their work transparent, thereby increasing the interactions and trust between these organizations and their environment. The contribution of this sector (in terms of size, composition and resources it mobilizes) is not known, and the only existing data are those of the Comparative Study of the Non-Profit Sector (Irrarrázaval et al. 2006), which showed for the first time the true size of the non-profit sector in Chile. After a decade, it becomes necessary to re-size and characterize Chile's CSOs.

In this context, in 2015, the Society in Action project was born, an initiative of the Center for Public Policy of the Catholic University and the Chile+Hoy Foundation, whose objective is to highlight the importance of civil society organizations through the collection of evidence, data and indicators that allow them to be observed and position them as a topic of public relevance<sup>4</sup>. In particular, the interest of this initiative is to know the breadth and importance of the sector, in terms of the number of existing organizations, level of income and employment that it generates, participation in the GDP, number of volunteers it mobilizes, among other topics. For this, as in the previous study, the conceptual and methodological framework developed by the Johns Hopkins University (JHU) was used, which has been applied to more than 45 countries since 1990, allowing the results to be understood within an international comparative context.

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4. For more information about the Society in Action project, visit the website [www.sociedadnacion.cl](http://www.sociedadnacion.cl)

This document is an abstract of the book “Society in Action: Strengthening Chile through civil society organizations”<sup>5</sup> published in 2017 by the Center for Public Policy of the Pontifical Catholic University of Chile. The publication shows the results of two years of research carried out by this project.

For this document, the most relevant chapters were selected and edited in order to know in detail the Chilean civil society sector. Next, the reality of Chilean CSOs is exposed in their institutional, social and economic levels, and an analysis of the existing tax incentives for donations. The main findings of this study relate not only to the dramatic increase in terms of the number of organizations, but also with their highly positive social valuation, especially in the current national context of widespread mistrust. In addition to this, Chile occupies an outstanding position compared to the rest of Latin America.

These results are very interesting, especially because they do not conform with the prevailing theories about civil society. One of them links the size of this sector with the level of economic development of the country, however, as Lester Salamon points out “*Chile ranks among the world’s high-income countries, but Chile lags far behind other high-income countries in the relative size of its civil society workforce, and particularly far behind when it comes to the paid portion of its civil society workforce. Whatever accounts for the shape of the civil society sector in Chile, therefore, cannot be attributed solely to its level of economic development*” . On the other hand, Chile has social and cultural characteristics in common with almost all Latin American countries, which is why this could not explain such a big difference between the Chilean CSOs sector and its neighboring countries. The heterogeneity of its population is not a sufficient explanation either, since it is also quite similar to that of other countries in the region and, in fact, it is clearly less heterogeneous than in Brazil, a country with a civil society sector smaller than that of Chile.

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5. The complete book (in Spanish) can be reviewed at <https://politicaspUBLICAS.uc.cl/publicacion/otras-publicaciones/sociedad-en-accion-construyendo-chile-desde-las-organizaciones-de-la-sociedad-civil/>

6. Salamon, Lester in Society in Action: Strengthening Chile through civil society organizations.



# 1

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Chapter

## **INSTITUTIONAL SCAN OF CIVIL SOCIETY ORGANIZATIONS**

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## INSTITUTIONAL SCAN

This section presents the institutional scan of civil society organizations, which offers a picture of the CSOs that currently exist and are registered in Chile, allowing us to know not only how many they are, but also how they are distributed geographically, which activity they are engaged in, and since when they exist. The main contribution of this scan is being a unified and updated registry of CSOs in Chile. Although the Civil Registry and Identification Service, through the Registry of Non-Profit Legal Entities, lists the organizations that are governed by Law 20,500 (most CSOs), there are many other organizations that, because they are governed by special laws (such as the Indigenous Law), are not present in that registry. Therefore, through this study, it is possible to measure the size of the sector considering all the organizations that are registered in some type of registry.

This scan also serves as a sampling frame for the face-to-face survey applied to the organizations, the main results of which are provided in the economic scan section. This survey aims to measure the economic contribution of CSOs in terms of employment, volunteering and resources they manage.

The detailed results of this institutional scan can be reviewed in the report *Map of the 2015 Civil Society Organizations*<sup>1</sup>, published in January 2016. Some of its main results will be presented in this section.

## Methodology

In order to elaborate the institutional scan of CSOs, it was first clearly defined what is meant by civil society organization. A structural and operative definition from the Johns Hopkins Center for Civil Society Studies (Salamon and Anheier, 1997) was used, which establishes five criteria and, for each of them, defines a test expressed by a decision tree. According to this definition, this scan considers entities that are:

- **Organizations:** It must have an internal structure, stability in their objectives, and articles of incorporation. According to this definition, the legal status of the organization is not a requirement to be considered a CSO.
- **Self-governing:** It must control its own activities, have its own internal governance procedures, and enjoy a significant degree of autonomy.
- **Not profit distributing:** It cannot distribute profits among its members. If it accumulates surpluses, these must be reinvested in the organization.
- **Voluntary:** Participation, membership or contribution of time or money should not be mandatory or required by law.

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1 Available (in Spanish) on <http://politicaspUBLICAS.uc.cl/publicaciones>

- **Private:** It must exist separately from the state, and cannot be an instrumental unit of the government. However, it can receive funding or contributions from the state, and can have public officials among their directors.

Currently, Chile does not have a database that compiles all the organizations that are part of civil society, so it was necessary to rely on various secondary sources to produce a consolidated database of all CSOs registered in Chile. First, a list<sup>2</sup> was made with the type of organizations of interest, the law that regulates each of them, the institution in charge of keeping records, and the way to access them (web page or formal request through the Transparency Law). The majority of the data obtained comes from the Registry of Non-Profit Legal Entities.

In a second stage, different variables of interest were created to standardize the databases and later consolidate them. One of these variables was the International Classification of Non-Profit Organizations (ICNPO)<sup>3</sup>. In addition, other key variables were built for the analysis of the information, such as location and date of registration of the organizations, which were imputed to the different organizations. Once the different databases were integrated, the data was refined, eliminating the duplicate cases, the organizations that do not comply with the presented definition of CSO, and those that are not of interest for the study (such as organizations no longer active).

## Main results of the institutional scan

**There currently are 234,502 civil society organizations in Chile, proportionally more than in the United States and Australia.**

The consolidated database allowed us to know that there are 234,502 civil society organizations in Chile registered by 2015.

This number (which does not consider branch offices) represents a rate of 13 organizations per 1,000 inhabitants. When comparing this number internationally, Chile doubles the estimated rate for Australia (6.7 per 1,000 inhabitants) and almost triples that of the United States (4.8 per 1,000 inhabitants)<sup>4</sup>.

The existence of organizations constitutes an important aspect of the social capital of the different countries, to which subjective elements such as trust and reciprocity are added. The previously mentioned rate shows that, at least in structural terms, Chile has a significant associative advantage in the international context.

2 The detailed list is presented in the book *Society in Action: Strengthening Chile through civil society organizations*

3 ICNPO: International Classification of Non Profit Organizations, Center for Civil Society Studies, Johns Hopkins University. For more detail about the origin of the ICNPO, visit [http://unstats.un.org/unsd/publication/seriesf/seriesf\\_91e.pdf](http://unstats.un.org/unsd/publication/seriesf/seriesf_91e.pdf)

4 The CSOs data for Australia were obtained from the Johns Hopkins Comparative Nonprofit Sector Project. <http://ccss.jhu.edu/publications-findings/?dltag=australia>

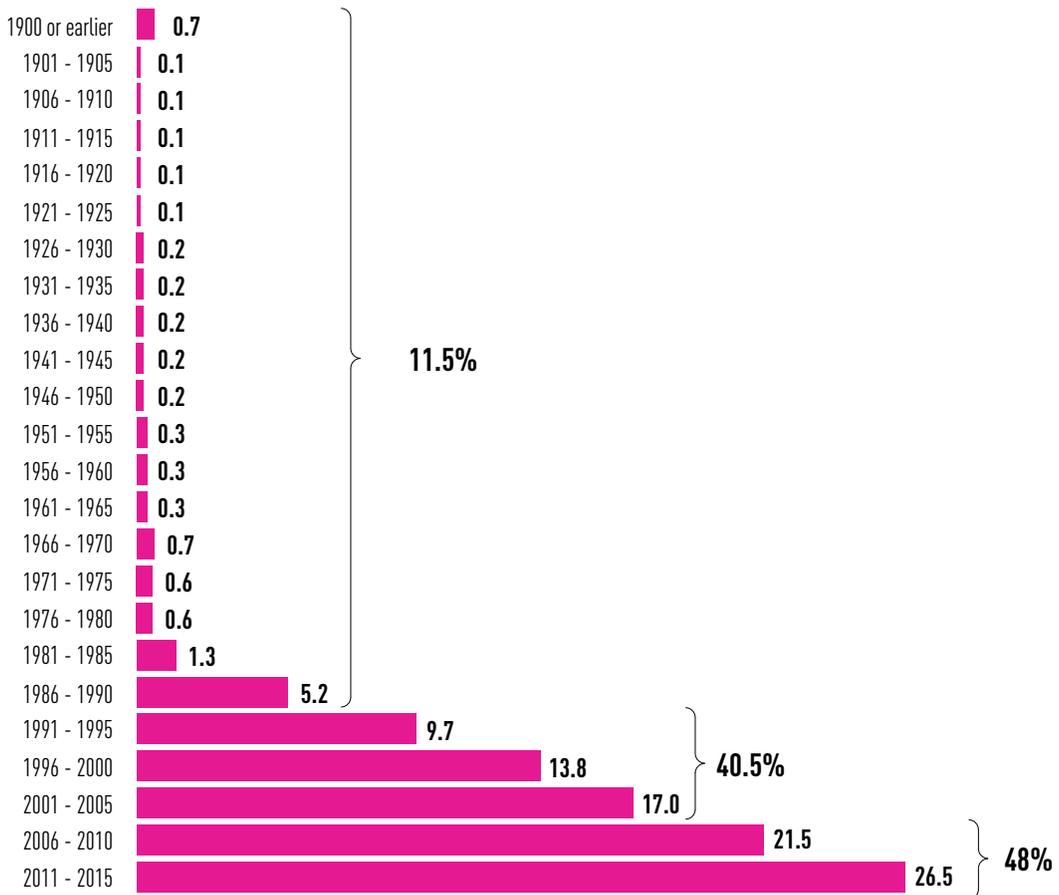
The CSOs data for the United States were obtained from the National Center for Charitable Statistics. <http://nccs.urban.org/statistics/quickfacts.cfm>

The population data for Australia and the United States were obtained from the World Bank. <https://data.worldbank.org/indicator/SP.POP.TOTL>

**The civil society organizations that exist today in Chile are relatively young.**

A second finding shows that the CSOs that exist today in Chile, are relatively young<sup>5</sup>. According to the seniority of the organizations, some remarkable milestones can be found, such as the fact that almost 90% of them began to exist formally in the 1990s, which coincides with the return to democracy in Chile. Another noteworthy milestone is the fact that almost half of the organizations (48%) were registered after 2006, so they are barely more than ten years old, which is related to the creation of Law n° 20,500 and the increasing formalization process that has made them visible thanks to the different registers that have been implemented.

**FIGURE 1. ORGANIZATIONS ACCORDING TO REGISTRATION YEAR SECTIONS**



Source: Society in Action Project  
 Valid N: 215,569 cases.

<sup>5</sup> In some cases, only the year in which the organizations were registered is known, which does not necessarily coincide with the year in which the organization began its activities.

### **Civil society organizations are distributed in a decentralized manner throughout the country**

A third aspect to highlight is the fact that CSOs are distributed in a decentralized manner throughout the country. Although the Chilean population is highly concentrated in some specific regions, CSOs do not have the same behavior and their distribution is much more uniform throughout the territory. Thus, while more than 40% of the population is concentrated in the Metropolitan Region, only about 27% of the organizations are registered in this region.

### **There is a wide diversity in the fields of work of civil society organizations, but not in their regulatory framework**

The CSOs in Chile are quite diverse in terms of the subjects they are dedicated to. In order to observe the particular activity of their efforts, the categories of the International Classification of Non-Profit Organizations (ICNPO) were used. The data show that the main activities are carried out in the fields of *Social Development and Housing, and Culture and Recreation*. In the third and fourth place are the categories of *Education and Research, and Business and Professional Associations, Unions*. The organizations with the least presence in Chile correspond to the fields of *International, Environment, and Philanthropic Intermediaries and Voluntarism Promotion*.

However, there is a significant degree of concentration regarding the regulatory framework that governs them. It can be seen that about 80% of CSOs are community and functional organizations, neighborhood associations or confederations of neighborhood associations. In other words, four out of every five organizations that currently exist in Chile fall within this legal-institutional category. Of the remaining 20% of the organizations, it is observed that unions and foundations and associations not subject to special laws, represent more than 6% of the total. This may be due to the great diversity of organizations that exist in the category of functional organizations, such as folk groups, workers associations, chambers of commerce, housing committees, sports clubs, mothers' centers, parent and guardian centers, youth groups, civic associations, producer associations, Rotary clubs, and many others. All of them are governed by the same law and are joined, though not exclusively, by the Registry of Non-Profit Legal Entities, which is run by Chile's Civil Registry and Identification Service.



# 2

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Chapter

## **SOCIAL SCAN OF CIVIL SOCIETY ORGANIZATIONS**

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## SOCIAL SCAN

There is continuous information about how citizens, users and people in general perceive and value the actions of various institutions such as the government, the parliament, the corporations, the education system, etc. However, little or nothing is known about their perceptions regarding the regular work of civil society organizations. In this section we present the main results of the study “Civil Society Organizations from the Chilean Perception: First Index of Social Valuation in Chile, 2016”<sup>6</sup>. This study seeks to know how Chilean society values CSOs and the work they do. In order to do this, together with measuring the knowledge of the sector and level of citizen participation in it, a social valuation index was constructed in order to measure these organizations from a perceptual point of view.

## Methodology

In order to collect information, two studies were carried out: one quantitative and the other qualitative. For the first, whose main results are presented below, a representative survey of the Chilean population over 18 years of age was carried out. For this, a stratified sample was used, and a questionnaire was applied to 1,500 people, achieving a maximum sampling error of 2.7% with a confidence level of 95%. Subsequently, a weight function was created based on the population projections of Chile’s National Statistics Institute for June 2015, considering region, sex, area (urban, rural) and age (in sections). The fieldwork was carried out between October and December of the year 2015<sup>7</sup>. The applied questionnaire considered three relevant aspects: knowledge, participation and social valuation of CSOs.

## Main results of the social scan

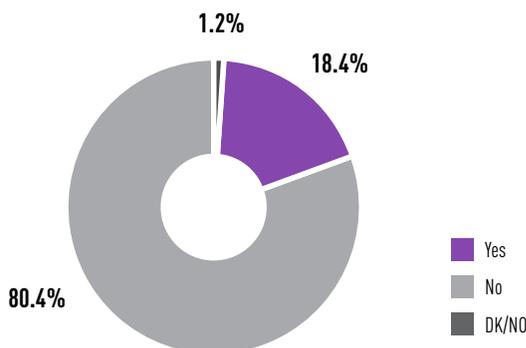
### The parts are better known than the whole

The first result of the survey refers to the level of knowledge that Chilean population has about civil society organizations. In this regard, it is interesting to note that the concept of “civil society organizations”, as a general whole, is lesser known than the different organizations that comprise it. As Figure 1 shows, while almost 80% of the population claims never to have heard the term “civil society organizations”, when asked about specific organizations, ignorance decreases dramatically; in fact, only 4.1% of the population has never heard of any of the organizations mentioned in the study.

6 For more details, see: Civil Society Organizations from the Perception of Chileans. First Index of Social Valuation in Chile, 2016, published in May 2016. Available (in Spanish) at <http://politicaspUBLICAS.uc.cl/publicaciones>

7 Both the design of the sample and the field work were carried out by the research firm DataVoz.

**FIGURE 1. PEOPLE WHO HAVE HEARD THE TERM “CIVIL SOCIETY ORGANIZATIONS” (%)**



Q: Have you heard the term “Civil Society Organizations”?

Source: Society in Action Project’s Social Valuation Survey, 2015.

N = 1,505 total cases

The most well-known entities are organizations that provide social services (90% know at least one), followed by functional organizations (about 87% know at least one). Meanwhile, the lesser-known organizations are business associations, professional associations, and unions, although two thirds of the population have heard of some of them.

### Participation rates in civil society organizations are “intermediate”

In Chile there is a high capacity for organization and associativity. Despite this, when talking about participation, the picture changes significantly. Thus, Chile is internationally ranked 88 out of 145 countries in the Gallup survey participation ranking (2015), below the world average, although slightly above the average for South American countries. Regarding this issue, the data from this study show that about 40% of the Chilean population has participated in some civil society organization at some time in their life, although in the last year no more than 30% has done so.

