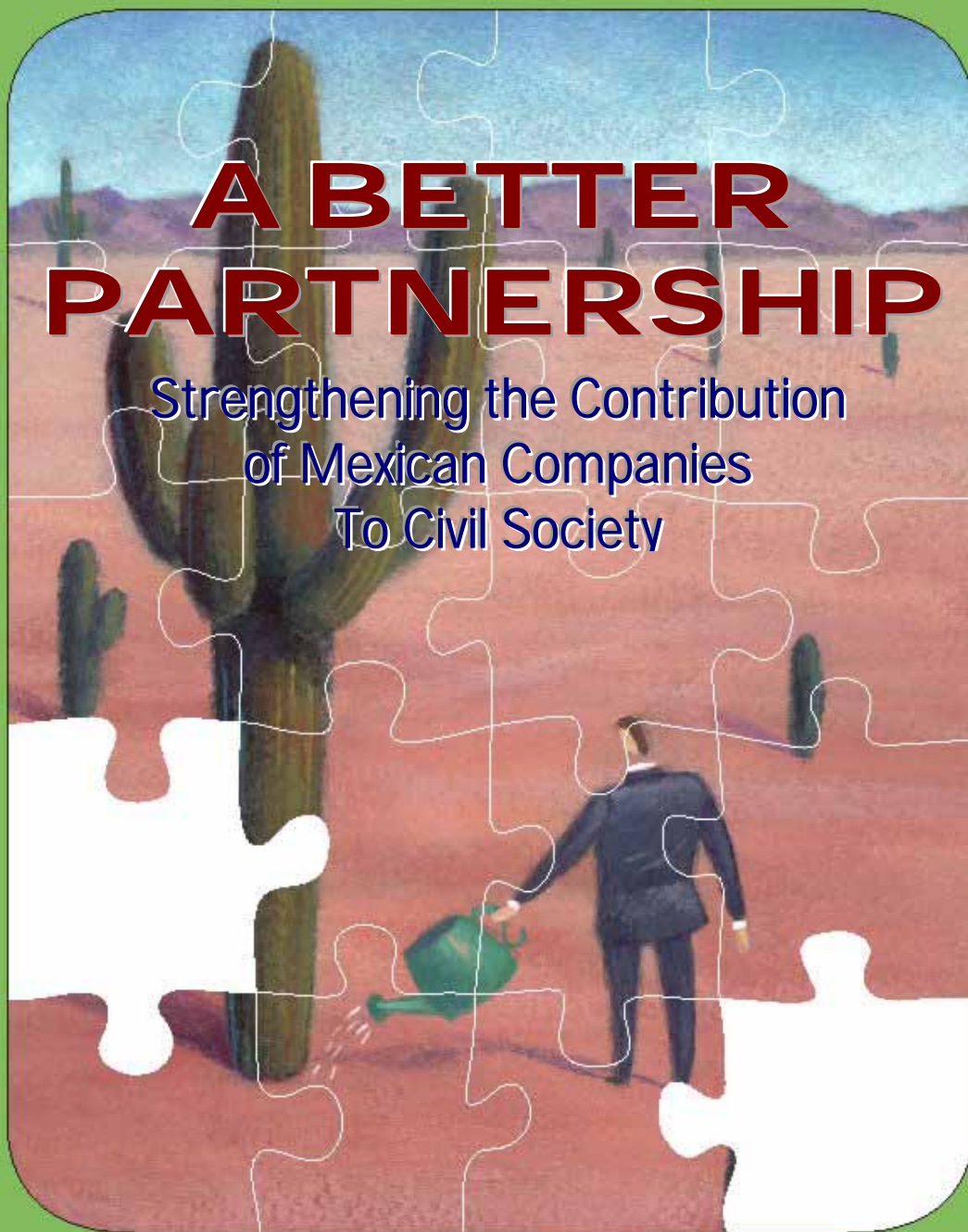


# **A BETTER PARTNERSHIP**

Strengthening the Contribution  
of Mexican Companies  
To Civil Society



**Ambassador Jeffrey Davidow**  
President, Institute of the Americas

**Lee M. Tablewski**  
Director, Project Mexico

**Mariana Martínez Esténs**  
Coordinator, Philanthropy Study

**Everardo Iñiguez**  
Design and Production

**David Maung**  
**International Community Foundation**  
**Fundación del Empresariado Chihuahuense, A.C.**  
**Fundación para la Protección de la Niñez, I.A.P**  
**Mesón de la Misericordia Divina A.C.**  
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10111 N. Torrey Pines Rd.

