

Private Resources for Public Ends: Grantmakers in Brazil, Ecuador and Mexico

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Introduction

During the last two decades, the spotlight has moved onto the civil society sector as a key agent of development and social change in Latin America. An increasing number of civil society organizations are taking on the challenges of shaping societies that are more democratic, have lower levels of corruption and guarantee citizens their basic human, social and economic rights. There has been little information available, however, about the presence of professional philanthropic institutions in the region that are channeling grants to local civil society organizations. The research described below constitutes a start in developing our understanding of the role these local grantmaking foundations play. As civil society leaders, policymakers, donors and scholars continue to struggle with ways to sustainably finance civil society organizations, the need for further information about these local philanthropic organizations will be essential.

Since its founding in 1986, The Synergos Institute has built a body of knowledge on grantmaking foundations throughout the developing world. Synergos has used that information to construct a capacity-building program that has worked to build and strengthen grantmaking organizations globally. In 1999, Synergos received a grant from the Tinker Foundation to work with its partners Centro Mexicano Para la Filantropía (Mexican Center for Philanthropy, CEMEFI) in Mexico, Grupo de Institutos, Fundações e Empresas (Group of Institutes, Foundations and Businesses, GIFE) in Brazil and Fundación Esquel-Ecuador (Esquel Foundation, Ecuador) to begin to quantify the emergence of institutionalized philanthropy in Mexico, Brazil and Ecuador, offering a basis for extrapolating lessons for the region.

The research on grantmaking organizations resulted in information that advances the field of academic research on philanthropy in Latin America. The studies highlighted the fact that grantmaking foundations are a relatively new and growing phenomenon, and to the surprise of many, that the majority of resources mobilized by these organizations are local not international. Also surprising was that most of the organizations have endowments, though they tend to be small.

In addition, in all three countries, grantmaking organizations have very low visibility, and in some cases, a low level of transparency. These organizations tend to operate in economically or politically important regions of their countries, and most favor education in their grantmaking programs. Lastly, while grantmaking is historically associated with Christian charity, the more recently incorporated grantmakers are not affiliated with the Church and are more often associated with the civil society and business sectors.

The following chapter draws on findings from the three studies commissioned by Synergos during 2000 and 2001.¹ The chapter is divided into three parts. The first briefly describes the methodology and objectives of the study. The second explores the particular characteristics of local grantmaking foundations in Brazil, Ecuador and Mexico. The third provides a comparative analysis, extracting lessons for the region, and the concluding section addresses challenges and makes recommendations for promoting the growth and development of these vital civil society resource organizations.

I. Methodology and Objectives of the Study

Research undertaken by Synergos, in partnership with GIFE, CEMEFI and Fundación Esquel, sought to identify local philanthropic organizations engaged in grantmaking and to learn more about the role they are playing in their respective societies. The studies did not attempt to capture all funding available for local civil society organizations but instead to capture the development of institutionalized philanthropy as a way to gauge the growth of a local, professional philanthropic sector. In that way, Synergos did not include corporate giving programs where those were not organized as a separate legal entity, nor did the study include international foundations (ie. Ford Foundation, Kellogg Foundation and Avina Inc.) which are extremely important in the region today, though their presence over time is not guaranteed.

While the work of these actors is essential, it was our belief that a professional, locally-based sector is important for strategically and permanently investing in the development of civil society organizations and, in partnership with government, working toward the resolution of persistent poverty problems. As so little information is available about these local professional institutions, Synergos endeavored to learn more.

¹ Andres Falconer and Roberto Vilela. *Recursos Privados para Fines Públicos: As Grantmakers Brasileiras*, 2001; Boris Cornejo Castro. *Recursos Privados para Fines Públicos: Los Grantmakers en el Ecuador*, 2001; Alejandro Natal with Patricia Greaves and Sergio Garcia. *Recursos Privados para Fines Públicos: Las Instituciones Donantes Mexicanas*, 2002.

Researchers carried out extensive national scans to uncover all existing grantmaking organizations in the three countries. They consulted databases of foundations and NGOs, membership rolls of local associations and, through their interviews, asked grantmakers to identify others they were familiar with. While an attempt was made to be exhaustive, for a variety of reasons, including reluctance on the part of foundations to disclose financial information, the studies do not cover the entire grantmaking sector.

As grantmakers are not a well-defined sector in the three countries, arriving at a common set of criteria to determine which organizations to include was essential. The criteria used for selection were that the organizations:

1. ***Make grants to nonprofit organizations or individuals*** This could not be part of a commercial activity, but had to benefit nonprofit organizations or individuals. (To be included in this study, at least 5% of program budgets had to be dedicated to grantmaking.)
2. ***Were private, non-governmental*** They could not be part of either a government or business entity.
3. ***Were independent and not-for-profit*** The foundation/organization had to be independently incorporated and had to be able to make its own decisions. (Corporate giving programs were not included.)
4. ***Were locally owned, governed and operated (i.e by nationals of the country)*** The foundation had to be indigenous to the country, though some portion of its income could be mobilized externally.

For each organization, the researchers obtained data on the: history of the organization; sources of funding; permanent assets such as endowment, real estate and earned income; areas of grantmaking and target populations for grants; types of grant recipients; and non-grant services provided.

The research sought to generate information on grantmaking organizations in each country for a number of audiences including policymakers, practitioners in the philanthropic sector and academics. Synergos hoped the studies would contribute to strengthening the emerging grantmaking sector by increasing its visibility, both locally and internationally; identifying its capacity building needs; identifying best practices that could be documented and shared with other organizations locally and internationally; and linking donor organizations to potential local partners.

II. Grantmaking Foundations in Brazil, Ecuador and Mexico

Brazil

The Brazilian study is the first attempt to identify those national organizations that are making grants for public benefit in Brazil. It provides many valuable insights into the origins and nature of these organizations and their capacity to mobilize and distribute resources and suggests ways to increase their role and impact. The findings are based on a universe of 31 grantmaking foundations.

The results of the survey show that this emerging group of organizations, (64% of which were created after 1980 -79% in the case of corporate foundations), is providing vital resources to the nonprofit sector, thereby lessening their dependence on international sources of funding. In 1999, they channeled \$120 million reais (approximately US\$69.5 million in 1999) in grants, in addition to managing projects and programs in partnership with a wide range of organizations, both governmental and nongovernmental.