The study shows that membership is the most common form of participation of the Chilean population: around half of the people declared to be an active member of an organization. At the same time, donating money and participating in specific activities has called for around 45% of the population in the last year, both of which are especially recurrent in the population between 30 and 49 years old. In contrast, working actively in a CSO, both voluntarily and paid, is the least common form of participation within the population. On the other hand, support for causes or activities through social networks stands out as a new and emerging form of participation, being a form of participation that occurs especially in the population that is between 30 and 49 years old and is significantly low in the population over 60 years old.

### CSOs have a highly positive social valuation from citizens, in a context of widespread distrust

As part of the study, a social valuation index of the CSOs was built, which, in addition to capturing the current moment, allows to monitor the evolution of this dimension within the population over time. This high positive valuation from Chilean society is very relevant, because it provides validity and support to CSOs to act within society.

The index is composed of three dimensions that, according to the literature (Salamon, 2002; Edwards, 2011; OECD, 2013; World Economic Forum, 2013; Wixley and Noble, 2014), would account for this positive valuation and affect the perception the population has towards them. First, there is an appreciation of the ability of organizations to perform their functions and achieve their objectives (capacity dimension). Secondly, the perception of the ability of organizations to adapt to the social realities in which they operate (adaptability dimension) is considered. And the third one is the feeling about their integrity and goodwill (dimension of trustworthiness). In order to study in more detail the social valuation of CSOs, each of the three dimensions was broken down into two sub-dimensions, which are presented in the following table:

**TABLE 1. DIMENSIONS AND SUB-DIMENSIONS OF THE SOCIAL VALUATION**

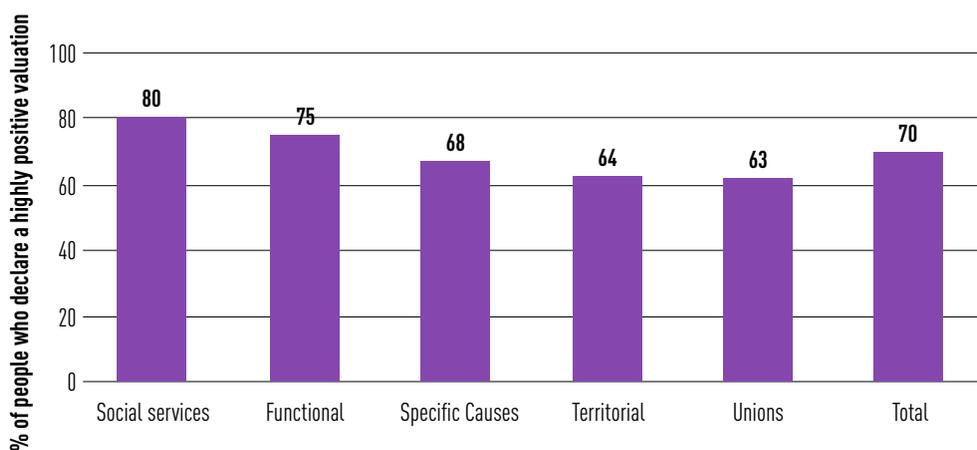
Concept	Dimension	Sub-dimension
Social Valuation	Capacity	Quality Speed
	Adaptability	Tuning Flexibility
	Trustworthiness	Vocation Autonomy

Taking into account the different dimensions and sub-dimensions of the social valuation considered by the study, it is possible to conclude that more than half of the Chilean population gives a “high valuation” to all types of organizations, since they appear in all the attributes or sub-dimensions with a positive valuation percentage equal to or greater than 50%. Analyzing by attribute, quality is the best evaluated dimension in the five types<sup>8</sup> of organizations studied. On the contrary, autonomy appears as the sub-dimension with the least positive mentions.

Regarding the type of organization, those oriented to provide social services were the best evaluated in all aspects, reaching an 80% positive valuation. For their part, business associations, professional associations, and unions were the ones that received the lowest valuation, but it was still a 63% positive valuation.

<sup>8</sup> Functional organizations - Territorial organizations - Social services - Organizations that defend specific causes - Business associations, professional associations and unions.

**FIGURE 2. PEOPLE WHO DECLARE A “HIGHLY POSITIVE VALUATION”, BY TYPE OF ORGANIZATION (%)**



**Source:** Society in Action Project’s Social Valuation Survey, 2015.

N Functional: 1,105

N Territorial: 1,063

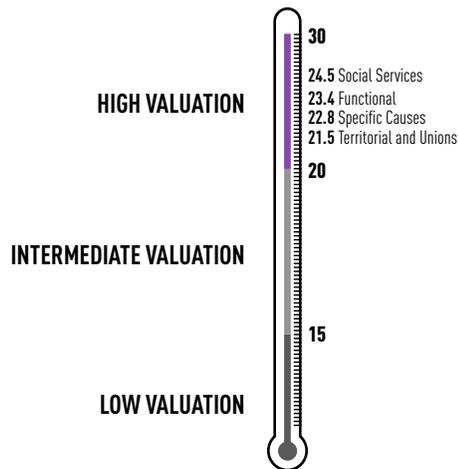
N Specific causes: 874

N Social services: 1,204

N Business associations, professional associations, and unions: 817

Diagram 1 presents a social valuation index of CSOs. Their values can range from 0 to 30, with 0 corresponding to a low valuation and 30 to a maximum valuation. In this sense, it can be seen how this sector receives a highly positive valuation from Chileans towards all the organizations that comprise it. This high valuation has some nuances, varying by type of organization and by the aspects that can be evaluated; however, more than half of the interviewed gave a positive valuation to all organizations and in all aspects. Although the index has not yielded a maximum valuation, equal to 30, the results are very good news for the non-profit sector, considering the current climate of distrust and low valuation from the Chilean population towards institutions from the public and private sectors, as the Bicentennial National Survey UC-Adimark shows: many institutions are barely trusted at all by Chileans (for example, parliament and political parties, in which less than 5% of the population trusts them).

**DIAGRAM 1. SOCIAL VALUATION OF CSOs**



**Source:** Society in Action Project's Social Valuation Survey, 2015.

Chileans believe that CSOs act demonstrating the capacity to deliver quality results in an expeditious manner. Second, they are able to adapt to different situations, with flexibility and in tune with the social realities in which they operate. And finally, they inspire high trustworthiness in their actions, showing vocation and autonomy. However, the legitimacy on which the different organizations rest, a key aspect for their functioning, is a fragile quality, which is maintained through time only with the capacity, adaptability and trustworthiness that they demonstrate in their actions. Transparency and professionalism is a constant challenge that, especially in a climate of high mistrust, should not be neglected.

# 3

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Chapter

**ECONOMIC SCAN  
OF CIVIL SOCIETY  
ORGANIZATIONS**

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## ECONOMIC SCAN

In this section, three key dimensions of Chilean civil society organizations are analyzed in an international comparative context, allowing us to measure the economic size of the organizations that are part of this sector.

The analysis focuses specifically on three variables: the employment they generate (paid and voluntary), the resources they mobilize, and the sources of their incomes. The conceptual and methodological framework developed by the Center for Civil Society Studies at Johns Hopkins University (JHU) is used as a basis.

The following paragraphs present the methodology first, and the main findings in comparative perspective later.

### Methodology

In order to measure the three proposed dimensions -resources (in terms of expenditure and income), paid employment and volunteering-, the methodology of the JHU defines, first, the identification of potential secondary sources of information, such as the National Accounts System, public information about public registers, or surveys conducted by other entities, in order to determine what data are available, which variables have been measured, and for what fraction of the CSOs they were applied. And second, and based on this diagnosis, the methodology suggests to develop a strategy to cover the information gaps detected.

In Chile there is no entity that centralizes the variables of interest of this study for the CSOs universe. While there is information collected by the Central Bank or the Ministry of Justice, among other institutions, their databases include subsets of organizations that have been established according to the objectives of their own registries. Therefore there is a significant lack of consolidated information. In this context, and following the methodology of the JHU, for this study it was necessary to carry out a process of collecting primary information to complement the identified secondary sources, and thus cover Chile's entire CSOs universe. It was decided, then, to design a sample of national representativeness, which uses the *Map of Civil Society Organizations* as a sampling frame. Additionally, administrative records were used as a source of secondary information. In sum, the estimates that are made here arise from mixed mechanisms of information collection<sup>9</sup>. The construction of the sample was carried out by the research and consulting firm DataVoz / Statcom<sup>10</sup>.

9 The methodological details can be found in the book *Society in Action: Building Chile from Civil Society Organizations*.

10 In addition to constructing the sample, the research and consulting firm Data Voz / Statcom carried out the fieldwork. <http://www.datavoz.cl/>

## Civil society organizations: international and national concept<sup>11</sup>

As mentioned in the institutional scan, the JHU Center for Civil Society Studies defines five criteria that define membership in civil society organizations and that have been considered in this study to establish the universe of this sector in Chile. Respecting the international definition is imperative to allow the comparison of the information obtained for Chile with that of other countries. As shown in Table 1, the international CSO concept includes a very wide diversity of organizations, which is not fully consistent with the social representation of CSOs that exists in Chile, since it includes some types of organizations that in our country are not perceived as part of this sector, such as universities and political parties. Therefore, a second definition was created, which was called the national concept, based on a subset of CSOs<sup>12</sup>, which excludes the following groups: universities, unions, trade associations and political parties. According to the above, the results are mainly presented from the international concept, allowing to make comparisons with other countries and with the research carried out in 2004.

**TABLE 1. CIVIL SOCIETY ORGANIZATIONS: NATIONAL CONCEPT VS. INTERNATIONAL CONCEPT**

National concept	International concept
Educational organizations	All organizations included in the national concept plus:
Community organizations	Universities (public non-state)
Social service organizations	Political parties
Environmental organizations	Trade unions
Rights defense organizations	Trade associations
Cultural and artistic organizations	
Sports organizations	
International organizations	
Health organizations (non-state)	

Source: Society in Action Project, 2015.

11 All the statistics about non-profit institutions that are used for the comparative purpose in this study exclude religion, that is, organizations such as parishes or churches whose activities are related to worship. This is due to the difficulty that there has been both in Chile and in other countries to collect quality information in this category. However, organizations that belong to the churches and that provide social, educational and other services, such as children's homes, soup kitchens and schools, among others, were included.

12 This national definition was reached through a consultation process carried out with some representatives of civil society, who are part of the Consultative Council of the Society in Action project.

## MAIN RESULTS: ECONOMIC SCAN

### Chilean civil society organizations in a comparative context

Civil society organizations, in addition to being an important social actor, are also relevant in the generation of employment and economic resources<sup>13</sup>. Chilean CSOs represent 2.1% of GDP in terms of expenditures, which corresponds to USD 5,028 million. The resources they mobilize in terms of the proportion of GDP are comparable to those of an important sector of the economy such as the hospitality and restaurant sector.

On the other hand, as shown in Table 2, they represent a significant proportion of employment.

**TABLE 2. ECONOMIC SCAN OF CHILE'S CSOs IN 2015. DEFINITION OF INTERNATIONAL CONCEPT (INCLUDES ALL ICNPO CATEGORIES, EXCEPT RELIGIOUS WORSHIP ORGANIZATIONS<sup>14</sup>)**

310,119 Full time equivalent (paid and volunteer)	145,254 paid jobs 164,865 volunteer jobs 3.6% of the economically active population
USD 5,028 million in expenditures	2.1% of GDP

**Source:** Society in Action Project  
International concept, N expanded: 196,455 cases.

Civil society organizations have a peculiarity compared to other sectors of the economy, since a significant proportion of the people who dedicate their time to them do so voluntarily, without receiving a material retribution for it. The measurement proposed by the JHU considers both forms of employment (paid and volunteer) as total employment of CSOs; most of the theories and comparisons proposed by the JHU consider the size of the total employment and the internal proportion of it.

13 The measurement carried out by the Central Bank of Chile for non-profit institutions serving households, corresponds to a vision at the level of institutional sector accounts, according to the methodology used by the National Accounts yearly report. This study adopts a satellite view, that is, all non-profit institutions are considered, regardless of the institutional sector they belong to. That is why the figures presented by the Central Bank are of a smaller magnitude. However, they have been contrasted in several stages of the study, finding certain convergences at least in the trends.

14 All the statistics about non-profit institutions that are used for the comparative purpose in this chapter exclude religion, that is, organizations such as parishes or churches whose activities are related to worship. This is due to the difficulty that there has been both in Chile and in other countries to collect quality information in this category. However, organizations that belong to the churches and that provide social, educational and other services, such as children's homes, soup kitchens and schools, among others, were included.

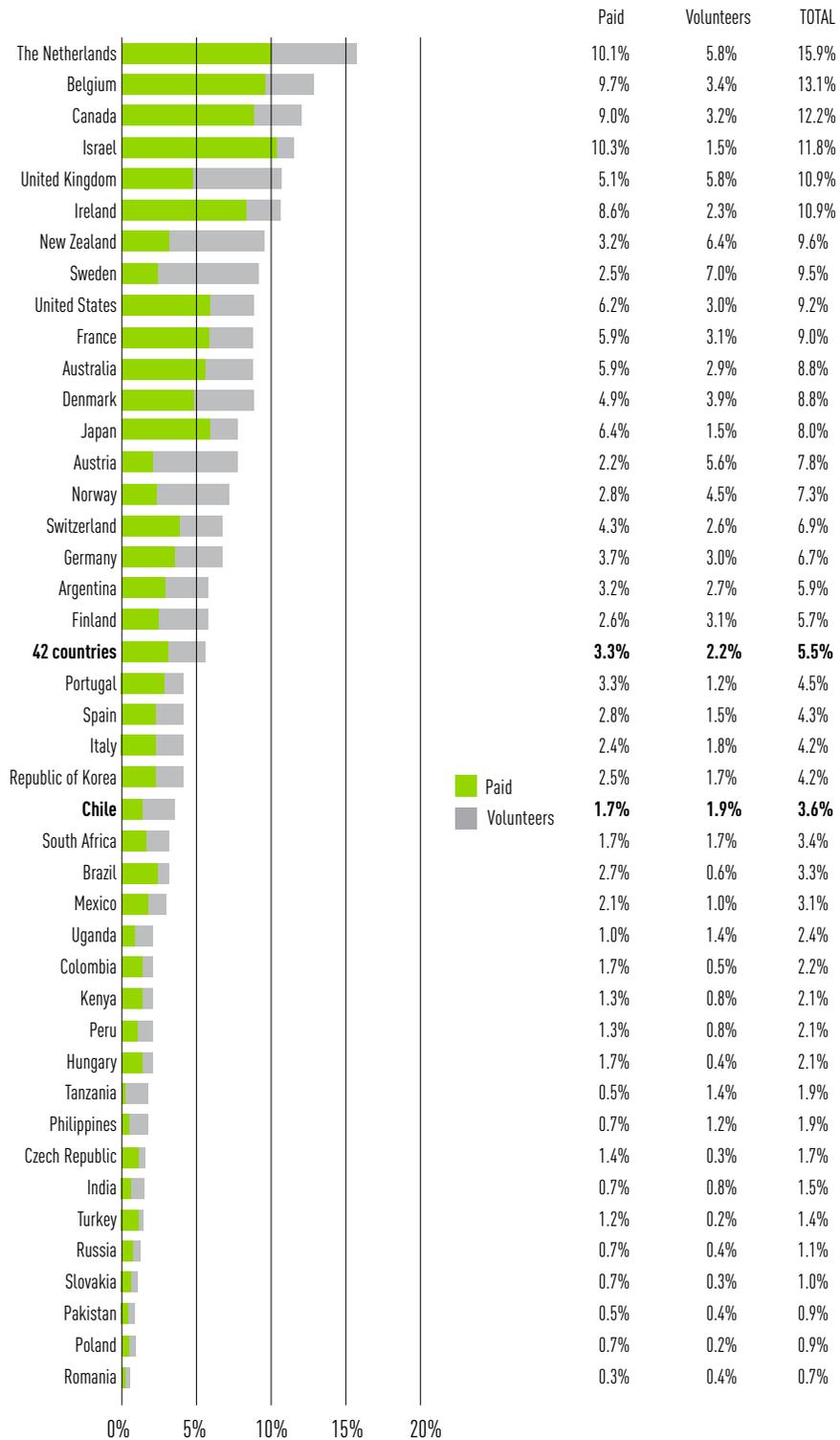
Chilean CSOs generate more than 310,000 volunteer and paid jobs in terms of full-time equivalent (FTE) workdays, which represents 3.6% of the country's economically active population<sup>15</sup>. When looking only at the paid employment they generate, this represents a little more than 145,000 FTE workdays, which represents 1.7% of the labor force.