La Jolla, CA 92037 USA

tel. +1 (858) 453-5560

fax +1 (858) 453-2165

lee@iamericas.org

www.iamericas.org

# **A BETTER PARTNERSHIP**

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**INSTITUTE OF THE AMERICAS**

Institute of the Americas

## **A BETTER PARTNERSHIP**

### **Strengthening the Contribution of Mexican Companies to Civil Society**

Mexico should foster an environment that facilitates a more active role for corporations in supporting civil society organizations (CSOs) to meet the challenges that the state cannot, will not or should not fully address, contributing to the creation of a more vibrant democracy.

CSOs play an increasingly important role in today's Mexico by promoting social change, advocating environmental protection, and attending to the needs of those most deprived. The support of CSOs through philanthropy should be an essential element of social responsibility for Mexican companies. How Mexico's business sector can play a more useful role in promoting civic society is the topic of the report.

There are no accurate statistics indicating the level of corporate philanthropy in Mexico, but anecdotal information indicates that in comparison with many countries at similar levels of economic development – for instance, Argentina, Brazil and Chile – the support by corporations for civil society is low.

No area of Mexican society is free from responsibility for implementing the changes necessary to achieve a greater measure of equity and justice. We believe that a better partnership among businesses, CSOs and government is the key to achieving these goals.

The need for change is clear and largely unchallenged by any sector involved. The changes do not need to wait for an election or some large political agreement. Mexican CSOs, companies and government – together or separately – can take actions now that will have a positive impact on Mexico's poor.<sup>1</sup>

This report contains the main conclusions of a one-year study conducted by the Institute of the Americas, an independent research center, in partnership with civic leaders and experts from across Mexican society. The report identifies the major obstacles that impede civil society, business and government from cooperating as fully as they should.

In brief, we believe that CSOs must be more transparent to scrutiny, government should simplify its treatment of the sector, and business should become more professional in its philanthropic work. The report proposes solutions that have emerged out of a process of dialogue over the past year with a wide variety of knowledgeable actors.

The Institute of the Americas thanks the William and Flora Hewlett Foundation for its generous support of this effort. The Institute also acknowledges the generous collaboration on the project of the Instituto Tecnológico Autónomo de México (ITAM), the Fundación Para la Protección de la Niñez, I.A.P., the Mexican Center for Philanthropy (CEMEFI), the University of Monterrey, the Fundación del Empresariado Chihuahuense, A.C. (FECHAC), the International Community Foundation (ICF) and the Corporativa de Fundaciones, A.C. of Guadalajara.

We invite you to join us in this work.

Amb. Jeffrey Davidow  
President  
Institute of the Americas

La Jolla, California  
April 22, 2005

## All I wanted was a new fridge

Becky Jarero hit rock bottom when she came to find the fridge had broken; the stale tortillas and rancid yogurt were the only witnesses to her desperation and exhaustion.

A volunteer at Mesón de la Misericordia in Guadalajara, Becky worked along with nurses, doctors, spiritual advisors and psychologists day in and day out with people whose lives are changed by HIV/AIDS. “We help about 340 people living with HIV; we have outpatient care consultations and a shelter, as well as 14 available beds for those people who are close to dying.”

In 2001, five years after Mesón first opened its doors, the non-profit suffered a terrible economic crisis that undermined everybody’s spirit. “The population in need of attention kept growing and we couldn’t keep up. We had serious donation cuts and we were running out of friends and family members to ask for help. We came to a point where the food for the shelter was coming from our own homes,” Becky remembers.