A noticeable feature of the grantmaker sector is the central role played by private corporations. Sixty-one percent of grantmakers were formed by corporations, the remainder being created by wealthy families or individuals or by civil society organizations. The data analysis highlights important differences between corporate and non-corporate foundations². The most important is that corporate foundations channel a much higher percentage of their budget to programs and projects they manage directly (42% as against 14%). This means that nonprofit organizations seeking grant support depend most heavily on non-corporate grantmakers. In explaining why corporate grantmakers give fewer grants the author concludes that “organizations identified as ‘grantmakers’ tend not to distinguish between donations to third parties and resources invested in their own programs and projects: companies and businessmen consider as ‘donations’ all those resources they apply to the social sector.”³ Another consideration is that the majority of the organizations surveyed “prefer not to be seen as grantmakers because it would lead to an increase in the number of grant requests over and above their capacity to respond.”⁴ They also consider that the term “donor” implies a paternalistic and ineffective form of social action.

The study shows that over three quarters of all foundations operate their own programs in addition to giving grants. One striking feature of the Brazilian context is that these programs are frequently operated in partnership with other nonprofits, government programs, community associations or corporations. Through such partnerships, which take many forms and also include donations, foundations test pilot programs, replicate successful initiatives and transfer business skills.

It is significant that education is given a high priority by Brazilian foundations, constituting a programmatic priority for 81% of foundations.⁵ The author suggests that this is largely because education is a popular cause with the public, represents a low risk and fits national priorities, making it possible to leverage government resources.

The Brazilian study shows that corporate grantmakers are playing a key role in the creation of a new professional culture of grantmaking and have introduced concepts and practices from the business sector into the management of their organizations. They have created a new type

² In this chapter we have at times referred to the grantmaking organizations studied as simply “foundations.” When we refer to “foundations,” unless otherwise specified, we are referring to grantmaking organizations. This should not be confused with the Spanish or Portuguese translation, *fundación* or *fundação* where the word does not necessarily refer to a grantmaking entity.

³ Falconer, Andres and Vilela, Roberto. *Recursos Pivados para Fins Públicos: As Grantmakers Brasileiras*, 2001. p. 64

⁴ Ibid. p. 66

⁵ After education, arts and culture and community development were of greatest priority to 42% of foundations.

of organization that differs from the traditional model of a “classic” grantmaker and reflects a new concept of business social responsibility, favoring a more proactive involvement of business in the social arena.

Interestingly, only one of the foundations studied has opted to develop credit programs as a means of channeling funds to community-based organizations. This appears to be the result of a conscious decision to leave this particular type of assistance to a network of NGOs specializing in providing this service.

The newness of the sector poses a series of challenges to Brazilian grantmakers, such as the dependency on one or few sources of funding; the inexistence of a capital base of any significant size and the consequent limits to their financial autonomy; and the lack of policies and instruments to ensure organizational transparency. Not surprisingly, corporate foundations are in a stronger position than non-corporate foundations regarding independence from international funding. They mainly rely on a regular flow of funds from their parent companies, usually in the form of annual transfers, the amount of which is often linked to annual profits. It is noticeable that only 32% of foundations have assets that produce income (i.e. endowments, company shares and real estate). Only half of these are endowment funds and only 4% of foundation income comes from returns on endowment investment.

The author points to a number of possible explanations for the limited role played by endowments in Brazilian foundations including the lack of an ‘endowment culture,’ the pressure on foundations to respond to demands for resources from civil society, the lack of fiscal incentives and the young nature of most foundations which have not yet had time to build an endowment.⁶

While the grantmaking sector in Brazil is small, many of the organizations included in it are powerful and well organized. The national association of foundations, GIFE, plays an important role in advocating for the overall foundation sector (both grantmaking and operating) including pressing for a more favorable and clear legal and fiscal environment. Corporate social responsibility and social investment have become powerful concepts in Brazil and several strong associations are networking and providing information to businesses interested in increasing their social engagement. These efforts, coupled with a new government encouraging development partnerships, will certainly result in an increase in grantmaking organizations in the future.

Ecuador

In Ecuador the grantmaking foundation sector is relatively new and has yet to establish a strong and clear separate identity in Ecuadorian society. Its development broadly mirrors that of the non governmental sector as a whole.

Grantmaking foundations, like NGOs, experienced their major growth spurt in the past twenty years. This came about in part as a response to the increasing poverty and inequity in the country resulting from a widening economic crisis and the inability of the state to respond adequately. This period has seen the emergence of a corporate foundation sector – led by a

⁶ Ibid. p. 55

few large national corporations – supporting a range of programs in health, education, training and micro-credit.

This study was the first attempt to document the foundation sector in the country. It identified 21 organizations that met the survey criteria.

Eighty percent of the foundations are based in the capital city of Quito, along what is known as the *sierra*, or mountainous region. The fact that Quito is the seat of the national government and, therefore, the headquarters of agencies of international cooperation helps to explain this concentration. But cultural factors seem to offer an even deeper explanation. In the *sierra* collective action and the creation of civil society organizations have been favored as a way of addressing acute social and economic problems. Most of these Quito-based foundations work nationally also channeling grants to the coastal region.

Grantmaking foundations are a relatively new phenomenon in Ecuador, with 65% created during the past 20 years. This is explained by a change in the model of state development (with the public sector increasingly relying on civil society to carry out social development activities) and by the increasing desire of international cooperation to channel their aid through non-governmental organizations. All six corporate grantmakers were incorporated during this period as well.

Grantmakers in Ecuador also tend to have a hybrid character, channeling grants, operating programs, projects and/or institutions and offering credit on a non-commercial basis. Ninety-five percent of the foundations directly implement their own programs. In other words, the majority of foundations are principally operating foundations, although they also channel grants. Grantmakers feel that operating programs helps them to better control the application of funds. It also gives the foundations the freedom to raise additional funds as many of the operating programs generate income. The survey showed that income generation activities include the operation of training centers, cooperatives, consultancies, health centers and tourism services.

Not surprisingly the emphasis on program operation is reflected in high overhead costs. Over 50% of the foundations have administrative/operating costs of over 25% of their total budget.

Ecuadorian foundations give grants in a wide range of fields with education, community development, institutional development and health favored by most. The high investment in education and training reflects a response to the poor national public school system and the priority corporate foundations place on increasing the skills of the future work force.