When presenting paid and volunteer work as a proportion of the economically active population, as an indicator of the size of civil society sector, it is obtained that Chilean civil society sector constitutes an important source of employment. This indicator varies enormously among the countries of the region, with Chile being above other Latin American countries. Only Argentina has a higher percentage of employment compared to the workforce with 5.9% (2% higher than Chile), as shown in Figure 1. However, if only paid employment (1.7%) is considered as a percentage of the economically active population, Chile is below the average of for the 42 countries considered in the chart (3.3%), and even below all other Latin American countries, except for Peru.

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<sup>15</sup> The economically active population is defined in Chile as every person over the age of 15 who is working or available for work (excluding those who are institutionalized or disabled).

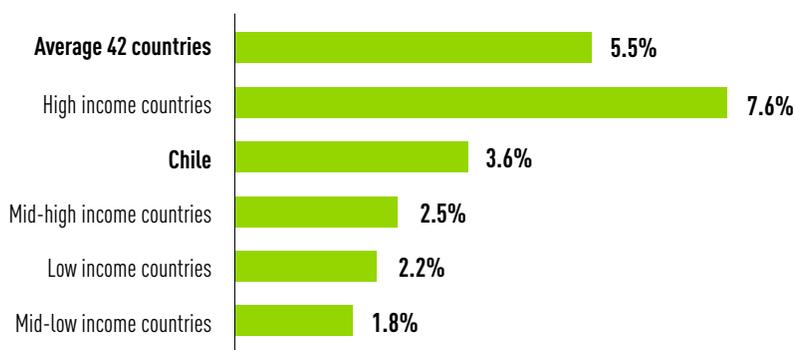
**FIGURE 1. CSOs TOTAL EMPLOYMENT AS A PERCENTAGE OF THE ECONOMICALLY ACTIVE POPULATION, BY COUNTRY.**



Source: Society in Action Project/ Johns Hopkins Comparative Nonprofit Sector Project

Considering the classification of countries used by the World Bank<sup>16</sup>, a relationship can be perceived between the size of the labor force of CSOs and the income level of the countries: high-income countries show a greater proportion of the employment they generate compared to the country’s labor force, while low-income countries have a lower proportion. However, this seems not to be the case for Chile, where the size of the labor force of CSOs is less than half of what could be expected for its income level. Considering that Chile is classified as a high-income country, it could be expected that its performance, in terms of employment generated by CSOs as a proportion of the country’s labor force, would be similar to that of other countries in the same group. As can be seen in Figure 2, Chile is well below 7.6% of high-income countries and also almost 2% below the average of the 42 countries in the study.

**FIGURE 2: SIZE OF CSOs LABOR FORCE, BY INCOME LEVEL, BY COUNTRY**



Source: Society in Action Project/ Johns Hopkins Comparative Nonprofit Sector Project

### A dynamic sector that shows an important growth between the years 2004-2015

When analyzing the data collected in 2004, reported in the Comparative Study of the Non-Profit Sector (Irrarázaval et al, 2006), a great dynamism is observed. The institutional scan previously presented shows the dramatic increase in the number of organizations experienced by the sector in the last decade. The following section explores what happened in terms of economic resources and creation of employment.

<sup>16</sup> The thresholds for the classification of countries according to their level of income are (July 2017): Low income, USD 1,005 or lower per capita; Low median income, between USD 1,006 and USD 3,955 per capita; High median income, between USD 3,956 and USD 12,235 per capita; and High income, USD 12,235 or more per capita. More information at <https://blogs.worldbank.org/opendata/new-country-classifications-2016>

### CSO resources nearly tripled in that period in terms of spending

Civil society organizations have not only doubled in number, but, as shown in Table 3, they have increased their resources by almost three times in terms of spending, from USD 1,944 million in 2004<sup>17</sup> to more than USD 5,000 million in 2015. It is interesting to note here that rate of growth in resources experienced by CSOs, is higher than the growth rate experienced by the country in the same period. Moreover, this results in an increase in the relative participation of the sector equivalent to 0.6% of GDP. The above reflects the economic dynamism of the sector.

**TABLE 3. TOTAL SPENDING OF CSOs AND SPENDING AS A PERCENTAGE OF GDP 2004 - 2015 (US DOLLARS, REAL CURRENCY 2015)**

Year	Spending	% of GDP
2015	USD 5,028 million	2.1%
2004	USD 1,944 million	1.5%

Source: Society in Action Project

### Paid employment increases by 12% between 2004 and 2015 (measured in full-time equivalent workdays)

Paid employment measured in FTE increased by 12% between 2004 and 2015, from 129,810 to 145,254, respectively. This increase can be read in positive terms and consistently with the reported dynamism. However, this is not the case in relative terms: when measured as a percentage of the labor force, there is a decrease of 0.3%, from 2% in 2004 to 1.7% in 2015.

### CSOs, a sector with diversified financing

A particular feature of CSOs is the origin of their financing, which comes from different sources, unlike private companies, whose income mainly comes from the sale of goods and services, or from the government, whose fundamental source are taxes. According to the classification proposed by the Johns Hopkins University, the incomes of this sector are grouped into three categories: **self-generated income**, generated by the organization itself as payment for the sale of goods and services, membership payments and return on investments; **philanthropic income**, which includes donations from individuals and businesses; and **government or public sector income**, which includes grants, payments under contracts or agreements, transfers and competitive funds. Despite what one might expect for a non-profit or “charitable” sector, philanthropy is not the main income source, but rather the opposite.

Figure 3 shows how civil society organizations, in terms of resources, operate under true public-private collaboration. Self-generated income from payments (or rather co-payments) for the

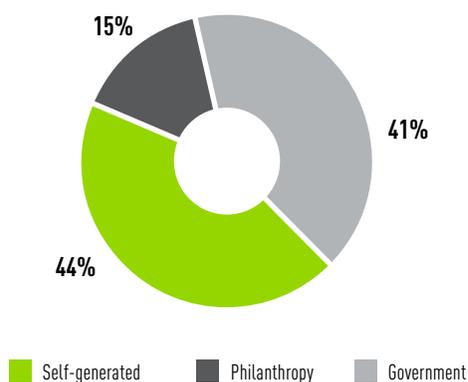
<sup>17</sup> The number estimated for 2004 is expressed in constant USD of 2015, which is why it differs from the figure originally published.

activities or services they provide represent 44% of the total. This proportion is quite similar to the 41% received from the government. The difference between both sources is considerably lower than that detected in 2004, when there was a 10% gap between them, and the government was the main financier of CSOs with 46% of total income. Nevertheless, the government continues to be an important actor in terms of resources for the civil society sector. In Chile, a large part of the government contribution to CSOs is through subsidies, transfers and competitive funds. Some of the most important subsidies are the system of grants to education and institutions that collaborate with Chile’s National Children’s Service.

Within the sources of financing, self-generated income has increased their participation over time, from 36% of the CSOs’ total resources in 2004, to 44% in 2015. This evolution shows that organizations today are making a greater contribution effort to meet the goals they have set.

**FIGURE 3: INCOME SOURCES OF CHILEAN CSOs**

**International concept, 2015**



CSO Income (international concept) = USD 5,350 million.

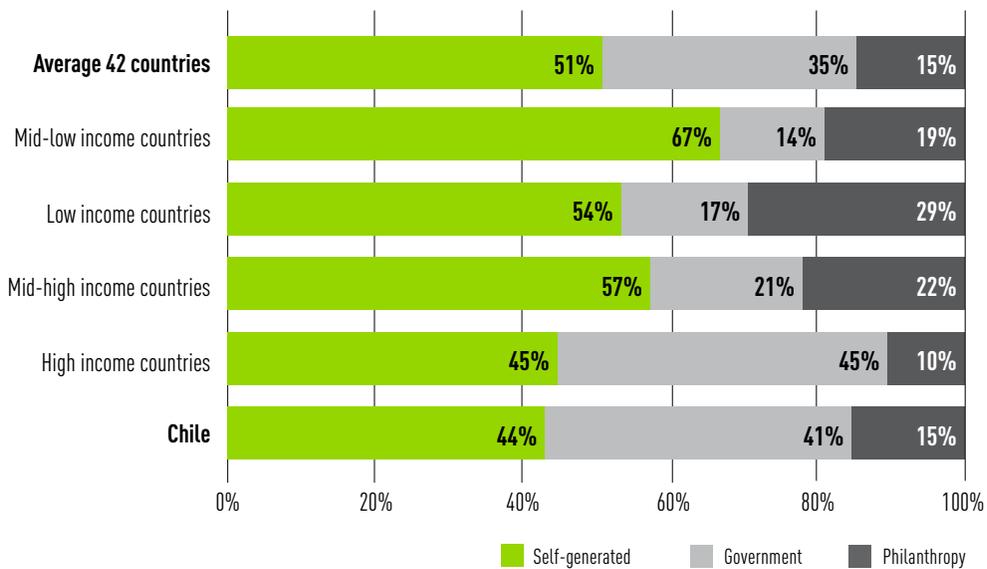
Source: Society in Action Project

At the international level, for the average of the countries included in the JHU study, self-generated income amounts to 51% of the total, while government contributions amount to 35%, and philanthropy reaches 14%.

The structure of income sources for Chilean CSOs is significantly different from other Latin American countries, where government financing is considerably lower. Although Chile is classified in the group of countries in which self-generated income is preponderant, it is clearly transitioning towards a civil society sector with a mixed financing between self-generated and government financing.

In this sense, Chile presents an income structure very similar to that of high income countries, whose CSOs receive an average 45% of their income from the government, very close to the 41% received by Chilean CSOs, as Figure 4 shows.

**FIGURE 4: FINANCING STRUCTURE OF THE CSOs BY SOURCE OF INCOME AND INCOME LEVEL OF THE COUNTRY (%)**



**Source:** Society in Action Project / Johns Hopkins Comparative Nonprofit Sector Project

The decimals were rounded to the nearest whole integer, which can produce a difference in +/- 1% in the total of each category.

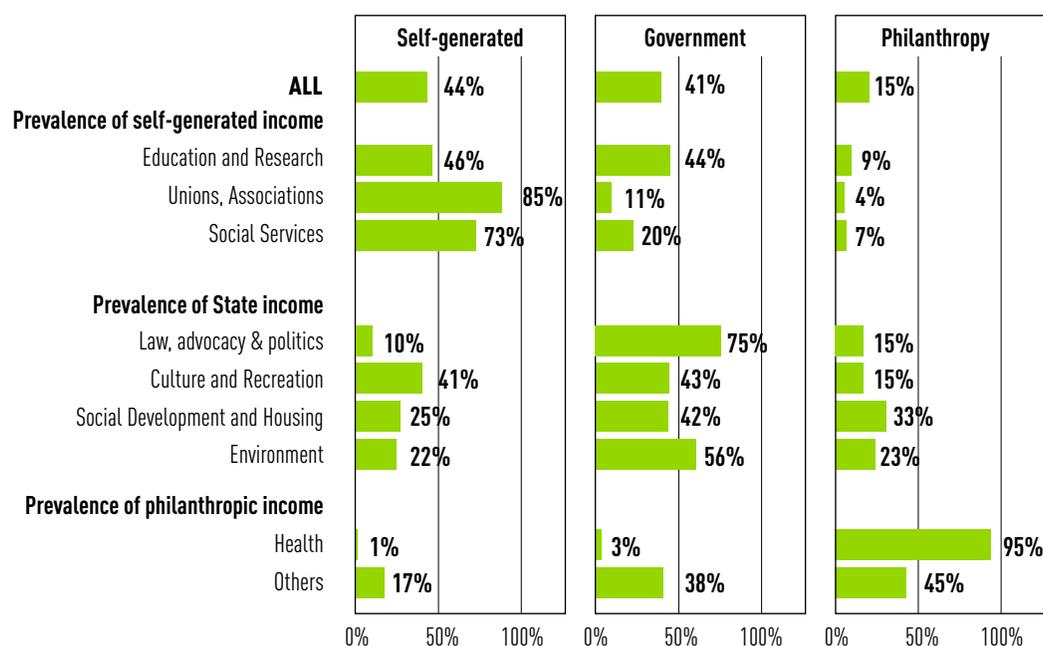
As seen in Figure 4, philanthropy is not the main source of income in any of the 42 countries in the study, and it does not exceed 15% on average, which is the same percentage for Chile. In low-income countries, philanthropy represents a more relevant percentage, with an average of almost 30%.

Analyzing the Chilean case, philanthropy has decreased in relative terms, from an estimated 18% in 2004 to 15% in 2015. Although the absolute amount of donations has increased significantly, its participation in the total income of civil society organizations has decreased by 3%.

Even though it is not possible to define the optimal revenue structure for CSOs, it is evident that it is convenient to diversify the sources of income so that the organizations can have greater freedom in their operation and fulfill their founding mission. On the one hand, if a large part of the financing comes from the government, it can lead to co-optation; on the other, a financial structure based mostly on self-generated income can lead to a commodification. In this sense, though philanthropy is the least significant source of financing worldwide, it plays a very important role in creating greater spaces of freedom and potentially counteracting the extreme scenarios described above.

In this context, Figure 5 shows the structure of CSO income sources grouped according to the most important source. In the case of CSOs for which self-generated income is the main source of financing, education and research exhibit a partial predominance, mainly explained by the payment of tuition and copayments in education. The case of social services is different, as they have a higher share of self-generated income, and show a relevant change since 2004 with a decrease in the relative contributions from the government and philanthropy.

**FIGURE 5: INCOME SOURCES FOR CSOs, BY ICNPO CATEGORY (%)**



Source: Society in Action Project

The decimals were rounded to the nearest whole integer, which can produce a difference in +/- 1% in the total of each category.

In the case of CSOs whose main source of income is the government, it is interesting to note that CSOs related to culture and recreation and to social development mobilize a high proportion of volunteers and have a wide distribution in the territory. Therefore it can be positively stated that, although there is a relative predominance of public resources, there is no extreme imbalance with the other sources, which represents a change from the pattern obtained in 2004.

## Civil society organizations are a diverse sector

As presented in the institutional scan, the Johns Hopkins University develops an international classification for civil society organizations –International Classification of Nonprofit Organizations (ICNPO)– according to the main activity they carry out. Table 4 shows the distribution of total employment according to these categories. It is noteworthy that the culture and recreation sector accounts for a third of total employment, which is explained by the significant number of sports, social and elderly clubs that exist in Chile, which mobilize a significant amount of volunteers as board members and other collaborators. The second most important sector, in terms of employment, is education and research, which is explained by the strong presence of teachers working in private subsidized schools that belong to foundations. These two groups combined concentrate more than 60% of the total employment of the sector.

**TABLE 4: DISTRIBUTION OF CSOs TOTAL EMPLOYMENT IN TERMS OF FTE WORKDAYS, BY ICNPO**

ICNPO	% Total Employment
Education and Research	28%
Social Development and Housing	13%
Social Services	13%
Health	3%
Culture and Recreation	33%
Trade associations, Professional associations, Unions	6%
Law, advocacy & politics	2%
Environment	1%
Others	1%
Total	100%

**Source:** Society in Action Project  
CSOs employment includes both paid and volunteer work

The ICNPO categories can also be analyzed in two main groups according to the role that organizations play in society.

The **services** role includes those organizations that provide a direct service and operate in the fields of education, health, social services, and social development and housing.

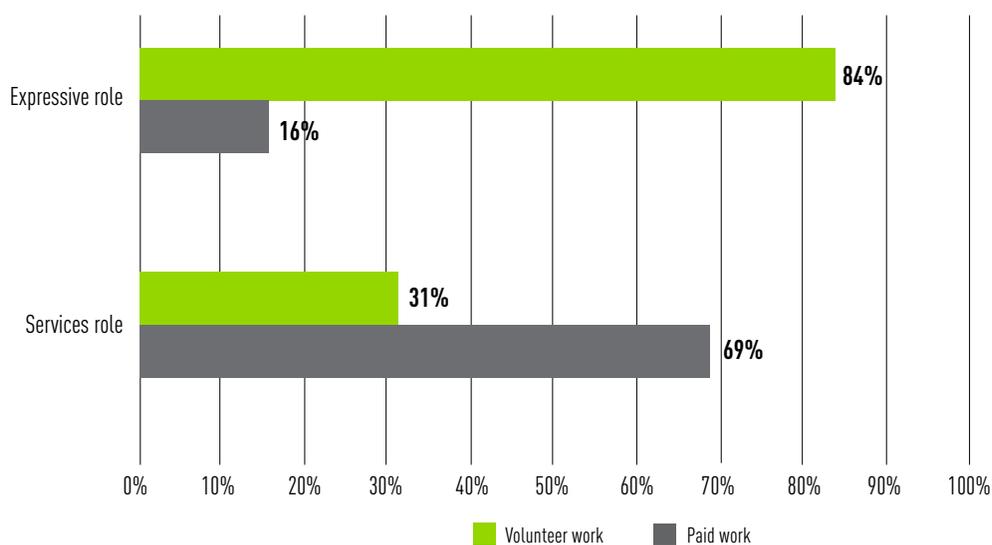
For its part, the **expressive** role includes those organizations that channel interests, values, culture and beliefs. These organizations work in the fields of culture and recreation, environment, rights and politics, and trade associations.