Becky was desperate. Then she heard about a group of business people who supported non-profits and decided to go to them, with only hope of getting a new fridge. At Corporativa de Fundaciones, they listened to her and finally said, “We can’t give you the money for a new refrigerator, but what we offer you is an opportunity to work together so the organization will grow.” Becky was overwhelmed by tears caused by the stale tortillas and rancid food, along with the years and years of hard work, which now seemed to vanish and empty her soul.

They had the first meeting a week after that. After a self-diagnosis, the members of Mesón de Misericordia found they suffered from work overload and lack of task definition. They did a lot of rushed purchases and it was evident they needed someone to be a fundraiser full time, as well as a new director. “We had to stop and re-think this,” Becky remembers. “We were in a vicious cycle, with no funds because we had no one to fundraise, and without the money to pay for someone to do it. To get the money we first had to show we were a deserving institution.”

After long hours, they finally condensed their mission statement and need analysis to a two page document, ready to present to their first “client” -- Corporativa de Fundaciones -- from whom they asked for the salary of a new director, in order for them to divert funds to a new general manager and fundraiser position. Only then did they get an endowment from Corporativa.

Over the last 3 years, Becky and her partners have seen the organization transform, and feel very proud about the way they woke up to professionalism. With 22 people on payroll, ten doctors doing their residency, a nursing staff, psychologists and 34 volunteers from all age groups, Mesón de la Misericordia is still a very busy place, but Becky firmly believes that, “Had we had gotten the money to buy the new fridge, today we would have a four year old fridge and the same work overload and anguish, or worse, we wouldn’t be here at all.”

## Civil Society Organizations and Business

As of January 2005, only 7,500 civil society organizations (CSOs) were officially registered as operating in Mexico. There should be at least 20,000 of them to cover the country's needs, according to a spokesman for the Mexican Center for Philanthropy (CEMEFI).<sup>2</sup> By comparison Brazil has more than 230,000 civil society organizations and a thriving culture of corporate- and foundation-based philanthropy (*LatinFinance*, 2004).<sup>3</sup>

Within the larger context of low levels of assistance, another inhibiting factor is the very small number of foundations – perhaps no more than 50 exist for philanthropic purposes. While foundations are not necessary channels for donations, their existence serves as a rough reflection of a nation's level of organized philanthropy.

Although the majority of Mexican business leaders show interest in the problems of poverty and social injustice, very few have incorporated philanthropy into their business plans, leaving donations to be made on an ad hoc basis.

Part of the explanation often given by CEMEFI and other experts is that Mexican corporations lack a “fully developed culture of giving,” which results in there being few civic organizations to cover the charitable needs not met by the government.<sup>4</sup>

*This lack of corporate support for philanthropic purposes increases the hardship CSOs have to go through to establish themselves and operate in an effective manner, creating a vicious cycle where the needs of the country are not met either by the CSOs or business.*

According to CEMEFI, the lack of corporate support means that civic organizations must spend an extraordinary amount of time raising funds through conferences, raffles, dinners and membership drives. Less than ten percent of their resources come from donations from businesses, individuals and foundations. A 1995 study (that needs to be updated) reported that Mexico ranked 34th among nations in a calculation of private philanthropy as a percent of GDP (0.12%).<sup>5</sup>

In spite of the lack of philanthropic support, civil society organizations have taken on substantial responsibility across a great diversity of areas over the past decade, as might be expected of CSOs in a democracy.

Today CSOs work in community development, human rights, the struggle for democracy, as well as in children's health and protection, elder care, sustainable development, environmental protection, and education. Not only dedicated to what the government cannot do, in many instances they serve as a counterweight to government by asking for accountability of its actions.

There is a growing acceptance that civil society has an appropriate and essential role working beside government and, in many instances, in place of government in areas of interest and concern to citizens. This is a relatively new insight in Mexico:

“For decades the State monopolized practically all aspects of public life and social development, asphyxiating independent social action, even in areas where its incursion was not necessary. This damaged society's capacity for self-government and for solving its own community affairs.”<sup>6</sup>

There is a role for the private sector in this evolution: citizen responsibility should be encouraged by corporate social responsibility. Corporations need to “move beyond the narrow interests of their stockholders to the broader interests of their stakeholders in their corporate giving programs and their sense of corporate social responsibility.”<sup>7</sup>

## About the study

This study discusses the apparent shortfall in corporate citizenship in Mexico, its impact on civil society organizations, and what can be done to address these issues.