Most foundations face a constant challenge in raising the funds required to respond to the program demands placed upon them. To address this problem and guarantee a regular flow of funds, 60% of the foundations are building endowments. However, in no case do these endowments exceed US\$3 million and, therefore, do not yet represent a significant source of income.

One unexpected finding was that foundations receive most of their funding (69%) from local sources. Not surprisingly, the percentage rises to 82% in the case of corporate foundations as they receive regular injections of funds from their parent company. The high percentage of local funding reflects the foundations' success in developing a diversity of income generating programs rather than a well-honed capacity to raise contributions from the local elite.

Despite the success in raising funds locally, many foundations still rely heavily on grants from international organizations including official development assistance (ODA) agencies, international foundations and corporations. Corporate grantmakers, which depend much less on international funding, only receive international funding from ODA agencies and foreign corporations. Non-corporate foundations, on the other hand, by necessity show a more diversified strategy and try to access all possible sources of international funding.

The study estimates that Ecuadorian foundations have a total annual budget in excess of US\$36 million of which approximately US\$15 million is channeled as grants. This figure, while not conclusive because some organizations did not have or did not want to share their financial information, highlights the important role these institutions play in a country like Ecuador, where 60% of the population live in poverty.

One feature of foundation disbursement strategy that sets Ecuadorian foundations apart from their counterparts in Brazil and Mexico is the use of credit facilities. Half of Ecuadorian foundations give both grants and loans. The reasons cited for the use of loans is that it ensures that their relatively limited resources are able to assist a greater number of organizations and communities and that it obliges the beneficiaries to make efficient use of their resources.

The study provides us with a useful first assessment of a relatively young universe of grant-making foundations, working towards creating improved systems of financial sustainability that will enable them to respond effectively to the challenges of increasing poverty and environmental degradation. There are many positive signs including efforts underway to build an association of foundations, the Ecuadorian Consortium for Social Responsibility (Consortio Ecuatoriano de Responsabilidad Social), that will work towards increasing the accountability and effectiveness of its members and obtaining improved tax provisions for foundations. The fact that half of the foundations already issue public information on how to request grants and loans and that 90% of foundations have annual external audits constitutes a good beginning.

Mexico

The research conducted in Mexico, as in Brazil and Ecuador, was the first attempt to identify grantmaking foundations as a separate sector. It surveyed a total of 74 grantmaking entities (identified as donor institutions) meeting the established criteria. The resultant data profiled a diverse, dynamic and evolving sector that is playing an increasingly important role in channeling funds to a range of grassroots development programs, building partnerships across sectors and having an impact on social policy both at the local and national levels.

The study found that the behavior, grantmaking practices and fundraising strategies of the foundations that were surveyed depended in part on their date of creation and in part on whether they were corporate, community or private foundations. The author classifies grantmaking foundations into three generations each with distinct characteristics.

First, those from the *charitable generation* (end of the 19th century to the 1930s) were founded on interpretations of Christian charity and tend to have a low profile and channel most of their support to charitable organizations. (Ten grantmakers were founded during this period.) The second generation, or *transitional generation* (1940s to 1960s), coincides with a period of economic growth in Mexico. (Eight grantmakers were founded during this period.). Grantmakers in the transitional generation tend to be more proactive in their approach to social issues than the previous generation, and they reach a more diverse group of

beneficiaries. They are also more concerned about the professional development of their staff. They tend to rely on support from volunteers and have developed limited links with other sectors of the society.

The third generation, or *development generation* (1960s to present), is characterized by an increased participation of civil society in the public sphere and a noticeable increase in the emergence of grantmaking foundations – particularly of community and corporate foundations. Organizations from this generation (56 in total) show an interest in making their activities and staff more professional. Most of their support goes to communities and they place high value on the creation of strategic alliances with other social actors.

Underlying this concept of collaboration is a new paradigm of development that emphasizes the responsible participation of all social actors. This trend has been particularly pronounced since 1985 when the strong civil society response to the disastrous earthquake which shook Mexico City resulted in the emergence of a number of grantmaking foundations. This post-85 period saw the emergence of two new groups of actors: *corporate foundations*, who gave greater emphasis to the concept of efficiency and effectiveness in their grantmaking, and *community foundations*, that have been developing concepts of co-responsibility and

citizen participation. (See Appendix I for more information about Mexican Community Foundations.) This generation is characterized by increased hiring of salaried employees and attention to their professional development in areas such as fundraising and project design and attention to endowment building. Foundations of this generation are also more likely to seek to exercise a leadership role in the formulation of social development policy.

The figure of the “hybrid” grantmaker also appears in Mexico. Even when many Mexican organizations are moving toward the model of a “pure” grantmaker (that is, professional organizations specialized in the mobilization, administration and channeling of private resources for public ends), most add the operation of programs, projects and/or institutions to their grantmaking activity. However 76% of foundations described themselves as “primarily grantmaking.”

As in the cases of Brazil and Ecuador, the study found that foundations rely primarily on local sources to fund their grants and operations. This is an indication of the strength of local philanthropy. Local sources provide 79% of foundation resources.

Mexican Community Foundations: An Emerging Movement

Since 1996, 21 new community foundations have been formed and are currently operating in all regions of Mexico. The first Mexican community foundation, the Oaxaca Community Foundation, was created in 1996 with considerable support from the international foundation community. Since then, the impetus and inputs needed to create community foundations in Mexico have come from local initiative, usually involving a core group of actors from both the local private and civil society sectors. In some cases, the government has also played a valuable role in stimulating and supporting the growth of this movement.

Mexican community foundations mobilize financial resources and channel them as grants to non-governmental organizations in the community. In 2002, Mexican community foundations gave \$US7.49 million dollars in grants to local institutions through over 1,400 individual grants. Their permanent endowments, an important indicator of sustainability, range from zero to \$4.4 million US dollars with the average endowment being US\$602,030.

These foundations raise, on average, 76% of their annual operating budget from local sources and 24% from international sources (Only four Mexican community foundations raise at least 10% of their total operating budget from endowment or other investments). On average they allocate 41% of their total annual operating budgets to grants, 35% to operating programs, 15% to operational and administrative expenses, and approximately 9% to other expenses such as investment in endowment, etc.

The *Centro Mexicano para la Filantropia* (CEMEFI) and *The Synergos Institute* are currently collaborating in the implementation of a three-year capacity-building program to strengthen this emerging sector in Mexico.