Figure 6 presents the distribution of total CSOs employment in relation to the groups of main activities previously mentioned. At the aggregate level, for the 42 countries, the role of services is predominant, representing 59% of total employment, which means CSOs worldwide are

mostly providers of specific services. However, in a complementary manner, it can be seen that in general terms there is a link between the income level of the countries and the predominance of the participation of employment in each role: the low income countries have greater relative participation of the services role, while high income countries have greater relative participation of the expressive role. From this information, it can be argued that it is understandable that in countries with fewer resources and probably greater social needs, CSOs should concentrate more strongly on the delivery of services to the population, while in countries with higher incomes and less material needs, CSOs contribute from the mobilization of public interest in more post-materialist<sup>18</sup> or intangible values.

For the Chilean case, Figure 6 shows in greater detail the internal composition of the sector’s employment, differentiating between paid and voluntary, considering the role of the organization. It can be seen that both roles differ significantly in terms of the structure of the people who work in them: the CSOs whose main activities relate to the services role concentrate a greater amount of paid employment. On the contrary, expressive organizations that include unions, local sports clubs and folkloric organizations, among others, do not generally have a formal administrative structure and rather work based on the commitment and interest of their members and volunteers.

**FIGURE 6: CHILE: COMPOSITION OF CSOs TOTAL EMPLOYMENT IN THE SERVICES AND EXPRESSIVE ROLES (%)**



Source: Society in Action Project.

18 See Inglehart, R. (1997). *Modernization and Postmodernization*, Princeton University Press.

## Chilean civil society organizations in the national concept

As mentioned at the beginning of this economic scan, the definition of the international CSO concept given by JHU does not fully coincide with the social representation of civil society that exists in Chile. The definition for the Chilean national concept excludes universities, unions, trade associations and political parties. This section shows the data only for the national concept.

Table 5 summarizes the main general economic data for the national concept. In the first place, it is noteworthy that in terms of spending, CSOs resources represent 1.4% of the GDP, well below the 2.1% reported in the international concept. The main explanation for this is that the national definition excludes universities, which contribute an important part of the sector's total resources.

It can also be observed that almost 1,900,000 people worked in some organization in 2015, of which 137,000 did so on a remunerated basis and 1.7 million on a voluntary basis. In the case of volunteering<sup>19</sup>, Table 5 also shows the relevance of comparing this phenomenon under two forms of numerical expression: the 1.7 million people who volunteer in 2015<sup>20</sup> translate into 158,298 full-time equivalent workdays. In the fieldwork of the study it was found that there was an important group of CSOs that mobilize literally thousands of volunteers, but when comparing that number of volunteers in terms of their effective dedication in terms of working hours, the number drops considerably. For example, organizations that support the construction of social housing or collaborate in the beautification of squares and parks in low income sectors, can mobilize a very significant number of people in a day, but expressed in terms of equivalent full days in a year, the magnitude decreases significantly.

**TABLE 5: MAIN ECONOMIC DATA FOR CSOs ACCORDING TO THE NATIONAL CONCEPT, 2015**

	Employment expressed in full-time equivalent workdays	Employment expressed in number of people working
Paid work	116,064	137,389
Volunteer work	158,298	1,760,856
Total	274,362	1,898,245
<b>USD 3,297 million in spending</b>	<b>1.4% of GDP</b>	

Source: Society in Action Project  
National concept, N expanded 175,096

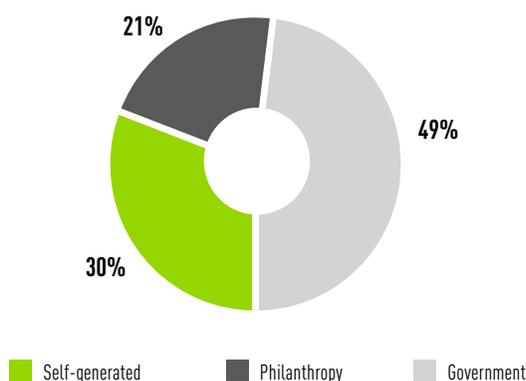
19 Manual on the Measurement of Volunteer Work (ILO / JHU, 2011). Definition: Unpaid non-compulsory work; that is, time individuals give without pay to activities performed either through an organization or directly for others outside their own household. Therefore: It is work that is not paid, not obligatory, and is done through an organization. To be considered a volunteer, a person needs to do "some" volunteer work during a specified reference period (one day or one week). Thus, as long as the volunteer activity qualifies as work as opposed to leisure, it may still be considered volunteer work even if conducted for less than one hour a day.

20 The estimated number of volunteers reported in the study was obtained from the survey applied to CSOs, and may be overestimated since one person can participate in volunteer initiatives in more than one CSO during the year.

Figure 7 shows the composition of the income sources in the national concept. In this case, there is a greater participation from government contributions reaching 49%, while philanthropy increases its participation to 21%. This change in composition is mainly explained by the fact that the national concept does not include private universities, which have a significant proportion of self-generated income, coming from tuition payment.

**FIGURE 7: INCOME SOURCES (%)**

**National concept, 2015**

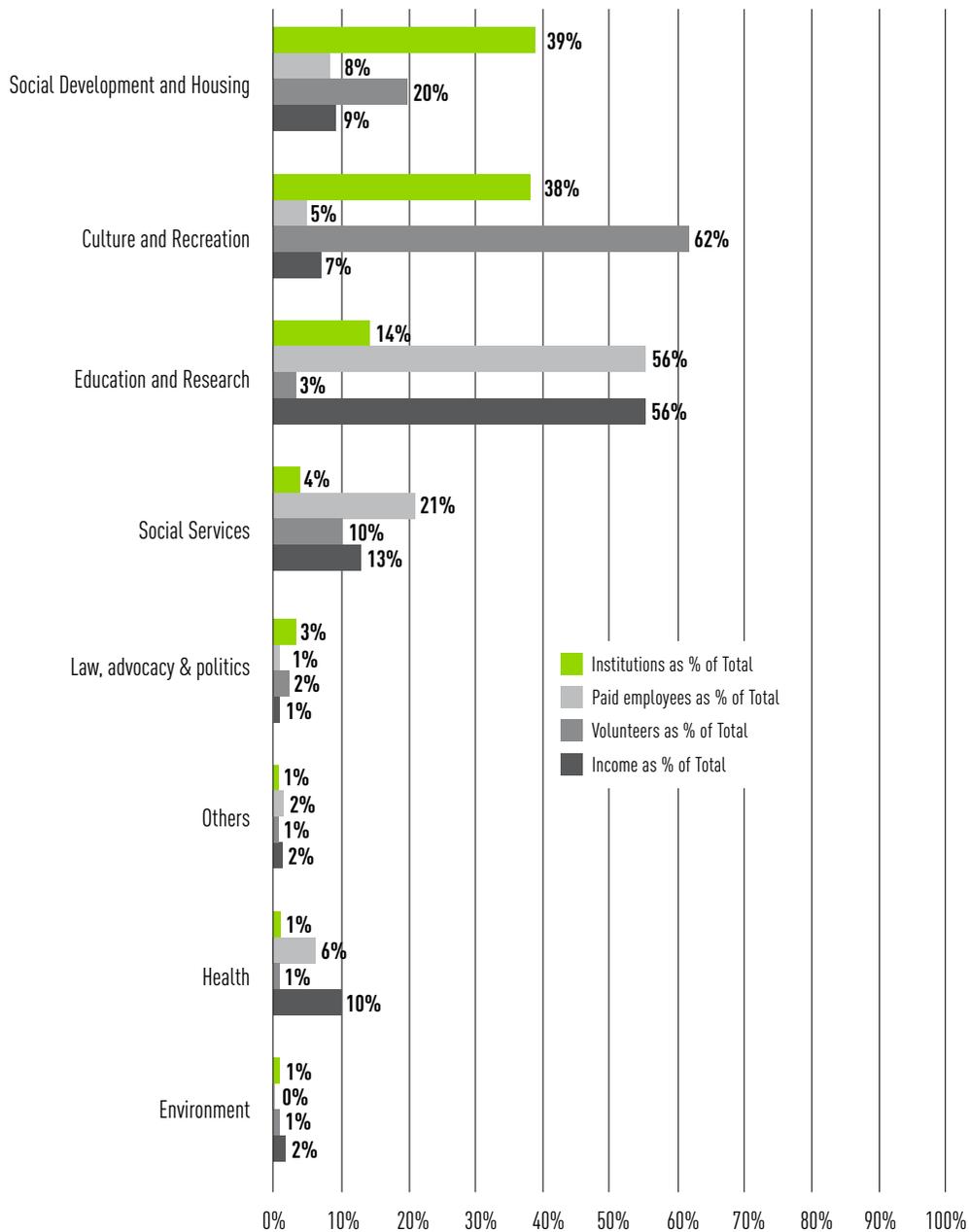


Source: Society in Action Project  
CSOs income, National concept, USD 3,581 million

### Profile of organizations according to ICNPO

Figure 8 presents a characterization of Chilean CSOs by employment, income and number of CSOs based on their main ICNPO activity. It is possible to identify three profiles of ICNPO categories in which these CSOs are located. First, there are the categories with the greatest economic weight, which concentrate a high relative proportion of total income and paid employment, corresponding to the education, research and social services sectors. Indeed, CSOs in the education category alone account for more than half of the CSOs' income and a similar proportion of employment, which is strongly explained by the presence of educational foundations that manage schools. If the social services category is added, the combination of both categories concentrates more than 70% of income and employment. Probably, CSOs in the health category could be assimilated to this profile in the future. A second profile of activity categories are those of territorial and functional expression, which strongly concentrate volunteering and many institutions, although of small economic size. This includes the category of social development and housing, which in turn includes community and neighborhood organizations. Culture and recreation are also considered, which includes sports clubs, social clubs and senior clubs, and also comprises many organizations throughout the territory that operate mainly based on the commitment of volunteers. Finally, the third profile is small in all the dimensions considered: defense of rights, environment and others.

**FIGURE 8: PROFILE OF CSOs BY ICNPO CATEGORY (%)**  
**(Distribution of number of institutions, employment, volunteering and income by ICNPO category)**



**Source:** Society in Action Project  
National concept, N expanded: 175,096  
Paid and voluntary jobs in full-time equivalent work days.  
The decimals were rounded to the nearest whole integer, which can produce a difference in +/- 1% in the total of each category.

## Legal status of organizations

In addition to the ICNPO category, organizations have a different legal status in each country. In the case of Chile, CSOs were classified into five categories<sup>21</sup>, which for the national concept correspond to: community organizations, functional organizations, neighborhood associations, and confederations of neighborhood associations; student groups; foundations and associations not subject to special laws; indigenous communities, and water user associations.

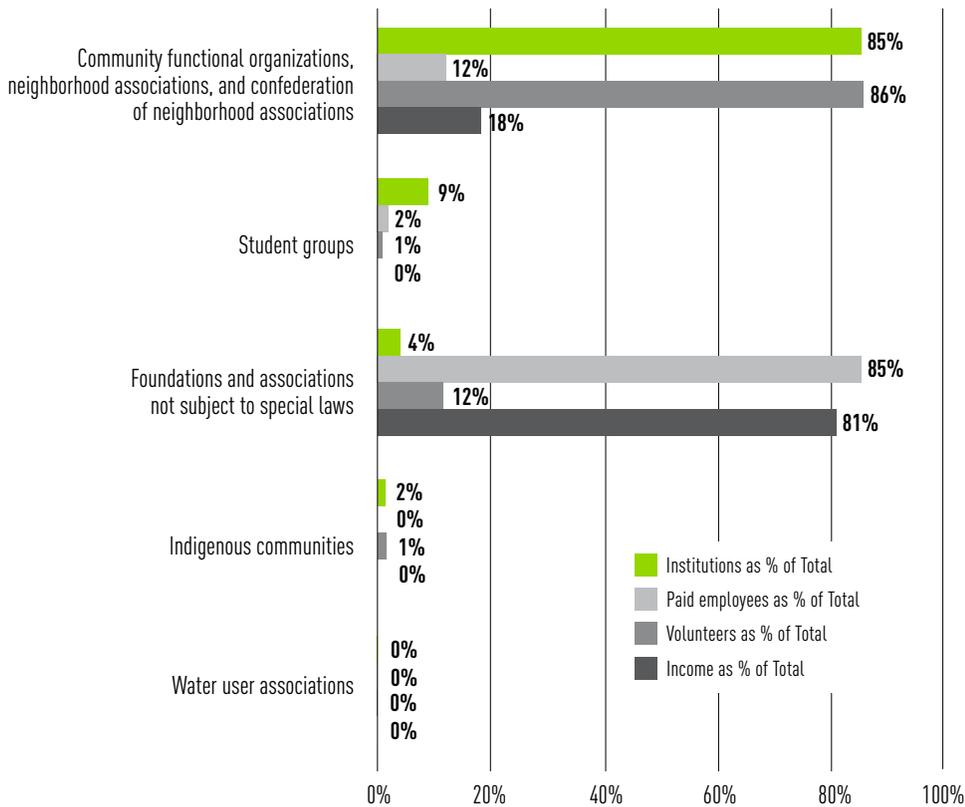
Figure 9 presents information through which it is possible to analyze the different profiles of Chilean CSOs. From this it is concluded that CSOs grouped in the legal status of foundations and associations concentrate more than 80% of the income and of the paid employment, so they constitute the profile of greatest economic weight. In fact, according to the *Map of the Civil Society Organizations*, in Chile there are some 15,500 foundations and corporations that, while representing less than 7% of all CSOs in the country, in terms of paid staff concentrate 85% of the work days of all Chilean CSOs, which equates to 99,217 jobs expressed in FTE workdays. Along the same lines, it is observed that these organizations concentrate 81% of the income. These data are noteworthy, if one considers that in terms of the number of organizations they represent only 7% of the total, although it must be noted that this legal category comprises a great diversity of organizations both in subject matter and in size.

The dramatic increase of organizations of the last ten years is due in large part to the proliferation of functional community organizations and neighborhood associations. They represent 85% of the total and call for 86% of volunteering, which equals to 135,687 FTE workdays. When analyzed in terms of people involved rather than workdays, more than 1,350,000 people are volunteers in these types of organizations. This sector also manages 18% of resources and employs 12% of the total paid workers.

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21 Not all of these categories have legal personality. Corporations, or associations and foundations, acquire legal personality established in the Civil Code, as indicated in Law 20,500. Community organizations, whether territorial or functional, are governed by Law 19,418. The other organizations do not have legal personality, but they are indeed civil society organizations.

**FIGURE 9: PROFILE OF CSOs BY LEGAL-INSTITUTIONAL CATEGORY (%)**  
(Distribution of number of institutions, employment, volunteers and income)



**Source:** Society in Action Project  
National concept, N expanded: 175,096  
Paid and volunteer work in FTE workdays

The decimals were rounded to the nearest whole integer, which can produce a difference in +/- 1% in the total of each category.

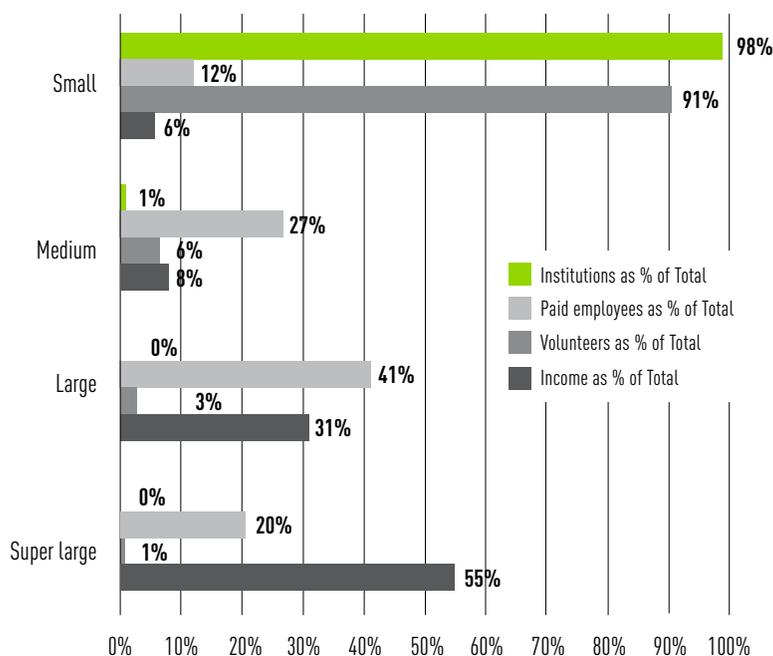
### A look at the size of civil society organizations

The analysis of the economic size of CSOs was based on the variable of the annual total income of these institutions, segmented into four categories that group the size ranges traditionally used by Chile's Internal Revenue Service. In this way, CSO categories are small, medium, large, and super large<sup>22</sup>.