From our standpoint, including more actors in analysis of the problems of civil society can lead to better decision-making. We approached this project by inviting more than a 150 small, medium and large businesses, non-profit organizations and government officials to dialogue in forums across the country.

Over the course of six months, the Institute of the Americas worked along with the Instituto Tecnológico Autónomo de México (ITAM), the Fundación Para la Protección de la Niñez, I.A.P., the Mexican Center for Philanthropy (CEMEFI), the University of Monterrey, the Fundación del Empresariado Chihuahuense, A.C. (FECHAC), the International Community Foundation and the Corporativa de Fundaciones A.C. of Guadalajara.

Together we held meetings on the border, in La Jolla, California, Mexico City, Monterrey, Chihuahua and Guadalajara, with stakeholders from all three sectors. While we found regional differences, we also found an essential consensus about the pressing need to take practical steps to alleviate some of the burdens under which civil society organizations labor.

In this report, the Institute of the Americas summarizes the views and ideas of those involved in the dialogs we convoked. We present the suggestions for change, divided into three sectors. In brief, we believe that CSOs must be more transparent to scrutiny, government should simplify its treatment of the sector, and business should become more professional in its philanthropic work.

## Philanthropy under suspicion

There is frequently an observable and distressing lack of trust among representatives of companies, government and civil society organizations. This lack of confidence is especially pronounced towards the civil society organizations, according to an observer writing for the American Chamber of Commerce in Mexico.

“...[This distrust], has led to the widespread – yet often unjustified – belief that much of the money aimed at good causes will instead end up lining fundraisers’ pockets. [Also], due to a historical dependence on church and state, Mexicans widely believe the government should provide for the needy, an attitude that has muted social consciousness. Still today, with its heavy television advertising, (promoting the benefits of its welfare programs) the government actively tries to perpetuate this perception.”<sup>8</sup>

During most of the 20th century, political power in Mexico viewed most CSOs with suspicion. Although the political environment has changed, the suspicions linger: government still has a predilection toward direct action rather than utilization of CSOs. In consequence, government funds have always been scarce or practically non-existent. It could be said that Mexican CSOs have survived almost in spite of governments throughout the years.<sup>9</sup>

By far, the most notable motive for the absence of confidence in CSOs today is concern about lack of transparency of funding and operations. There is a widespread reluctance both in business and government to hand over resources to organizations that in many cases cannot meet accepted standards of accountability.

**All of the CSO managers we have met are willing to do more to overcome this lack of trust by providing more information and access to potential donors and volunteers, but most CSOs need help in learning how to do this.**

There also exists a mutual suspicion between government and corporations. Government is frequently perceived as inattentive or purposefully complicating philanthropic procedures in order to protect tax revenues. And, for its part, government is concerned about fraud and manipulation of tax laws to benefit corporations and not the CSOs.

### Perceptions about Business and Government

CSO participants in our roundtables shared their common frustrations about both business and government.

Business is perceived as difficult to understand. CSOs often find that companies change their policies and objectives with little or no notice, leading to rejection of grant requests. With unclear and ever changing policies, CSOs find it difficult and exhausting to obtain support.

It is hard for outsiders to identify the right person to approach with a project and personnel rotation makes it difficult to follow up on philanthropic projects.

**Motivations for corporate philanthropy are not well understood, and departments in charge of grants sometimes do not operate with goal-oriented management found in the rest of the business world.**

Corporate philanthropy is often perceived as capricious and unprofessionally managed.

In regards to government, both corporations and CSOs agree that simplification is crucial. They describe experiences of unnecessary fiscal challenges, overlapping jurisdictions, rotating personnel, incomplete and erroneous information and never ending paperwork.