***For more information please see Appendix I*

Apart from a few fortunate foundations that have endowments from their original benefactor or foreign and domestic government sources, most of the 64% of the Mexican grantmakers that have made a start toward building endowments are not yet at the stage where they produce significant dividends.

The Mexican grantmaking community has made considerable strides in developing networks for collaboration and the sharing of learning and experience. The *Centro Mexicano para la Filantropía* (Mexico Center for Philanthropy) has supported the creation of sectoral affinity groups in which regular interaction takes place.

An interesting trend among Mexican foundations is their success in building partnerships across sectors with a view to mobilizing increased resources and deepening program impact. For example, the Fundación del Empresariado Chihuahuense (The Chihuahua Businessman's Foundation, FECHAC) raised over US\$26 million between 1994 and 2000 through an agreement with the state government that instituted a small payroll tax for this purpose. These resources have been channeled as grants to NGOs and community-based organizations to fund programs in the fields of education, social welfare and health.

Another trend is for community foundations and other non-corporate foundations to seek the involvement of corporate representatives and wealthy individuals on their boards of directors as a means of accessing new skills, in addition to resources.

Mexico has developed a rich diversity of donor institutions. They have displayed strong innovation in both the mobilization and application of resources. With the transition from one party rule in 2000, Mexico has seen increased openness to collaboration between civil society and government. This represents a new opportunity for the creation of development partnerships that can leverage resources and knowledge, building collaborations that address persistent poverty problems.

III. Uncovering Trends and De-bunking Myths: Grantmaking foundations in Brazil, Ecuador and Mexico

The grantmaking sector has evolved in different ways in each country as a result of diverse historical, political and socio-economic factors. There are, however, interesting trends that emerge across countries highlighting particular sectoral characteristics and institutional forms. These trends help to distill information about a growing philanthropic force in the region while de-bunking myths and shedding light on the sector's potential as well as its challenges.

Sectoral Characteristics:

Grantmaking foundations are a relatively new phenomenon and were founded by diverse actors

Grantmaking foundations, as a sub-sector of civil society, are a relatively recent phenomenon in all three countries. While some organizations were founded in the first half of the 20th century, most grantmakers were created after 1980, paralleling two important trends: an increased role of civil society organizations in national development and an increased role of the private sector in tackling persistent social and economic problems. Since 1980, the

majority of the founders of grantmaking organizations have been either civil society or business leaders. And in all three countries, most corporate foundations were created since 1980, reflecting an increased awareness on the part of business of their need to institutionalize and professionalize their social actions.

In Brazil, 64% of grantmakers were created after 1980 – with 48% in the 1990's. The majority of those created since 1990 are linked to the private sector. In Ecuador this figure increases to 65% since 1980. In Mexico the figures are even more striking with 70% of grantmaking foundations founded after 1985 during the *development generation*.

Table 1 – Who Created the Foundations (*)

	Brazil (total: 31)	Ecuador⁷ (total: 21)	Mexico (total: 74)
National civil society leaders and organizations	19.4%	55%	31%
Private Individuals / Families	19.4%	40%	34%
Business leaders/Corporations	61.3%	30%	23%
Religious leaders/ and organizations	12.9%	10%	4%
International organizations		0%	
Government			8%

(*) Data from : Andrés P. Falconer, Brazil, Boris Cornejo, Ecuador, Alejandro Natal, Mexico

There is a significant and growing community of grantmaking foundations

In all three studies, researchers confronted a common misperception that there were few national grantmakers in their countries and that those that existed were charity-focused. The studies, in fact, uncovered a significant number of grantmaking foundations – 126 in total with 31 in Brazil, 21 in Ecuador and 74 in Mexico. Together these organizations channel over US\$138.5 million annually⁸, mainly to nonprofit organizations.

For a sector that was presumed almost nonexistent, these figures were surprisingly high. If compared to the number of grantmaking foundations in more developed countries (approximately 56,000 in the US⁹; 1,650 in Canada¹⁰, and 1,579 in Japan¹¹), the figure is still

⁷ Because of the mixed nature of the founding groups in Ecuador, the percentages do not add to 100%.

⁸ The figure of US\$138.5 million includes donations made by *Nacional Monte de Piedad*, in Mexico which itself channels over US\$22 million annually, over 40% of annual giving in Mexico.

⁹ The Foundation Center press release, June 2002 with data from the year 2000.

¹⁰ Philanthropic Foundations of Canada website, data from the year 2002.

quite modest and represents a challenge for a region with a growing nonprofit sector and persistent social, economic and environmental challenges demanding new institutional sources of income.

Significant impediments exist to creating a sectoral consciousness

A common identity among grantmaking organizations will contribute significantly to their ability to professionalize and increase their role, encouraging the growth of existing organizations and the birth of new ones. While there have been some interesting strides of late in defining a common identity, there are several impediments that need to be overcome.

Grantmaking foundations in Brazil, Ecuador and Mexico show an identity and character different from their peers in the developed world, particularly the US. First, they do not define themselves as grantmakers – that is, through their activity of making grants. Instead they tend to define themselves based on their area of program activity (such as environment, health or education). This might be related, in part, to the negative connotation the word “*donación*” (grant) has in both Spanish and Portuguese. Grantmaking organizations increasingly seek to differentiate themselves from traditional, charitable initiatives to which the word “*donación*” and “*donante*” (grant and grantmaker) have historically been associated. In the three countries, grantmaking foundations tend to reject the concepts of charity and dependence and are striving to professionalize their activities. To demonstrate this they have adopted new terminology such as “social investment” and “transformative philanthropy” to describe their social action.

In addition, the word “foundation” does not necessarily define an organization as a grantmaker. In all three countries, “foundation” can mean an organization that operates programs or one that gives grants.

Lastly, exacerbating a lack of common identity is the fact that in all three countries, grantmakers can incorporate as one of several different legal entities (e.g. foundation, institute, civil association, institute of private assistance). The lack of a clearly defined legal framework for grantmakers makes it more difficult for these functionally similar organizations to forge bonds, learn from and strengthen one another.

Underscoring this issue is the fact that different words were used to describe these organizations in the three studies themselves. In both Brazil and Ecuador, in the absence of a local language equivalent, researchers opted to use the English word, *grantmakers*. In Mexico, the researcher decided upon donor institutions (*instituciones donantes*).

In all three countries, however, there is a growing awareness of the specific character and role of these organizations, resulting in the emergence of networks of foundations under the umbrella of the Group of Institutes, Foundations and Businesses in Brazil; the Mexican Center for Philanthropy in Mexico; and the Ecuadorian Consortium for Social Responsibility. These associations are promoting a sense of common identity and working to strengthen existing grantmakers and to promote new ones.