22 Chile's Internal Revenue Service defines 13 business intervals according to their annual sales level. For the purposes of this study, these intervals were grouped into four categories: small (from 0 to 8000 USD per year), medium (from 8000 to 1,000,000 USD per year), large (from 1,000,000 to 8,000,000 USD per year), super large (8,000,000 USD and more per year).

Figure 10 shows the four descriptive variables of the CSOs, ordered by their economic size. In Chile, as in other countries, there is a considerable disparity in CSOs' economic profile depending on their size. Indeed, CSOs categorized as large and super-large, which are less than 1% of all organizations, accumulate more than 80% of the civil society sector income and 61% of paid employees. At the opposite end, small CSOs, which represent more than 90% of organizations and concentrate a similar proportion of volunteers, represent only 6% of income and 12% of paid employment. Finally, CSOs in the intermediate category control 27% of paid employment.

**FIGURE 10: PROFILE OF CSOs BY ECONOMIC SIZE (%)**  
**(Distribution of number of institutions, employment, volunteers and income)**



Source: Society in Action Project  
 National concept, N expanded: 175,096

The decimals were rounded to the nearest whole integer, which can produce a difference in +/- 1% in the total of each category.

According to the UK Civil Society Almanac 2017<sup>23</sup>, there are 165,801 voluntary organizations in the United Kingdom<sup>24</sup>. Of these organizations, 3% have an annual budget of more than one million pounds, and they concentrate more than 80% of the sector's total resources<sup>25</sup>. At the other extreme, organizations with annual budgets of less than 100,000 pounds represent 82% of the total, and manage only 5% of the sector's total income. Something similar happens in the United States, with the case of Public Charities<sup>26</sup>, which represent more than 75% of the country's non-profit organizations<sup>27</sup>. From this important group of organizations, 5.3% have annual budgets of more than USD 10 million, which represents almost 87% of the sector's total expenses. Meanwhile, at the other extreme, almost 30% of the organizations that have a budget under USD 100,000 per year represent only 0.3% of the total expenses. In conclusion, although there is a clear disparity in the economic profiles of CSOs in the three countries analyzed, this seems to be a characteristic of the organization of the sector, in which institutions of different nature and capacity operate.

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23 UK Civil Society Almanac. <https://data.ncvo.org.uk/a/almanac17/methodology-7/>

24 Voluntary organization is the name used in the United Kingdom to include "general charity organizations", which is a subset of the total of CSOs and excludes housing associations, independent schools, educational foundations, charitable institutions of health, and business, professional, employee and other groups.

25 As an illustrative figure: the "super major" category includes only 42 organizations that manage to account for 20% of the total income of the system.

26 Public Charities is the broadest category of non-profit institutions considered within the Tax Code in section 501 (c.) (3)

27 The nonprofit sector in Brief 2015. Center on Non Profits and Philanthropy. Urban Institute.

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Chapter

## SCAN OF THE DONATIONS

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## SCAN OF THE DONATIONS

Funding is one of the issues of greatest concern to civil society organizations. Considering that - as was shown before - the resources obtained through philanthropy represent 15% of their income, promoting donations from companies and individuals is a mechanism to strengthen them.

Donations received by CSOs can be divided into two groups: on the one hand, those that are not registered (by fundraising, for example), and on the other, those registered in Chile's Internal Revenue Service, which are regulated by law. These, in turn, are subdivided into donations that are subject to the general rule of donations and donations made through the laws that have tax benefits referred to in this chapter.

The following section presents a brief summary of the Chilean tax benefits system, and then the results of the study are shown.

### General background

The Chilean regulation regarding tax benefits for private donations to CSOs is spread in various legal codes, which are oriented to different purposes (social, sports, and others).

In 2003, the first effort was made to give certain order to the existing donation laws with the enactment of Law 19,885, which contains general provisions applicable to all donations, such as the so-called "absolute global limit", which attempts to standardize the limits legally accepted for donations that taxpayers can deduct from their taxes.

This presents a series of problems. First, according to both donors and donees, the regulations are complex and therefore they do not know or understand them clearly. Also, there is an overlap of coverage, which means that several of the regulations point to the same type of donee institution under different categories. And finally, certain inconsistencies are detected related to the limits defined for the use of the donation as a tax exemption, which has created much uncertainty among donors and donees.

As a general rule, and in the absence of a special law that establishes an exemption, donations are subject to Inheritance, Allocations and Donations Tax, established in Law 16,271 from 1965, charged to the recipient, of a progressive nature of 1% to 25% of the donated amount. Additionally, it is stipulated that any donation requires a judicial authorization, a procedure called *insinuacion* ("insinuation", or legal notification). In civil or continental law, it is required that the donor disclose the total of his assets in order to determine if he is not harming heirs apparent. This is the most important obstacle for donations in Chile.

In the case of the donee, in relation to Income Tax, the donation is considered as income not constituting income according to N°9 of article 17 of the Income Law and, therefore, it is not affected to this tax. However, said benefits are taxed with the aforementioned Inheritance, Allocations and Donations Tax.

Regarding a donor company, as a general rule, the donation receives the treatment of a rejected expense (or non-accepted expense for tax purposes) affected by Income Tax (whose rate is 40%), that is, the donation is taxed by the Income Tax as if it were a profit withdrawal.

Over the years, a series of incentive laws for donations have been enacted with the purpose of favoring certain institutions and public interest purposes that are susceptible to receiving donations with tax exemptions. These donation laws establish the release of the process of the innuendo, exempt the donees from the Inheritance and Donations Tax established in Law 16,271 and establish tax exemptions for donors in relation to Income Tax.

The tax exemptions object of this study, and the limits to which they can be used, are briefly explained below.

### **Tax exemptions for donors**

There are two types of tax exemptions for donors with respect to Income Tax: deductions from taxable income as a tax expense or as tax credits. With the first benefit, taxpayers can reduce all or part of the donations made from the tax base (for example, profit or income), resulting in lower taxation, since the base on which the percentage of the tax is calculated is lower, therefore, the benefit is equivalent to the tax rate. The second benefit consists of a credit or deduction of the tax to be paid, therefore, it constitutes a greater benefit as a direct reduction of taxes that the donors must pay in a certain period, since the benefit constitutes 100% of the amount of the donation that can be imputed as a credit.

The type of tax exemption to which the donor can have access depends on the purpose of the donation (for example poverty, education, culture, sport) and on whether its characteristics allow it to be eligible for the tax benefit granted by some specific law. That is, each donation law specifies which type of taxpayer can donate with a right to any of these tax exemptions, and what the destination of the donation may be. In addition, the laws define different types of tax benefits. Some donation laws allow the whole donation to be considered as a necessary expense to produce income, that is, they allow to reduce the entire donation of the tax base on which the income tax is applied. Meanwhile, other laws allow the deduction of a percentage (usually 50%)<sup>28</sup> of the donation as a credit directly against the Income Tax and the remaining percentage can be reduced as an expense of the tax base. In the case of the donation laws that include credit and expense, the government can finance up to a little more than 60% of the donation made by a donor.

Each of the laws that define tax benefits for donations stipulates annual limits for each taxpayer to use said tax benefit. These limits, which for the purposes of this book are called “particular limits”, are detailed in Table 1.

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28 In some cases, the percentage of the donation that can be deducted as credit varies: a) in the law of donations for cultural purposes, this percentage varies according to the type of taxpayer, as shown in Table 1; b) in the case of the law with social purposes and the law for sporting purposes, this percentage varies depending on whether or not part of the donation is destined to a redistributive fund, as Table 1 shows.

In addition to the particular limits of each law, Law 19,885, enacted in 2003, among other things, defines for certain donations the so-called Absolute Global Limit (AGL). This means that the total of donations with tax benefits that a taxpayer makes in one year are subject, in addition to each particular limit, to an AGL of 5% of the Net Taxable Income (NTI) for the case of companies and 20% of the taxable income or approximately USD 20,000 (whichever is less) in the case of individuals<sup>29</sup>. For donor companies, the part of the donation that exceeds the absolute global limit is considered as rejected expense, that is, subject to a 40% fine or tax.

The laws of donations with tax benefits that are studied below are the following: 1) Income Tax Law, hereinafter ITL (DL 824 of 1974, article 31, third paragraph, number 7), which establishes an exception for training programs, fire departments, Chile's National Children's Service, Service of Housing and Urbanism, and Fund of Solidarity and Social Investment; 2) Municipal Revenue Law (DL 3,063 of 1979, article 46), which establishes benefits for households, educational institutions, health, and foundations and corporations with social, artistic and scientific purposes; 3) Law of Donations with Cultural Purposes or "Ley Valdés"; 4) Law of Donations for Educational Purposes; 5) Law of Donations for Sport Purposes; 6) Law of Donations for Social Purposes; and 7) Law of Donations to Universities and Professional Institutes.

Table 1 contains a descriptive summary of the types of taxpayers that can be eligible for the exemptions, the tax effects for the donors in relation to the Income Tax, and their respective limits.

The following section presents and reviews the most recent data on donations, donors and donation institutions, as well as their evolution over the last ten years. It also compares the different laws, analyzes the use of tax exemptions, and quantifies the tax expenditure. This allows for examination of whether the effectiveness of the mechanism of tax benefits for donations has increased<sup>30</sup>.

29 The application of this has the following exceptions: 1) When the special limit of a donation law establishes a different parameter not modified by the AGL, as is the case of the Donations for Universities and Professional Institutes Law, and the Article 31, N° 7 of the Income Tax Law. In such laws, the legislator, foreseeing a loss situation, established an alternative limit equivalent to 1.6 per thousand of the income before tax. Therefore, given that the AGL is defined in relation to the NTI of the respective year, when the NTI is greater than 0 the AGL will prevail; but when said NTI is negative, the particular alternative limit established by the respective laws will prevail (Circular SII No. 59/2003). 2) The donations for political purposes that only have a particular limit of 1% of the NTE (Article 10, subsection 1, Law 19,885). 3) The donations for reconstruction and catastrophes (Art. 7 of Law 16,282 and Law 20,444).

30 This analysis was carried out using information provided by Chile's Internal Revenue Service about all the taxpayers who made donations using the donations laws with tax benefits between 2006 and 2016. This information was registered via the Annual Affidavits and the Annual Income Tax Return. For the specific case of the Law of Donations to Universities and Professional Institutes, information obtained through the Transparency Service of the Higher Education Information Service of the Ministry of Education was used.

TABLE 1. DESCRIPTIVE SUMMARY OF THE DONATION LAWS

Type of law	Law	Donors	Tax effect	Limits
Donations that can be deducted only as an expense	Income Tax Law, Art. 31 N° 7	1 <sup>st</sup> and 2 <sup>nd</sup> Category Taxpayers <sup>31</sup>	The entire donation can be imputed as an expense	Limits to the donation / expense: - Particular limit: 2% of the NTI or 0.16% of the income before tax (IBT) <sup>32</sup> - The Absolute Global Limit (AGL) is applied (unless the limit of 0.16% of the IBT is chosen): a. First Category Taxpayers: 5% of the NTI b. Second Category Taxpayers: the lowest value between 20% of the NTI and USD 20,514.
	Municipal Revenue Law	1 <sup>st</sup> Category Taxpayers	The entire donation can be imputed as an expense	Limits to the donation / expense: - Particular limit: 10% of the NTI (which due to the AGL is reduced to 5% of the NTI) - AGL is applied.
Donations that can be deducted as a credit and as an expense	Law of Donations for Educational Purposes	1 <sup>st</sup> Category Taxpayers	Up to 50% of the donation: credit The amount that is not used as credit: expense.	Limite de la donación: se aplica el LGA Limite del Crédito de 1a Categoría: 14,000 UTM al año.
	Law of Donations for Social Purposes	1 <sup>st</sup> , 2 <sup>nd</sup> Category, and GCT Taxpayers <sup>33</sup>	Up to 35%, 40% or 50% of the donation: credit. <sup>34</sup> The amount that is not used as credit: spending <sup>35</sup>	Limit to the donation: the AGL applies. Limit to the credit: the lowest value between 2% of the NTI of the year and USD 897,468 Limit to the donation: the AGL applies. Limit to the credit / First Category: USD 897,468 per year.

31. The First Category tax applies to income from capital, among others, by commercial, industrial, mining and other companies, with a general rate (Art. 20 IITL). The Single Tax of Second Category to Wages, Salaries and Pensions is a progressive tax paid monthly by all those people who receive income from the development of a work activity performed in a dependent manner and whose amount exceeds USD\$865.

32. This allows the tax exemption to be used by companies that present tax losses at the end of the year. The benefit can be used when one of the parameters is positive, otherwise it cannot be used and, therefore, the donation will be a rejected expense.

33. The GCT (Global Complementary Tax) is a personal, global, progressive and complementary tax that is paid once a year by natural persons resident in Chile on taxable income determined according to the rules of the first and second category. It affects taxpayers whose total net income exceeds USD\$10,384 (Art. 52 IITL).

34. The percentage of the donation that can be reduced as credit varies depending on the destination, as explained in 1.a of this section.

35. The GCT taxpayers who declare on their effective spending, can access the benefits of credit and expenses; in contrast, the SCT (Selective Consumption Tax) taxpayers can access only the benefit of the credit.

Table 1: continued on next page ►

Type of law	Law	Donors	Tax effect	Limits
Donations that can be deducted as a credit and as an expense	Law of Donations for Sport Purposes	1 <sup>st</sup> Category and GCT Taxpayers	35% or 50% of the donation: credit. <sup>36</sup>	Limit to the donation: the AGL applies. Limit to the credit: maximum 2% of the NTI of the year and USD 897,468
	Law of Donations to Universities and Professional Institutes	1 <sup>st</sup> Category and GCT Taxpayers	The amount that is not used as credit: spending	Limit to the donation: the AGL applies. Limit to the credit: USD 897,468 per year.
	Law of Donations with Cultural Purposes or "Ley Valdés"	1 <sup>st</sup> , 2 <sup>nd</sup> Category, GCT Taxpayers, AT <sup>37</sup> and inheritance tax (IT) Taxpayers	<p>1<sup>st</sup> Category Taxpayers:</p> <ul style="list-style-type: none"> <li>- Up to 50% of the donation: credit (only if it does not exceed 2% of the NTI)</li> <li>- The amount that is not used as credit: expense</li> </ul> <p>2<sup>nd</sup> Category, GCT, and IT Taxpayers:</p> <ul style="list-style-type: none"> <li>- Up to 50% of the donation: credit.</li> <li>- Up to 35% of the donation: credit.</li> </ul> <p>AT Taxpayers:</p> <ul style="list-style-type: none"> <li>- Up to 35% of the donation: credit.</li> </ul>	<p>Limits to the donation:</p> <ul style="list-style-type: none"> <li>- 1<sup>st</sup> Category Taxpayers: the highest value between AGL and 0,16% of income before tax<sup>38</sup></li> <li>- 2<sup>nd</sup> Category and GCT Taxpayers: AGL</li> </ul> <p>Limit to the credit:</p> <ul style="list-style-type: none"> <li>- 1<sup>st</sup> Category Taxpayers: the lowest value between 2% of the NTI and USD 1,282,097.</li> <li>- AT Taxpayers: the lowest value between 2% of the NTI and 20.000 UTM.</li> <li>- IT Taxpayers: 40% of the IT to pay</li> </ul>

**Source:** Society in Action Project, based on the following laws: Art. 8 of Law 18,985, Art. 46 of DL No. 3,063, Law 19,247, Art. 31 No. 7 of the Income Tax Law, Law 19,885, Law 19,712 and Art. 69 of Law 18,681.