¹¹ Japan Foundation Center data from studies conducted of grantmakers since 1987.

Corporate philanthropy is an expanding sector

Corporations and corporate leaders are an increasingly influential force within the grantmaking sector in all three countries. The introduction of corporations to the social arena in the last two decades has brought about important changes including, in some cases, the professionalization of the nonprofit sector through the introduction of modern business practices in the management of nonprofit organizations and the adoption of new concepts, such as social investment and strategic alliances.

Brazil shows the highest number of corporate grantmakers: 61.3% of the organizations identified were created by private corporations. In contrast, the study revealed that most grantmakers in Mexico and Ecuador were founded by private individuals or civil society leaders (or a combination of both). The studies found that 30% of the Ecuadorian foundations had been created by business and that number decreases to 23% in Mexico.

These numbers are not surprising. Compared to other Latin American countries, Brazil's private sector has been the most dynamic in embracing its role as a social actor. In Ecuador and Mexico, this tendency to participate is still evolving and has not yet reached a point of maturation.

According to a recent paper prepared by Brazil's leading corporate social responsibility organization, Instituto Ethos de Empresas e Responsabilidade Social (The Ethics Institute for Business Social Responsibility), among the reasons for greater corporate responsibility in Brazil are: the increasing recognition of the complexity of social problems and the intensification of urban violence in Brazil; recognized limits of government action and the perceived growing need to build partnerships; a strong Brazilian third sector and a demanding Brazilian consumer; and the dissemination of a culture of quality in business management where corporate social responsibility is an important factor.¹²

Foundations tend to concentrate in or around the most important cities or regions

The studies showed that most grantmakers are located in or around the most important cities or regions, either in economic or political terms. In Brazil, 77% of the grantmaking foundations are located in the Southeast, particularly the city of Sao Paulo. In Mexico, 71% are based in Mexico City, and in Ecuador 80% can be found in Quito.

This initial reading might lead us to conclude that grantmakers favor locating around the most developed or prosperous areas. But in Ecuador, Guayaquil and not Quito stands out as the most important city in terms of size and commercial activity. And the north of Mexico (particularly the border region), and not the state of Mexico, shows the most rapid levels of economic growth in the country.

One explanation for this concentration of grantmakers in certain major cities or regions is the existence of higher levels of connectivity or association "*asociatividad*" among citizens.

¹² Medeiros Peliano, Anna Maria T., Nathalie Beghin and Valdemar de Oliveira Neto. *Philanthropy for Equity: The Brazilian Case*. Prepared for the Global Equity Initiative project developed by the John F. Kennedy School of Government, Harvard University, 2003.

This is the case in Ecuador, where the concentration of grantmakers is based primarily on cultural factors that privilege, in the mountainous region around Quito, a tendency toward collective action and the creation of civil society organizations. In the case of Mexico, the high concentration of grantmakers in the capital city is mostly explained by the presence of a more enabling environment, in terms of access to funds, contacts and opportunities for professional growth. In Brazil, the concentration of grantmakers in the Southeast is based on the existence of a more vigorous social investment culture, linked to the presence of national networks of foundations and business associations.

Few fiscal incentives exist for the grantmaking sector in Brazil and Ecuador with more in Mexico

The fiscal environment is especially unfavorable to grantmakers in Ecuador and challenging for those in Brazil. Even when the law recognizes a growing space for civil society organizations, there is an absence of deliberate policies to stimulate the grantmaking and philanthropic organizations. Mexico, however, has made some strides in this area possibly contributing to the larger number of grantmakers found there.

Brazilian law does not allow individuals to deduct donations made to social projects (except those made to national, state and municipal Councils for the Rights of Children and Adolescents and for cultural projects that are part of the National Program of Cultural Support). There are also no fiscal incentives for the use of bequests in the creation of foundations.

In Ecuador there are no special regulations or fiscal policies for grantmakers. Grantmakers must pay income tax (whenever they generate income as a result of the sale of a service) as well as the value added tax. In addition, Ecuadorian law does not allow individuals to deduct donations to grantmaking foundations from their personal income taxes.

In Mexico, grantmakers receive national and international fiscal incentives. They include incentives at the federal and state levels found in the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*). These fiscal incentives take the form of exemptions, subsidies and tax deductions. In some cases, grantmakers also benefit from the loan of buildings, the donation of vehicles and furniture. In addition, there are international incentives found in the agreement between Mexico and the US to avoid double taxation, signed in 1993, which provides that United States citizens and corporations can make tax-deductible donations to authorized Mexican non-profit institutions. Grantmakers are also exempt from income tax and can issue receipts for tax purposes. It is important to highlight that the issuance of these receipts can only be made by “*authorized organizations*” – that is, those that have been certified by the government as transparent and healthy organizations. Close to 89% of the Mexican grantmakers fall in this category.

Institutional Characteristics

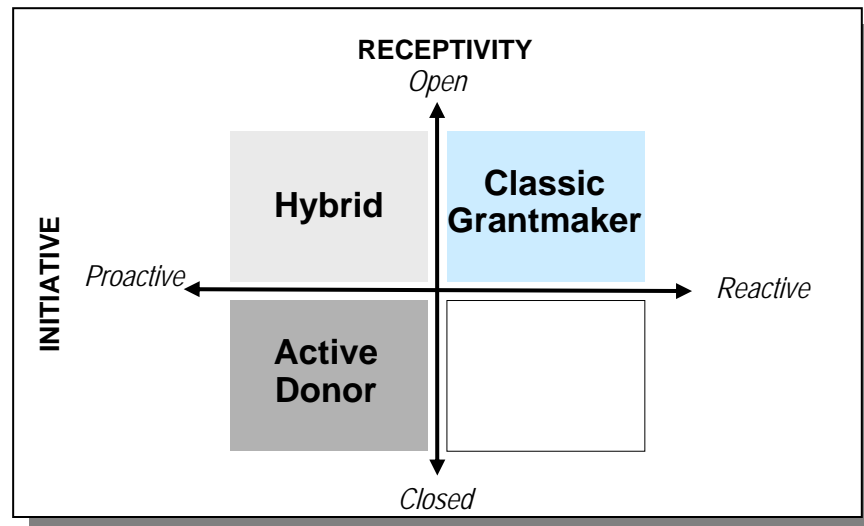
Most organizations combine grantmaking with direct operations

Unlike the United States and Canada, there are few “pure” grantmakers in the three countries – organizations whose sole activity is the channeling of resources through a competitive

grantmaking process. Foundations tend to have a hybrid character, adding the operation of programs, projects and/or institutions to their grantmaking activity.

There are several reasons sighted for this “hybrid” character of the grantmakers. One reason is distrust on the part of foundations of nonprofit organizations and in particular their capacity to efficiently manage philanthropic resources. Another reason cited is the perception, mentioned earlier, that grantmaking is charity and therefore does not attack the root causes of societal problems. Another is the desire on the part, especially of businesspeople, to create their own programs utilizing business methods and a more entrepreneurial approach.

The Brazilian researcher created the following model to capture the unique nature of grantmakers. While developed for Brazil, the model also captures the types of foundations found in Ecuador and Mexico. The model attempts to illustrate both the way that these foundations vary along a spectrum as to whether they aggressively seek out programs and projects or are reactive to requests (proactive vs. reactive) and whether the foundations are open to funding proposals presented to them or closed to that possibility (open vs. closed).



(*) Data from : Andrés P. Falconer, Brazil

In Brazil, 77% of foundations carry out programs and projects in addition to making grants. Brazilian corporate grantmakers channel fewer resources in the form of grants than non-corporate foundations (30% and 75% respectively). This highlights their preference for the direct operation of programs as their main strategy for social investment. The majority of Brazilian grantmakers fall on the pro-active side of the graph in the figure above, varying in their openness to proposals from civil society organizations.

In Mexico, in contrast, foundations channel 50% of their income in the form of grants or scholarships. 76% of the foundations (particularly those created in the past decade) recognize grantmaking as their main activity and only 24% also operate their own programs and projects. More than their counterparts in Brazil and Ecuador, Mexican grantmakers tend to approximate the model of a “classic grantmaker” found in more developed countries. This

greater emphasis on grantmaking could be a result of proximity to the United States and the influence of the U.S. philanthropic tradition where the vast majority fall into the “classic grantmaker” category.

The study found, however, that Mexican foundations vary in the way they make grants from “closed” grantmakers that tend to provide grants to a “family” of institutions on an almost permanent basis, to the more “open” grantmakers that have a transparent and responsive grantmaking program. As noted later, transparency among foundations in Mexico is a persistent challenge, while the newest foundations – especially corporate and community foundations – tend to be more open.

Even more than Brazil, the hybrid character of Ecuadorian grantmakers is predominant, with 95% of the grantmaking foundations operating programs and projects and managing their own institutions in addition to channeling grants. The majority of Ecuadorian grantmakers would be solidly in the hybrid category both being proactive in their activities and receptive to proposal from civil society organizations (Ecuadorian grantmakers approve 36% of the proposals they receive). Unique to Ecuador is that in addition to grants, credit on a non-commercial basis represents an important part of the resources channeled by 50% of the foundations studied.

Foundations are successful in mobilizing most of their funds from local sources

The studies conclusively showed that grantmakers receive most of their funding from local sources (the majority from corporate contributions, earned income fees, grants or contracts from the government, donations from individuals and income from endowments). This breaks one of the most entrenched myths of the sector: that grantmakers are mere channels for international funding. Local funding is greatest among corporate grantmakers, who receive the vast majority of their resources from their local parent corporations. In both Brazil and Ecuador, approximately 68% of the resources mobilized by grantmakers come from local sources, while in Mexico, 79% of the funds received by foundations come from local sources.

International funding – from official development assistance and foundations – is more prevalent among non-corporate grantmakers. But there are important differences between the three countries. In the case of Brazil, international funding represents more than half of the resources received by these organizations. In Ecuador the picture is totally different. Even while international funding is higher among non-corporate foundations, local funding still accounts for 68% of their resources (mostly from income generating activities).

Table 2 - Sources of Funding (*)

	Brazil	Mexico¹³	Ecuador
Local Sources	69%	79%	68%
International Sources	31%	9%	32%

(*) Data from : Andrés P. Falconer, Brazil, Boris Cornejo, Ecuador, Alejandro Natal, Mexico

Most foundations lack significant endowments

Endowments do not represent a significant source of income for grantmaking foundations in the three countries. In Brazil, only five organizations (16%) have endowments, with another five having other types of permanent assets such real estate. In Ecuador, 60% of the foundations have an endowment, but these do not exceed US\$3 million and are not an important source of income. This is also true for Mexico, where 64% of the foundations have an endowment although with very few exceptions, endowments do not exceed US\$3 million.

The studies introduced factors that explain this key departure from grantmaking foundations in developed countries. Five reasons mentioned include: the young nature of the grantmaking sector; the absence of sufficient fiscal incentives; the lack of an “endowment culture” among foundations and society at large; the perception that endowments are “*frozen resources*” that do not contribute to urgently needed social investment; and the lack of foundation staff capacity in raising endowment funds. While these developing countries clearly also struggle with resource constraints in addressing myriad social problems, researchers did not point to a lack of national resources as a key factor in limiting endowment growth.

This should not lead one to conclude that endowments are not important for grantmakers. Increasingly, foundations are seeking to increase their capital base through the creation or strengthening of their endowments.

¹³ Due to a lack of culture of transparency, the origin of 10% of the income of Mexican grantmakers was not made available.

Table 3 - Endowment

	Brazil	Ecuador¹⁴	Mexico
Foundations with endowments and other permanent assets	32.3%	60%	64%
Foundations with no endowments and other permanent assets	67.7%	25%	36%

(*) Data from : Andrés P. Falconer, Brazil, Boris Cornejo, Ecuador, Alejandro Natal, Mexico

Support for education is a priority for most grantmakers

In all three countries, education is the primary focus of grantmaker investment. This is not surprising as throughout Latin America education stands out as a priority area, both for governments and civil society organizations alike, as they struggle to improve development indicators and quality of life.

Disaggregated by country, Brazilian grantmakers prioritize education, with 81% having that as the focus of their investing. The Brazilian study speculates that, besides being compatible with the country’s social agenda, investment in the education of children and adolescents represents a low risk strategy for the funder and a high pay-off in terms of public acceptance.