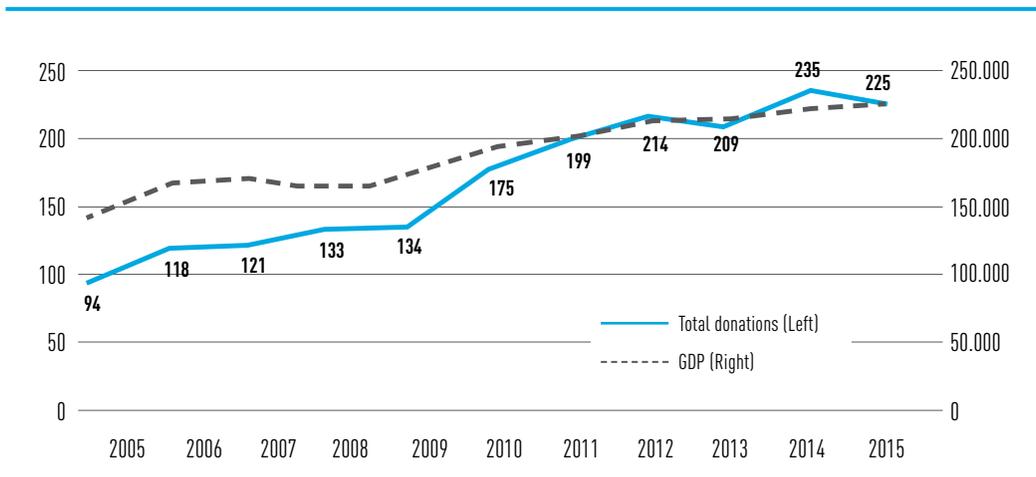
36. The percentage of the donation that can be deducted as credit varies depending on the destination of the donation, similar to the case of the law of Donations for Social Purposes.
37. The AT (Additional Tax) affects natural or legal persons that have no residence or domicile in Chile. It is applied with a general rate of 35% and operates in general on the basis of the attributed income, withdrawals, distributions or remittances of income abroad, which are of Chilean origin.
38. To apply this limit, the Valdés Law requires that within the next two years the company has NTI to deduct the donation as an expense, in which case the limit for this deduction becomes 100% of the NTI. If the company does not get to deduct the total of the donation with this limit, the 40% of the tax / fine of the rejected expense is not applied, but the rate of the First Category Tax is applied.

## RESULTS OF THE SCAN OF THE DONATIONS

### General trends: donated amounts, donors and grantees over time

Figure 1 shows the trend of the total amount of donations for the period 2005-2015, along with the trend of GDP for comparison purposes. It is observed that the amount of total donations has increased over the years. In 2015, the total amount of donations made under the tax benefits laws<sup>39</sup> amounted to USD 225 million. In 2015, the amount of donations was 2.3 times the amount of donations for the year 2005. In the period between 2005 and 2015, an annual real growth rate of 10% was recorded. As shown in the following figure, both donations and GDP show an upward trend.

**FIGURE 1. TOTAL AMOUNT OF DONATIONS, 2005-2015 (IN 2015 USD MILLION)**



Source: Society in Action Project, based on data from Chile's Internal Revenue Service, the Ministry of Education, and the Central Bank of Chile.

When measuring donation as a percentage of GDP, it is observed that the trend is much more stable than in the case of total donations. This proportion varies from 0.07% in 2005 to reach 0.1% in 2015, growing at an annual real rate of 4 percentage points, on average, during the ten years considered.

An ambiguous effect of the country's economic growth on the level of donations is perceived, since there are at least two situations. On the one hand, in periods when the economic conditions of the country are favorable, donations should be expected to increase, due to the higher level of income that companies and individuals could enjoy. However, in periods of crisis or unfavorable economic conditions, some may wish to increase the donated amount or begin to

<sup>39</sup> This analysis does not include the laws related to donations to public institutions, the Santa Teresa Foundation, the Padre Hurtado Foundation and the Law on Donations for Political Purposes.

donate, motivated by the interest of helping those who are harmed by these adverse conditions. In effect, the greatest growth of the total amount of donations occurred in 2010 (they increased 31% compared to 2009). This increase of USD 41 million is mainly explained by the increase in the amount donated under the Law of Donations for Cultural Purposes, the Municipal Revenue Law, the Law of Donations for Social Purposes, and the Law of Donations for Sports Purposes. Although 2010 was the year in which the GDP also experienced the highest annual growth rate, donations experienced a much higher growth rate, possibly due to the interest of donors in helping those who had suffered the effects of that year's earthquake<sup>40</sup>.

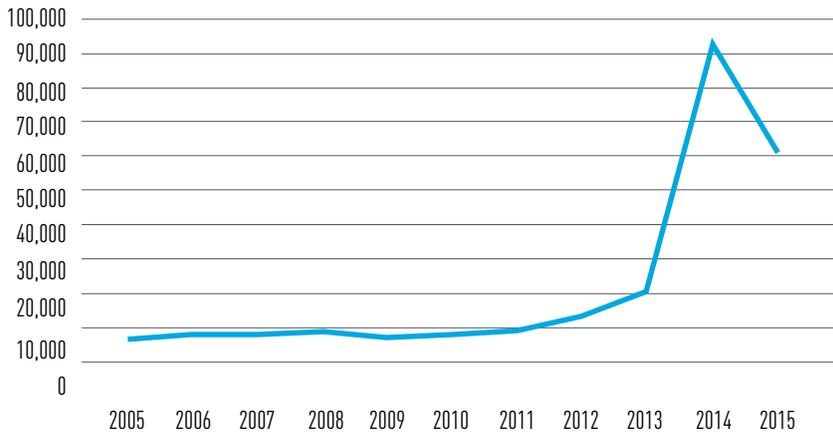
In the case of Chile, the modifications to the donation laws that occurred during the study period could also explain the variation in the donations. One of the important reforms that was carried out was the reform of Law 19.885 in 2009. The main changes it caused were an increase in the Absolute Global Limit (AGL), the incorporation of individual as taxpayers who can access tax exemptions under the Law of Donations for Social Purposes and the end of the compulsory nature of the Mixed Fund of Social Aid. Although the changes occurred in 2009, its application occurred some years later, therefore the increase observed in donations since 2010 is associated in part with these regulatory changes.

Figure 2 shows how the number of donors has varied over the last ten years. The increase observed from 2005 to 2011 was more conservative, growing at an average annual rate of 4%. Then, since 2012, they began to increase at a higher rate, presenting a profound increase in 2014 and, finally, falling in 2015. Despite the above, in 2015 the number of donors is 8.4 times the number in 2005. This massive incorporation of new donors is explained by the effects that the reform to the Law of Donations for Social Purposes had on the incorporation of individuals and is associated, in part, with the increase in donations since 2010. In any case, as shown in the following figure, the growth of donors in the last years of this period is significantly more pronounced than the growth of donations, which means that each of the new donors contributes a fairly small amount with respect to the total donations.

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40 Although the law of donations in case of catastrophe is not considered in this study, the aid could also be channelled through other laws, such as the Law of Donations for Social Purposes or the Municipal Revenue Law.

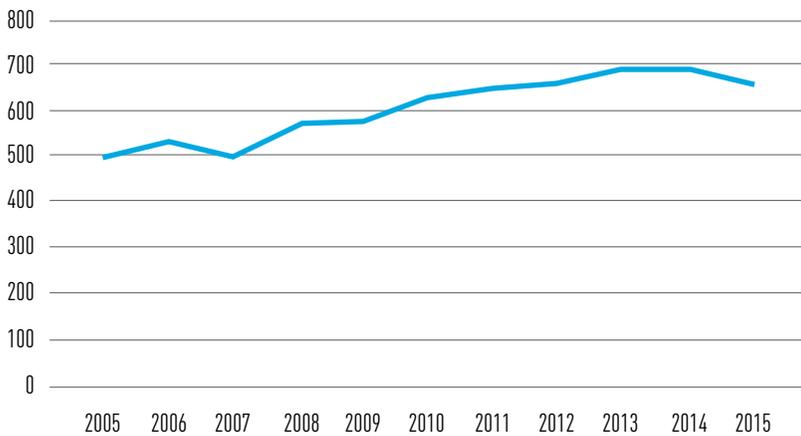
**FIGURE 2. NUMBER OF DONORS, 2005-2015**



Source: Society in Action Project, based on data from Chile's Internal Revenue Service and the Ministry of Education.

Figure 3 shows how the number of donees who receive donations via the laws about tax benefits has varied during the last ten years. Unlike the number of donors, its growth rate is more conservative, increasing at an average annual real rate of 3%.

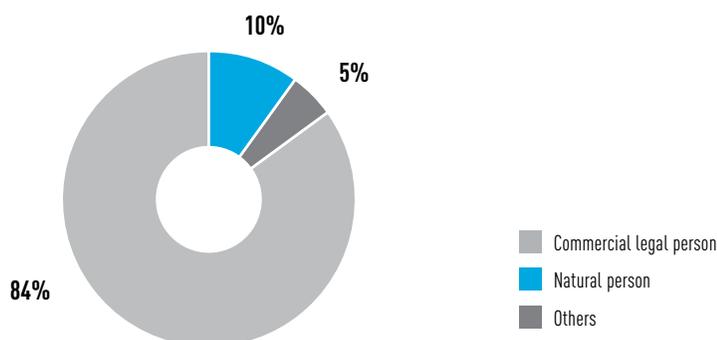
**FIGURE 3. NUMBER OF DONEES, 2005-2015**



Source: Society in Action Project, based on data from Chile's Internal Revenue Service and the Ministry of Education.

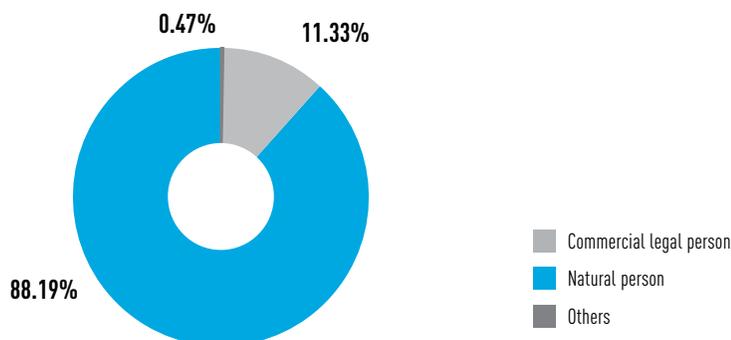
The following figures show the distribution of both of the amount donated and the number of donors, among the different types of taxpayers. According to Figures 4 and 5, in 2015, in terms of the amount of donations, the majority of the total contribution is made by only 11.3% of the total donors (84% of donations), which corresponds to corporations. For its part, the largest number of donors corresponds to individuals, amounting to 88.19%. On the contrary, the Others category, composed of government institutions and municipalities, non-profit organizations, international organizations and foreign societies, represents only 0.47% of donors, and contributes 5% of donations.

**FIGURE 4. DISTRIBUTION OF THE AMOUNT DONATED BY TYPE OF TAXPAYER (2015)**



**Source:** Society in Action Project, based on data from Chile's Internal Revenue Service and the Ministry of Education.  
The decimals were rounded to the nearest whole integer, which can produce a difference in +/- 1% in the total of each category.

**FIGURE 5. DISTRIBUTION OF THE NUMBER OF DONORS BY TYPE OF TAXPAYER (2015)**



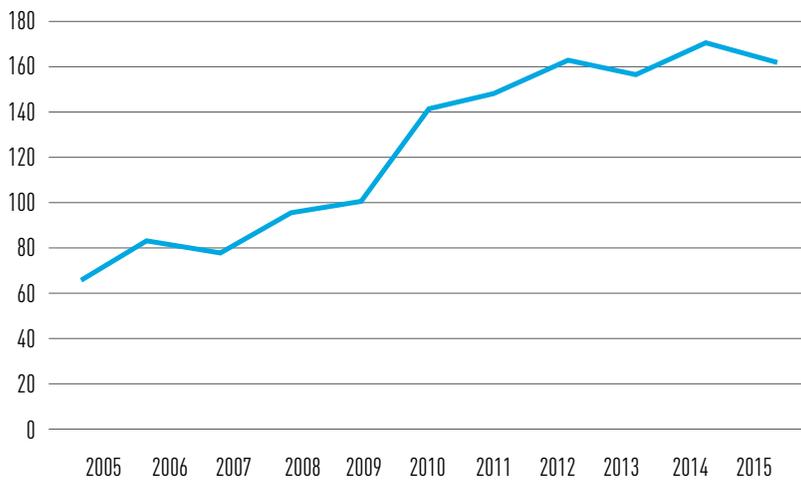
**Source:** Society in Action Project, based on data from Chile's Internal Revenue Service and the Ministry of Education.  
The decimals were rounded to the nearest whole integer, which can produce a difference in +/- 1% in the total of each category.

It should be noted that the distribution of donors has not been this way during this entire 10-year period. The large percentage that people represent of the total number of donors is determined by what happened during the last two years of the study period - prior to that, most of the donors were companies.

### Corporations versus people trends

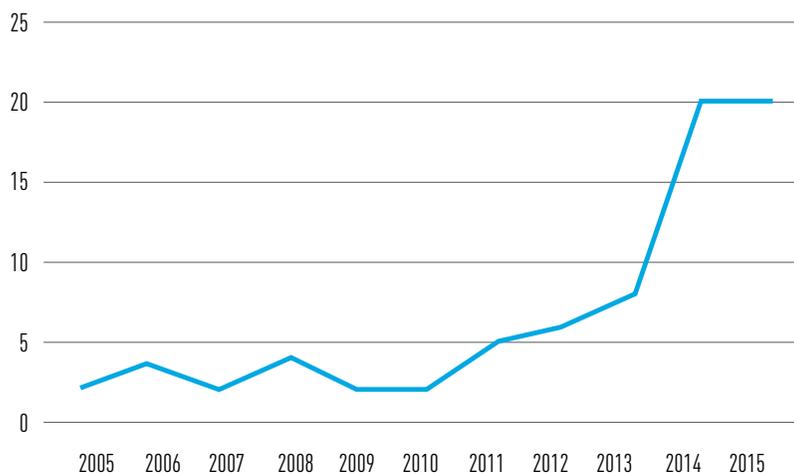
Figures 6 and 7 show that the donations made by companies are greater than those made by people during the entire study period. In 2015, donations from people were 9.33 times more than in 2005; On the other hand, corporate donations in 2015 are only 2.42 times more than in 2005. Although donations from people exhibit a strongly upward trend (caused by the application of the changes brought by the reforms to the laws, among other factors), the donated amounts are still very concentrated in companies.

**FIGURE 6. DONATIONS BY CORPORATIONS, 2005-2015 (IN 2015 USD MILLION)<sup>41</sup>**



Source: Society in Action Project, based on the data from Chile's Internal Revenue Service

<sup>41</sup> This chart does not include the information related to the Law of Donations to Universities and Professional Institutes, since this information was not available.

**FIGURE 7. DONATIONS BY INDIVIDUALS, 2005-2015 (IN 2015 USD MILLION)<sup>42</sup>**

**Source:** Society in Action Project, based on the data from Chile's Internal Revenue Service

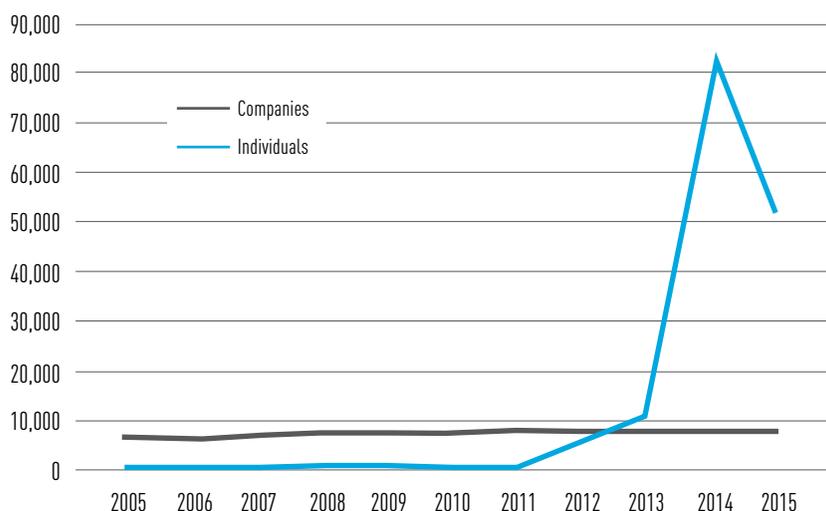
Regarding the number of donors by type of taxpayer, Figure 8 shows what was mentioned in Figure 2: the rise in total donors during the last years of the period is precisely due to the incorporation of new people as donors, while the number of companies remains much more stable. Until 2011 there were more companies than people among the donors, but this is reversed from 2012 onwards.

The large increase in donors in 2014 is noteworthy. While companies grew only by 1,054 donors compared to the previous year, people grew by 70,248. The increase in the total amount of donations made by people is then associated with this massive incorporation of donors. As was the case with total donations, although the donations by people grew significantly (the donations in 2015 were 8 times more than in 2005), the number of donors grew in a much more pronounced way (the donors in 2015 were 40 times more than in 2005).