In Ecuador, the researcher posits that the focus on education might also be a response to the perceived inadequacy of public investments in the education sector. In addition, the precarious financial situation of grantmakers, where they are often also raising funds for programs and endowments, leads many to work in those fields for which foreign and domestic funding is most available. The Mexican study also explores this hypothesis but concludes that foundations seem to be genuinely responding to the demand coming from the nonprofit sector for funds in education and not responding to the needs of outside donors.

The vast majority of grantmaking foundations are private, secular organizations

In the three countries, the origins of the grantmaking sector can be traced to the strong presence of the Catholic Church through the creation of institutions that provided resources and services to poor and marginalized groups. Based on different interpretations of Christian charity, these institutions flourished during the end of the 19th and the beginning of the 20th centuries and, in many cases, preceded the existence of a social security system.

During the 20th century the dominance of the Church in social action was complemented by an increased role for government and then, toward the end of the 20th century (after 1970), the emergence of strong civil society organizations and an active business sector. While the liberalized Catholic Church under Vatican II played a major role in the development of civil society in the 1970’s, and influenced many corporate leaders to become involved in social action, most organizations that emerged did not directly affiliate with the Church. As a result,

¹⁴ 15% of Ecuadorian foundations did not specify whether they had endowments.

it is not surprising that in the three countries studied, civil society leaders, private individuals and corporations appear as the most frequent founders of grantmaking foundations today.

This presents an important difference with the older grantmakers that were either created by or closely related to the Catholic Church. Today only a small percentage of foundations are officially linked to religious groups (three in Mexico, four in Brazil and five in Ecuador). While the traditions of the Catholic Church, both in its charity orientation of the 19th and early 20th century as well as its more social justice orientation of the 1960's, certainly influenced the development of many of these grantmakers, they do not align themselves with the Church, nor credit the Church for their founding. It is important to mention that while the Church plays a smaller role in institutionalized philanthropy in the region, much individual giving is still made to churches and church-based organizations, emphasizing the continued strong affiliation between philanthropy and the Catholic Church in Latin America.

Many foundations lack transparency in their operations

As mentioned, grantmaking foundations are seeking to become more professional. One of the ways in which they can do this is by increasing the transparency of their operations, particularly in terms of their grantmaking criteria.

The study found that this is an area in which most foundations still need to build capacity. In Mexico and Brazil, only 30% and 32% of foundations respectively publish guidelines for grant applications, while in Ecuador this number increases to 50%. In addition, in Mexico financial audits are often not made public and few foundations share their financial statements with the public. As a result of the political changes in Mexico in 2000, particularly community and corporate foundations are demonstrating a greater willingness to publish reports of their activities and are seeking to become more transparent in their operations.

There are several explanations for this apparent low rate of accountability. The grantmaking sector is young and still developing in Latin America. Many have small budgets and low capacity and are unaware of the need to incorporate mechanisms of transparency and communication in their operations. Others fear that due to the tremendous need for local philanthropic resources, increasing the transparency and visibility of their foundation will result in an inundation of grant requests, exceeding the foundation's ability to respond. In Mexico there are additional historical reasons for the lack of transparency. Mexican foundations have emphasized the need for independence and autonomy and have been unwilling to disclose information for fear of government intervention.

Grantmakers play important "bridging" roles in society

In all three countries, the majority of grantmakers see their role as bridging organizations and use their unique position in society to build alliances with civil society organizations, other foundations, government and the private sector. In Ecuador most grantmakers see their role as strengthening the civil society sector and several of the large grantmaking foundations, such as Fundación Esquel, have been leaders in creating spaces for dialogue on social and political challenges facing Ecuador. In Brazil all organizations studied practice partnership-building in some form, many adopting a type of proactive grantmaking referred to as creating *parcerias* (partnerships) where foundations "co-invest" with the recipient organization, other businesses

or government. In Brazil, the grantmaking sector is particularly powerful because of its strong connection to the private sector and the sector has used that power to advocate for more enabling social policies for civil society.

In Mexico grantmakers, especially those in the 3rd generation, are able to create “spaces of trust” where diverse sectors that formerly were unable to work jointly, are coming together. This is a particularly important role as distrust and polarization between government, civil society and business persists in Mexico despite the recent political transition.

Conclusions and Recommendations

Grantmaking foundations are a growing phenomenon in Latin America. Their growth can be largely attributed to both a developing civil society sector seeking to create local financing mechanisms and to the increased social role being played by the private sector. While grantmaking has formerly been strongly associated with charity, new social actors are revolutionizing the practice and creating a new variant of a grantmaking foundation that is more professional and takes a more proactive role, often carrying out its own programs.

Despite rapid growth over the past two decades, the sector still faces several challenges. The majority of grantmakers are organizationally and financially fragile. While there is a move toward professionalism, their capacity to raise and manage resources is limited, and most foundations rely on a few sources of income. Though almost half of the organizations studied have endowments, their small size presents a challenge to the sector. Latin American grantmakers will need to explore ways to diversify income and reduce expectations that endowments will offer financial stability in the short term. Although foundations have made great strides in reducing their dependence on international funding, there is also a need to mobilize more resources from private individuals locally.

While the evidence is not conclusive, it seems likely that fiscal incentives contributed to the growth of grantmaking foundations in Mexico where the fiscal framework is the most enabling. It also appears that the limited fiscal incentives in Brazil resulted in increased support for particular causes for which individuals and corporations could receive tax deductions (children, youth and culture). Government policymakers and civil society leaders need to analyze the relative benefits of encouraging, through new fiscal incentives, the development of a local grantmaking sector as those incentives imply a shift of resources from the public sector to private organizations. At a minimum, however, there should be more clarity about the incentives that exist, perverse disincentives such as high levels bureaucracy and the complexity of current regulations should be corrected, and more effort should be made to understand and publicize the incentives that are available, encouraging individuals and businesses to access those benefits.

The lack of a clear identity for grantmaking foundations also contributes to their organizational, and potentially financial, fragility. Without an ability to articulate a common identity, organizing the sector will be difficult and grantmakers will remain obscure. Poor visibility will make de-bunking myths of the past difficult and will continue to hinder the sector’s growth. As so much can be learned by connecting with similar organizations, the more grantmakers can identify with one another, the faster their organizational capacity will increase. Associations of foundations can play an important role in building a sectoral

consciousness, bringing these organizations together for capacity-building and assisting them in achieving a clearer and more enabling legal environment.

While grantmakers are making great strides in this area, professionalism continues to be a challenge. Boards of Directors are not being used to maximum advantage and many foundations have high overhead costs that reduce the impact of their programs. Steps to keep overhead costs low are essential for maintaining a good public image for the sector. Few foundations have rigorous evaluation systems, limiting their ability to measure impact and use the results to raise more resources. A self-regulating mechanism for grantmaking foundations would help tremendously to set a standard for quality among grantmakers, confronting the myths of inefficiency and paternalism.

Studies such as the one carried out by Synergos are essential for promoting the sector and identifying sectoral leaders. Further research, especially on the impact of grantmakers, would help greatly to increase knowledge and awareness of the role of the sector. It could encourage local leaders to start grantmaking foundations and identify ways of enhancing the capacity of the sector.

The power of grantmaking foundations is that they have the ability to support the actions and desires of empowered local communities that diagnose and present solutions to their own problems. While the hybrid nature of foundations in the countries studied has resulted in proactive, impactful and creative philanthropic models, the question of whether the present sector is sufficiently responsive to local needs is an important one. As underscored by Brazilian researcher, “If there is not agreement between [grantmaker] priorities and social demands, private philanthropy runs the risk of contributing to the reproduction of inequality and maintaining exclusivity, contrary to its discourse.”¹⁵ If the Brazilian foundation sector is not willing to provide significant strategic financial support to the more than 200,000 civil society organizations, there remains the difficult question of who will.

In places like Brazil, Ecuador and Mexico, the practice of grantmaking needs to be encouraged and strengthened to guarantee a local resource base for the third sector as it takes on new challenges and responds to new demands.

¹⁵ Falconer p. 68

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Appendix I

The Emergence of Community Foundations in Mexico

In Mexico, the emergence and rapid growth of the community foundation sector has been one of the most notable developments within the civil society sector in recent years. Since 1996, over 20 new community foundations have been formed and are currently operating in all regions of Mexico. These organizations are heterogeneous in that they have emerged through the initiative and efforts of diverse actors. For example, the first community foundation (to be referred to as such), the Oaxaca Community Foundation, was created in 1996 with considerable support from external the international foundation community. Since then, by and large the impetus and inputs needed to create community foundations in Mexico has come from local initiative. Typically, the equation has involved a core group of actors from the local private sector and the social development sector convening and agreeing to collaborate to establish a completely new and permanent source of resources of development in their community.

The government has also played a valuable role in stimulating and supporting the growth of this movement. Current Mexican President Vicente Fox, while Governor of the State of Guanajuato, provided support, both financial and in terms of leadership, that facilitated the establishment of new community foundations in Irapuato, Leon, Celaya and San Miguel de Allende. In addition, the state government of Chihuahua was instrumental in creating the regulatory framework necessary to establish the Fundacion del Empresariado Chihuahuense, A.C., currently the biggest community foundation in Mexico.

What is a Community Foundation in Mexico?

No formal regulatory designation exists specifically for the Community Foundation in Mexico. Within Mexican legal and fiscal regulatory structures, they are typically represented within the fiscal code by one of the three designations established by the federal government of non-profit, benevolent institutions: AC: Civil Association, IAP: Institutional of Private Assistance, or IBC: Institution of Private Benevolence. Nevertheless, the Mexican Community Foundations Group, a sectoral affinity group coordinated by the Centro Mexicano para la Filantropía, A.C. (CEMEFI) has elaborated a definition that states the following: a community foundation is “an independent and autonomous organization, private and not-for profit, dedicated to attending to the critical needs of the community and elevating the quality of life in a specific and delimited geographic area.”

The following breaks down this definition into more detail. Mexican community foundations are expected to be:

- **Independent and Autonomous:** Mexican community foundations are not tied to a specific person, institution, business or government entity. They represent the issues, needs and interests of the community. Through a diverse and representative leadership body, the board of directors or *consejo directivo*. Decisions made within the community foundation reflect the expression and interests of its beneficiary population: the community.
- **Private and not-for-profit:** Mexican community foundations are not public institutions and are not motivated by the generation of a private economic benefit.
- **Address the critical needs of the community:** Community foundations in Mexico can and do have varied programmatic goals and objectives. This is due to the fact that the community foundation is created to respond directly to the priority needs within the community. This requires identifying the priority needs within the community, which the community foundation does through community outreach, diagnostic processes and by relying on strong leadership representing the diversity within the community.
- **Improve quality of life:** The goal of every Mexican community foundation is to improve the quality of life or the health and welfare of the citizens of the community.

- **Determined geographic area:** Each Mexican community foundation is born from and responds to the needs of a specific geographical area within Mexico. This is a critical component of its identity. The leadership, funding and administration of the community foundation is fundamentally tied to the reality that it is a local institution in every respect.

What do Mexican community foundations do?

Community foundations are, at their institutional core, grantmaking institutions. That is, they mobilize financial resources, primarily from the local community, for the purposes of making direct investments in the institutions within the community working directly with the priority beneficiary populations as they are identified by the foundation. In this sense, they are “patrons of social change and development.”

A recent survey of a subset of the most established Mexican community foundations found that, in 2002, Mexican community foundations gave \$US7.49 million dollars in grants to local institutions through over 1,400 individual grants. Their permanent endowments, an important indicator of sustainability, range from zero to \$4.4 million US dollars with the average endowment being US\$602,030.

As part of their role as local institutions, Mexican community foundations are committed to facilitating and encouraging local philanthropy within their communities as a means of both sustaining their own operations and leveraging new funds for local priority needs. Their success and sustainability depend largely on their ability to mobilize resources from the local community. Nevertheless, the sample of the Mexican community foundations surveyed demonstrates that over 75% of the Mexican community foundation funds (annual operating budget) are raised from local sources, including private donors, corporate donations, service fees, investment income and funds from the government. Mexican community foundations still raise a substantial portion (24%) of their operating budgets from international sources, with private international foundations accounting for 28% of the community foundations’ total operating budgets.

Summary Results from Survey of 15 Mexican Community Foundations:

Average Staff Size:	10 paid staff, 39 volunteers
Average Annual Operating Budget:	US\$730,715
Total Amount (US\$) Given in Grants in 2002:	US\$7,497,010
Number of Grants Given:	1,493 grants
Composition of Operating Expenses:	
Grants:	41%
Programs:	35%
Services:	1%
Administration/Operations:	15%
Other (including investment in endowment):	8%
Composition of Revenue Sources:	
Domestic:	76%
International:	24%