Finally, Figure 8 shows that between 2014 and 2015 the number of both companies and people decreased, being the decrease of people much more pronounced. This is explained in detail later.

<sup>42</sup> This chart does not include the information related to the Law of Donations to Universities and Professional Institutes, since this information was not available.

**FIGURE 8. NUMBER OF DONORS: COMPANIES AND INDIVIDUALS, 2005-2015**



Source: Society in Action Project, based on data from Chile's Internal Revenue Service and the Ministry of Education.

### Characterization of donor companies versus individual donors according to economic size

The following table shows the distribution of both the number of companies making donations and the amounts donated by them, according to their economic size<sup>43</sup>.

**TABLE 2. DISTRIBUTION OF THE TOTAL NUMBER OF DONOR COMPANIES AND THE AMOUNT DONATED BY THE COMPANIES, ACCORDING TO THEIR ECONOMIC SIZE (%) (2015)**

Economic size	% Total donors	% Total amount donated
Large company	38.65	91.65
Medium company	20.82	2.41
Small company	30.72	5.60
Micro company	9.82	0.34
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Society in Action Project, based on the data from Chile's Internal Revenue Service.

The decimals were rounded to the nearest whole integer, which can produce a difference in +/- 1% in the total of each category.

<sup>43</sup> The information on the economic size of the companies was obtained from the classification made by Chile's Internal Revenue Service, according to the level of annual sales.

This information includes the taxpayers that donate using any of the donation laws studied here, except the Law of Donations to Universities and Professional Institutes.

Table 2 shows that, although a third of the companies that donate are large, the concentration is much higher in terms of the total amount of donations (91.65%). On the contrary, the micro companies represent nearly 10% of the total donors, but provide only 0.34% of the total amount donated.

With respect to the characterization of individuals, it was possible to obtain only a measure of the economic according to the annual tax base according to the Tax Return (Form N ° 22) of Chile's Internal Revenue Service. The Tax Base corresponds to the annual income on which the corresponding taxes are applied to each taxpayer.

**TABLE 3. DISTRIBUTION OF THE TOTAL OF DONORS AND THE AMOUNT DONATED BY PEOPLE, ACCORDING TO ECONOMIC SIZE (%) (2015)**

<b>Economic size</b>	<b>% Total donors</b>	<b>% Total amount donated</b>
Large company	34.32	59.63
Medium company	43.78	29.86
Small company	14.59	7.65
Micro company	7.32	2.87
<b>Total</b>	<b>100</b>	<b>100</b>

**Source:** Society in Action Project, based on the data from Chile's Internal Revenue Service.

The decimals were rounded to the nearest whole integer, which can produce a difference in +/- 1% in the total of each category.

This information includes the taxpayers that donate using any of the donation laws studied here, except the Law of Donations to Universities and Professional Institutes.

According to Table 3, it is possible to note that the largest proportion of the total donors are people with medium and large income, who also contribute the largest proportion of the total amount donated by people, although the concentration is not as great as in the case of companies.

## Analysis between the laws of donations

The following section analyzes the donations between the different laws. Specifically, it presents which laws are used the most, which concentrate the largest amounts donated, and which have experienced the greatest changes during the last decade.

Table 4 shows the distribution of the total amount of donations and the number of donors according to each law, for the year 2015.

**TABLE 4. DISTRIBUTION OF THE AMOUNT OF DONATIONS AND THE NUMBER OF DONORS FOR EACH LAW (2015)**

Donation Law (year of creation)	Donated amount (USD million)	% Total donated	Donors	% Total donors
Municipal Revenue Law (1979)	62	28%	4,879	7.8%
Law for Cultural Purposes (1990)	45	20%	1,019	1.6%
Law for Social Purposes (2003)	36	16%	54,085	86.6%
Law to Universities and Professional Institutes (1987)	27	12%	828	1.3%
Law for Sports Purposes (2001)	24	10%	365	0.6%
Law for Educational Purposes (1993)	21	9%	418	0.7%
Income Tax Law (1974)	10	5%	865	1.4%
<b>Total</b>	<b>225</b>	<b>100%</b>	<b>62,459</b>	<b>100%</b>

Source: Society in Action Project, based on data from Chile's Internal Revenue Service and the Ministry of Education.

Regarding the distribution of the total amount donated by law, the table above shows that the Municipal Revenue Law concentrates the highest proportion (28%), followed by the Law of Donations for Cultural Purposes (20%) and, thirdly, the Law of Donations with Social Purposes (16%). Although these three laws concentrate 64%, the concentration is much smaller than the distribution of the total number of donors.

Regarding the distribution of total donors, Table 4 reveals that, by 2015, among all laws, donors are more likely to donate under the Law of Donations with Social Purposes (86.6% of donors use it). It highlights the great difference that exists between this law and the rest of the donation laws. As mentioned above, the high concentration of donors in this Law for Social Purposes is due to the massive incorporation of individuals during the last years of the period.

Also the Income Tax Law is the other one that is considered quite simple, as it does not contain additional requirements. In addition, this law is the oldest. However, according to the data, it is the fourth most used. This may be because the destination of the donations is smaller and more specific than in the other laws<sup>44</sup>. In contrast, the Municipal Income Law covers a broader set of potential grantees<sup>45</sup>.

The remaining donation laws contain more requirements, so the processing process can be more cumbersome and take more time.

44 Donations under this law can only be used for the development of tuition-free basic, technical, professional or university education programs in the country; National Solidarity Fund; Fire Department of Chile; Chile's Housing and Urbanism Service; and the National Children's Service.

45 The potential donees are: municipal, subsidized and non-profit educational establishments; day-care centers and nursing homes that provide free care; municipal health establishments; non-profit institutions whose purpose is the promotion of arts and sciences or carry out social action programs; among others.

In addition to knowing which regulations deliver the most resources and which are the most used today, it is interesting to know how this has varied in the last decade. Table 5 shows the change that each of the donation laws has had with respect to the amounts donated and the number of donors.

**TABLE 5. DONATION AND NUMBER OF DONORS GROWTH RATE 2005-2015 WITH RESPECT TO 2005, BY LAW**

Donation Law	Donation 2015 / 2005	Donors 2015 / 2005
Municipal Revenue Law	2.64	1.09
Law for Cultural Purposes	2.81	1.40
<b>Law for Social Purposes</b>	<b>141.57<sup>46</sup></b>	<b>1,020.47<sup>47</sup></b>
Law to Universities and Professional Institutes	1.18	0.66
Law for Sports Purposes	1.84	2.66
Law for Educational Purposes	1.21	0.86
Income Tax Law	5.55	0.86

**Source:** Society in Action Project, based on data from Chile's Internal Revenue Service and the Ministry of Education.

Table 5 shows that the Law of Donations with Social Purposes is the one with the highest increase in both the amount donated and the number of donors, far above the rest of the laws. In addition, the previous table shows that, regarding this law, the increase of the donors was much greater than the increase in the donated amount. Given that the Law of Donations with Social Purposes is the one with the highest growth in both the number of donors and the amount donated, the trends of the amounts and their donors for the 2007-2015 period are presented. It should be noted that data from this law is available from 2007, as social donations began to be registered from that year in the Form N° 1828.

### Use of tax exemptions for credits and/or expenses.

Regarding the total number of donors that used the donation laws in 2014, 72% used exemptions for tax credits and/or expenses. However, during the last ten years, on average, only 34% of the total donors used them. As shown in Figure 9<sup>48</sup>, this proportion increases considerably from 2011 to 2014. Although donors who do not use exemptions grow significantly in 2014 compared to 2013 (with people growing more than companies), the great jump of 2014 is that of donors who receive the tax exemptions.

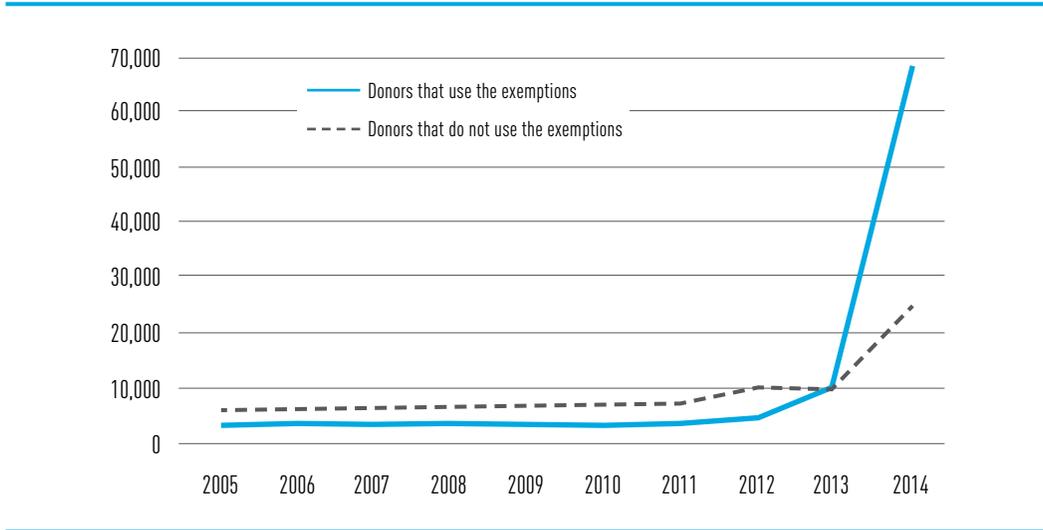
46 In the case of this law, this value corresponds to the Donation 2015 / Donation 2007, since social donations began to be registered as of that year in Form No. 1828.

47 In the case of this law, this value corresponds to the Donors 2015 / Donors 2007, since social donations began to be registered as of that year in Form No. 1828.

48 It should be mentioned that Figure 9, and all Figures in this section, cover the period 2005-2014, since there was no information on the new codes of the expenses accepted for the year 2015, due to the change in the Form N° 22.

The individuals taking part in the tax incentives are the ones who have presented such a significant increase in recent years. For their part, the host companies have maintained a much more stable trend throughout the period.

**FIGURE 9. NUMBER OF DONORS THAT USE THE EXEMPTIONS VS DONORS THAT DO NOT USE THEM, 2005-2014**

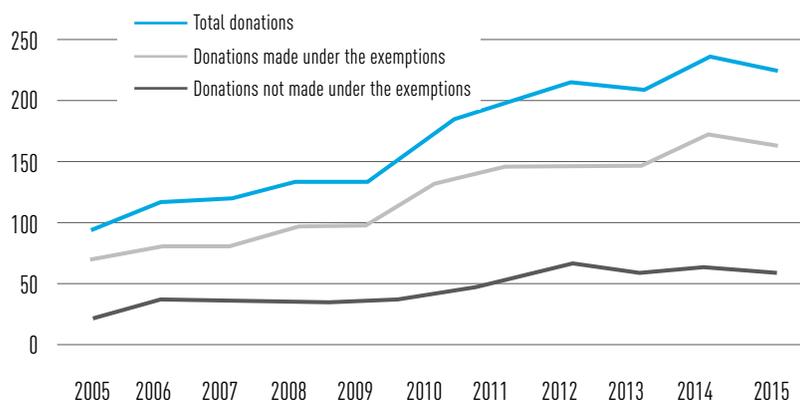


**Source:** Society in Action Project, based on data from Chile’s Internal Revenue Service and the Ministry of Education.

Among all the individuals who use any of the exemptions, those who use the exemptions of the Law with Social Purposes are the ones that explain this trend, due to the implementation of the electronic donation certificate.

In addition to knowing what proportion of the donors use the exemptions and how this has changed over time, it is relevant to compare the amounts donated by those who use the exemptions, with the amounts donated by those who do not. This allows to know which group of donors contributes a greater proportion of the total donations.

Figure 10 shows the trends of total donations, including those made by donors who use the tax exemptions (called donations under the exemptions) and those made by donors that do not use them (called donations not under the exemptions).

**FIGURE 10. TOTAL DONATIONS, DONATIONS MADE UNDER THE TAX EXEMPTIONS, AND DONATIONS NOT MADE UNDER THE TAX EXEMPTIONS, 2005-2014 (IN 2015 USD MILLION)**

**Source:** Society in Action Project, based on data from Chile's Internal Revenue Service and the Ministry of Education.

As can be observed in the previous figure, the amount donated by those who use the tax exemptions is greater than the amount donated by those who do not, throughout the entire period.

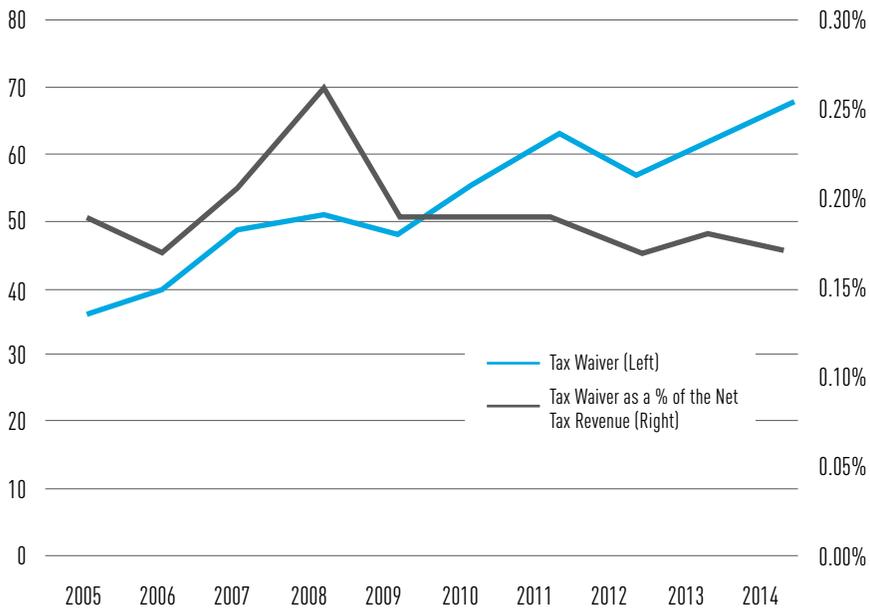
Analyzing the companies that use the tax exemptions versus those that do not use them, by economic size, 79% of the companies that use the exemptions are medium and large; while only 56.5% of those that do not use them are medium and large. This shows that tax exemptions are being used more significantly by companies with higher levels of income, and which contribute higher amounts than those with lower income levels.

### Tax impact of donations: Trend of tax expenditures

This last section analyzes the tax expenditure related to the use of the tax exemptions ruled by the laws of donations. It should be remembered that the tax expenditure is defined as the tax revenues that the state does not receive each year due to the existence of tax exemptions that benefit certain economic or social sectors (Irrázaval and Guzmán, 2000). The tax expenditure corresponds, therefore, to the amount of credits and expenses accepted by the respective income tax rate, which taxpayers use when making their donations through the donation laws analyzed here.

Figure 11 shows that the amount of tax expenditure related to donations has been increasing until 2014, which is consistent with the increase in donations using the exemptions. Also, despite the fact that Chile's current system of incentives to donations is generous in formal terms, the low tax expenditure compared to net tax revenues leads to the conclusion that exemptions related to donations do not constitute an important source of tax revenue reduction.

**FIGURE 11. TAX EXPENDITURE (IN 2015 USD MILLION) AND ITS RELATION TO TAX REVENUE (%) 2005-2014**



Source: Society in Action Project, based on data from Chile’s Internal Revenue Service and the Ministry of Education.

## DETERMINANTS OF THE WILLINGNESS TO DONATE: THE EFFECT OF INCOME AND THE COST OF DONATIONS

This section analyzes the effects of income and cost faced by donors when they have the intention to donate. The conceptual framework is obtained from behavioral models developed by economists in the research line called the economics of charity. Even though the existence of subjective or personal reasons for donation is acknowledged, the focus is on these two determinants: income and cost.

Next, the effects that are expected of each determinant in the donations according to the economic theory are presented, and secondly, the estimates on the income elasticity of the donation are presented and on the basis of said results, which they are the future projections regarding donations.

### Expected effects of income and cost on donations

Under an economic conceptual framework, the individual decision to donate is considered as any other economic option, since the act of donating brings benefits to the donor in a similar way to other economic goods. The donation of the donor  $i$  can then be explained as a function

of the effective cost of the donation ( $C_i$ ) and the donor's income ( $I_i$ ), among other factors (such as the level of government transfers, the collection activity of the donee, and sociodemographic variables of the donor<sup>49</sup>), as shown by the following equation:

$$D_i = f(C_i, I_i, X)$$

For purposes of the analysis of public policies, there are two crucial elements that refer to the response of donations to changes in the variables that the authority can manage, and which are reflected in the so-called cost elasticity and income elasticity. The cost elasticity of the donation corresponds to the relationship between the percentage change in the amount of donations, and the percentage difference in the cost of the donation, which –as discussed below– depends on the type of donation law and its structure of tax benefits. The income elasticity corresponds to the relationship between the percentage change in the amount of donations, and a percentage change in the income of donors.

Although there are other factors studied in the literature that affect the level of donations, the analysis in this section focuses only on the income and the cost of donations, since there is no other type of data available to examine the other factors.

### Expected effect of the cost on donations

According to the conceptual framework, a donation is considered as a good of an economic nature, therefore an increase in the cost of the donation is expected to negatively influence the willingness to donate. At the level of donations made by individuals, international literature has found that as the cost of donation increases, donations decrease significantly (Taussig, 1967, Clotfelter, 1976, Feenberg, 1987, Clotfelter, 1990, Randolph, 1995, Barret and Steinberg, 1997, Tiehen, 2001, Auten, Sieg, Clotfelter, 2002).

It should be noted that the cost of the donation is considered to be the effective sacrifice of resources made by the donor when making their contribution. In the absence of tax benefits, the amount of money disbursed by the donor corresponds to the actual cost of the donation. However, if there are tax benefits, the cost per dollar donated corresponds to a fraction of the disbursement, since the donor recoups a part of the amount by reducing the payment of taxes (Irrázaval and Guzmán, 2000)<sup>50</sup>.

49 A discussion on the determinants of donations is found in Irrázaval and Guzmán (2000), Vargas and Martínez (2012), Clotfelter (1985a), and Andreoni (1998).

50. That is, the cost of donating one dollar corresponds to the donated dollar, minus the tax benefit obtained by the donated dollar. In general terms, the cost is obtained from the following expression:

$$C_{i,l} = 1 - B_{i,l} / D_{i,l} \quad (1)$$

Where:

$C_{i,l}$  = Cost of the donation that the donor  $i$  assumes by using the tax benefit offered by the donation law  $l$ . The cost corresponds to what the donor actually disburses to make their donation using that law.

$D_{i,l}$  = Amount donated by the donor  $i$  by using the donation law  $l$ .

$B_{i,l}$  = Tax benefit that the donor  $i$  can obtain by donating through the donation law  $l$ .

For purposes of the analysis of donations in Chile, the laws are divided into two types, according to the class of tax benefits that they offer to different taxpayers: (i) Laws that allow the entire donation to be deducted as a taxable base expense and (ii) Laws that allow only a percentage of the donation (usually 50%) to be deducted as a taxable base expense, and the remaining percentage as a credit. Therefore, in general terms, the cost of \$1 donated by the donor when receiving the tax benefit offered by the donation law  $l$  corresponds to:

$$C_{i,l} = \alpha * (1 - T_i)$$

where  $T_i$  is the marginal rate of income tax faced by the donor, and  $\alpha$  is the fraction of the donation that can be deducted as an expense from the tax base. In the case of the first type of donation law,  $\alpha$  is worth 1, since the entire donation can be deducted as an expense from the tax base. For the second type of laws,  $\alpha < 1$ .

Considering that in Chile there are donation laws, which allow the entire donation or a fraction of it to be deducted as an expense from the tax base, a change in the tax rate the donor faces, or a change in the proportion of the donation that can be used as an expense, affects the donation. Specifically, as the Income Tax rate increases, the cost of the donation decreases. The cost of the donation will be significantly lower in the case of donors who are affected by higher tax rates. And as the proportion of the donation that can be used as an expense increases (in other words, as the proportion that can be used as credit decreases), the cost of the donation increases.

It should be remembered that, in general, Second Category taxpayers and those that pay the Global Complementary Tax (personal income tax) have only the tax benefit of the credit, therefore, the cost of the donation they face corresponds to the proportion of the donation that can be used as credit, which is typically 50%. Therefore, for individuals, the cost of one dollar donated is usually 0.5 dollar.

In the case of First Category taxpayers (mainly corporations), the cost they face will depend on the type of donation law they use, since some of them offer only the right to use donations as expense, while others offer the right to use donations as both credit and expense.

Table 6 shows how the cost of the donation faced by First Category taxpayers varies depending on the type of law they use.

**TABLE 6. COST OF DONATION FOR FIRST CATEGORY TAXPAYERS, DEPENDING OF EACH DONATION LAW<sup>51</sup>**

Type of Law	Cost per each dollar donated <sup>52</sup>
Donations that can be deducted only as an expense	$(1 - T)$
Donations that can be deducted as a credit and as an expense	$0.5*(1 - T)$

Source: Prepared by the authors.

Table 6 shows that taxpayers face two different costs, depending on the type of law by which they make their donation. In the case of the first type of laws described above, that is, those laws that allow the entire donation to be deducted as an expense from the tax base, the cost is greater than in the second type of laws, in which donations can be deducted as both credit and expense. However, it should also be considered that each donation law has limits both to the amount of the donation that can be used as a tax benefit, and to the credit that can be used.

### Expected effect of income on donation

If donation is considered a normal good, a rise in income level would increase your willingness to donate.

At least two effects of income on donations are identified. First, the higher incomes of individuals allow them to “consume altruism”, and that is why it would be expected that current donors increase their donations. This is called the intensive margin. However, an increase in income could increase the payment of taxes (marginal rate) and, therefore, the net effect is rather ambiguous. Second, some people who did not donate, as their income grows, may now have an interest in donating. This is the so-called extensive margin.

With regard to donations made by individuals, the international literature points out that income has a positive effect on the level of donations to charities (Feenberg, 1987, Barret and Steinberg, 1997, Tiehen, 2001, Auten, Sieg, Clotfelter, 2002).

### Methodology for measuring the determinants of the willingness to donate

There is a wide range of empirical economic studies, mostly in the United States, that analyze the effects of tax incentives on donations, using different econometric specifications to estimate the cost elasticity and income elasticity of the donation. The main methodological problems faced by these measurements are related to the fact that tax regimes and benefits for donations have very little variability over time and, most of the time, they are applied in an undifferen-

51 The limits of the tax benefits also influence the cost of the donation, that is, what the taxpayer actually disburses.

52 Corresponds to the cost of the donation, assuming that they do not exceed the limits, and assuming that the person chooses the cheapest option, that is, in the case of the Laws with Social and Sports Purposes, it is assumed that the donor chooses the destination of the donation that offers the greatest tax benefit, since the percentage that can be used as credit in these laws varies depending on the destination.

tiated way among the different types of taxpayers. This makes the quantification of elasticities difficult because there is not enough variation in the data to isolate the effect.

Returning to the equation of the cost of the donation, it is evident that for a given donation law (that is, maintaining the value  $\alpha$ ), there will only be variation in the cost of the donation if there is a change in the marginal rate of income tax that the donor ( $T_i$ ) faces, which happens very rarely. That is why some studies outside Chile have taken advantage of those periods of tax reforms where there is an independent variation of income taxes to identify the cost elasticities of interest. However, the changes that occur in the economic environment when tax reforms are implemented can influence the behavior that is modeled and bias the estimated effects of the tax unless they are controlled in the regression (Triest, 1998)<sup>53</sup>.

## Methodology for the case of Chile

The methodology for the study of the determinants of donations in Chile faces additional problems to those indicated above, and that have to do with the nature of the information. The information available in this study is not panel data, but repeated cross-sectional data, for the years 2005 to 2015<sup>54</sup>.

The information available is also limited in a second sense. Considering that Chilean donation laws allow mainly First Category taxpayers (i.e. Corporations) to use the expense tax benefit, that is, to deduct the donation from their tax base, and considering also that there is only one Income Tax in Chile that First Category taxpayers must pay, there is no variability in the cost of the donation, since all of them are subject to the same tax rate. This makes it impossible to estimate the cost elasticity of corporate donations for periods of time during which the tax rate does not change. In the case of the taxpayers subject to Global Complementary Tax, they only have the right to a 50% credit, so the cost of \$1 donated is 0.5 for all taxpayers, and therefore it is not possible to estimate an elasticity cost of donations for individuals.

For all these reasons, this study only estimates the income elasticity of donations.

53 In this case, the difference in differences statistical technique has been used in the empirical literature, since it is designed to control the non-tax effects that coincide with the tax reforms. This methodology treats tax reforms as natural experiments that can be used to identify the effect of taxes on the behavior of donating. The group that is exposed to the natural experiment is called the treatment group and the group that is not exposed is called the control or comparison group. The change in behavior of the control group can be used as a measure of how the underlying non-tax factors affect behavior. An important assumption of this method is that non-tax factors affect both groups in the same way.

54 Although the data cover years of tax reforms, in which the Income Tax rate changes, it is not possible to use the difference in differences statistical technique, since this requires a control group, which in this case could be the taxpayers who are not subject to income tax, or who are subject to a lower tax rate. If it were possible to have such a group, it could be studied how the economic environment of that year affected the donation of that group, in comparison with the group of donors subject to Income Tax or subject to a higher rate.

55 It was decided to use the measure of income before taxes and donations. Since taxes have an influence on the amount that is donated, the objective is to obtain a measure that does not include this effect, i.e. what the donor's income level would be as if he had not made donations. Therefore, for legal persons, the measure of income used is the Net Taxable Income plus the sum of all the expenses for donations. For natural persons, who use only credit, the measure of income used is the Annual Taxable Base.

## Income Elasticity of Donation Results

The information used to estimate the income elasticity of donations was the information provided by the Department of Economic and Tax Studies of Chile's Internal Revenue Service on the amounts donated and income<sup>55</sup> of all taxpayers who made donations using the studied donation laws, during the 2005-2015 period. The only law that is not included in the estimate is the Law of Donations to Universities and Professional Institutes, because there is no access to donations made at the individual level of the taxpayers or the level of income they have, since that legislation is not registered in any affidavit.

It should be mentioned that the ID numbers of each donor are fictitious, so it is not possible to make any identification<sup>56</sup>. The income elasticity of commercial legal persons and individuals is estimated separately<sup>57</sup>, by means of an OLS regression, for the grouped data corresponding to the 2005-2015 period.

The results of income elasticities, both for commercial legal entities and for individuals, are shown in Table 7.

**TABLE 7. INCOME ELASTICITIES OF DONATIONS**

Type of taxpayer	Income elasticity
Corporations	0.55
Individuals	0.47

**Source:** Society in Action Project, based on data from Chile's Internal Revenue Service.

The coefficients obtained from the regression are positive and statistically significant, both for corporations and for individuals. According to the results obtained, by increasing the income of corporations by 1% on average, their donation will increase by 0.55% on average; and by increasing the income of individuals by 1% on average, their average donation will increase by 0.47%. Likewise, these results allow us to confirm that commercial legal persons are more sensitive to income than individuals, in accordance with what has been found in international literature.

56 The information contained here comes from taxpayers data obtained from Chile's Internal Revenue Service, therefore it is not of an economic nature but rather a tax-related one. It is expressly stated that the Internal Revenue Service does not assume any responsibility, nor grants respect to it any kind of guarantee for the use or application made of said information, especially as regards its accuracy, validity or integrity.

57 Although there are other types of taxpayers, in the previous section it was shown that these two types of taxpayers concentrate 99.5% of the total amount donated to CSOs.



The journey through the pages of this document builds a broad diagnosis of civil society in Chile. It begins by revealing the important number of organizations that exist in the country, along with the positive valuation that citizens have of them. Then, it describes the significant volume of resources they manage, both in economic and human terms. Donations, as an important part of these resources, are also analyzed in detail in the last chapters.

Having recognized the significant contribution of this sector, the question that follows is whether it is possible to identify some keys in relation to the development pattern of civil society that can offer some clues about its evolution in the future and, in addition, how this trajectory can become a contribution for the development of the country. Some approaches to these answers can be addressed in parts.

## PAST

There is not only one factor that can explain the development of CSOs in the country. Certainly, its origin can be associated with the welfare and charity practices promoted by the Catholic Church since colonization, and later with the Independence of the country. However, at an early stage the state began to regulate the creation of organizations and to count on their collaboration in the provision of essential services under a supplementary or complementary mode. In parallel, different power groups, such as businesses and social elites, begin to organize in order to create charitable foundations, which is also observed in the emergence of trade or productive associations. Probably, some of the most emblematic organizations of civil society, which exist to this day, originate in this period.

In this way, during the 20th century this more traditional pattern of development of civil society started to give way to a mixture of other impulses in favor of the institutionalization and consolidation of the existence of these organizations. On the one hand, more specific expressions of volunteering associated with specific causes began to appear and, later, through corporate philanthropy. From the 1990s, as seen in the institutional scan, this sector changes significantly, from a focus on foundations more centered on the delivery of services and trade associations, to another focus that begins to take more relevance, such as grassroots, functional and territorial organizations.

In sum, various elements have contributed to the development of Chilean civil society, with varying degrees of influence over time. Therefore, Chile does not follow a precise or exclusive pattern, but rather is in a situation of transition or closeness to pre-established models. Indeed, already in the prologue of the book on which this document is based, Lester Salamon reviews various theories that explain the development of civil society in the world, formulating that Chile is in a situation close to the case of a “welfare association”, which is the predominant model in Western Europe.

Therefore, the past shows that in the itinerary of the Chilean civil society there are no unique determinants that explain its process, so it is pertinent to leave open all the roads that can empower it, whether they come from the government, from individual or business philanthropy, or from the citizens themselves.

## PRESENT

When considering as a key variable the proportion of total employment of CSOs in relation to the economically active population, the economic scan of Chilean civil society shows a sector of considerable size in the Latin American context. Similarly, in terms of the resources mobilized, equivalent to 2.1% of GDP, they are superior to other important sectors of the national economy. Additionally, it should also be taken into account that in economic terms the sector has been very dynamic, since in ten years it has more than doubled the volume of resources it manages, growing at a rate higher than the country's economic growth in the same period. In fact, 2015 shows a greater relative participation in GDP compared to 2004.

The institutional scan showed the wide and diverse range of subjects in which CSOs work, and their decentralized distribution across the country. This is consistent with the characteristics described in the international literature regarding this type of institution, in the sense that they are close and have knowledge of their users or beneficiaries.

On the other hand, the social scan provided information on a considerable level of knowledge about a wide range of organizations, but not about the concept of "civil society organizations". Thusly, this diagnosis also showed a high level of social valuation of these organizations, based on an index that included the dimensions of capacity, adaptability and trustworthiness of CSOs.

In summary, the study shows a social sector of a significant economic dimension, which is very dynamic and highly valued by the public. In few words, CSOs are trusted, not only because they have the technical capacity to solve the challenges, but also because they demonstrate integrity in their work. All this occurs in a national context of growing distrust in public institutions such as parliament and government, and a social questioning of the various bad practices of private companies that have been reported on by the media and scorned by public opinion.

Therefore, Chile has a good base of civil society organizations that can contribute to the integral development of the nation. However, there are currently a series of challenges to achieve the full deployment of all the potentialities of the sector. One of them is that a greater involvement of the private sector is needed, not only of legal persons but also natural ones. In this regard, the current complexity of the donation system is not only an obstacle to having more resources, but also to be able to involve people or institutions, which, by being donees, are also assuming a commitment to the cause promoted by the institution and, probably, a closer look regarding the effectiveness of their actions.

## FUTURE

The diagnosis that emerges from the economic scan, shows a sector of a significant size in the Latin American context. However, when looking more closely the proportion of paid staff in CSOs with respect to the economically active population, there are several countries in Latin America that have a better position than Chile in this indicator. Moreover, the information about high-income countries shows that they have a civil society sector that is almost twice the size of that of Chile. Consequently, despite the remarkable growth that the sector has shown in the last decade and the size it has today, this does not match what would be expected for its level of economic development. Therefore, as our country continues to increase its income per capita, the future will probably imply “more society” for Chile; this constitutes an important challenge that must be addressed starting now.

Some high-income countries, such as the United Kingdom and the United States, have formulated long-term policies in an effort to unlock the relationship between the state, the market and civil society. Not all have been successful, but at least reflect the concern to move towards a new articulation model. Underlying all this is a diagnosis that the complex nature of current problems requires a much more fluid and permanent interaction between these three actors if we want to move towards development. It requires a much more empowered and participatory civil society that contributes to creating a culture of responsibility and mutual collaboration.

The Centre for Public Policy of the Pontifical Catholic University of Chile together with Chile+Hoy Foundation, is formulating proposals in this regard. These include a greater recognition and incidence space for CSOs, more formal dialogue mechanisms with the state, a propensity towards more stable forms of financing, better information to ensure the public actions of the organizations and flexibility for an associative work between the actors. With these proposals and the constant commitment of the CSOs and of the state, and with the support of the private sector, we can move forward to achieve more society and more action, which translates into the improvement of the country.



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