To start to overcome such negative perceptions, business should work to assure that their contributions to CSOs lead to measurable results, communicated through the media to the public, and government should work to unify and clarify their policies regarding philanthropy and CSOs.

## The need for transparency.

67-year-old Don Gabriel was out for a walk around his native Tijuana when he saw the offices of Fundación para la Protección de la Niñez, I.A.P. After reflecting on it, he decided he was going to donate some of his pension money when he got his check, so that this foundation could help kids he saw begging in the street.

Early next Monday, after waiting in a long line, Don Gabriel got his pension money and went of to Fundación, where Karina – who everyone calls Kari – was giving some corporate donations to local orphanages and rehab centers.

Don Gabriel took out some bills from his pension envelope and explained, “ I want to give this 150 pesos. It is not much, but I’m recently widowed and living on a fixed income, so I don’t have a lot to give, but I know every little bit counts and if this can help a child, it is worth the while.”

Kari, more used to handling corporate donations, smiled kindly asked Don Gabriel for his personal information, in order for him to get a receipt and a report on what his money was spend on. but he refused, insisting on trusting the foundation and not needing any explanation saying, “ I trust you do a good job.”

But Kari explained “ This money is not insignificant, it’s enough to pay for a medical consult of one of the children or to pay for a school supplies packet from our next campaign. We want you to know where your donation was invested.”

Finally, Don Gabriel agreed to live his personal info and left the Foundation with a smile, promising to come back next month when he received his pension, to give some money for the children’s sake.

We believe that the following twenty one recommendations, based on our extensive conversations with actors at all levels of the philanthropy scene, offer a concrete strategy to achieve improvement in perceptions and achievement of social benefits.

## 21 Recommendations

### CSOs: A dose of transparency

#### CSOs should:

1. Provide nationwide access to tax returns through individual CSO websites.
2. Offer donors an audited copy of their financial statement. In addition, they should provide a summary of completed projects, with indicators of success. If possible, both of these types of reports should be made available on the Internet. Finally, CSOs should invite representatives of donors to visit the CSO and its projects in the field, to view first-hand their operation, labor and transparent usage of resources.
3. Submit all information required by Hacienda in a timely fashion and update this information regularly. This information should be made available to potential donors upon request by the CSO.
4. Create among themselves a unified, public database of institutions in the CSO community, including all Asociaciones Civiles (AC) and Instituciones de Asistencia Privada (IAP) in Mexico. This database might itself be managed by a dedicated CSO to assure complete transparency. There are models available internationally that can be adapted to Mexican circumstances. <sup>10</sup>
5. Apply management principals to CSOs without sacrificing their philanthropic mission. Including the creation of an executive board, short, medium and long term planning, as well as strengthen fundraising efforts to enhance financial sustainability.

### Government: Make it simple

#### Government should:

6. Provide potential donors with access to the financial statements of CSOs that are authorized to provide tax deductions for donations. The Secretariat of Hacienda has not been willing to make public their financial statements on the grounds that the information is considered to be a fiscal secret.
7. Promote the simplification of Title III of the Ley del Impuesto Sobre la Renta. Some CSOs that are registered with the Secretariat of Hacienda and Public Credit (SHCP) assert that the various civil and fiscal laws related to social assistance remain extremely complex despite reforms in recent years.

During 2005, the Autonomous Technological Institute of México (ITAM) will be working with stakeholders and the SHCP to create a proposal to simplify the regulations and to design a more integrated law for the sector. The directors of this effort are requesting advice from stakeholders as this work moves forward. Contact them by email at [donatarias@tntax.com.mx](mailto:donatarias@tntax.com.mx).

8. Encourage the registration of CSOs that are not registered with Hacienda and the SAT under Title III. Government should build a “stairway” in Hacienda regulations of intermediate levels between the registered and unregistered CSOs to help increase the legitimacy of the latter.

Creation of a provisional registry should be explored, in order to allow CSOs to gather the information and make the changes to their organization necessary to become fully registered CSOs.

9. Provide a webpage of specific information regarding when donations of goods are tax deductible. The

experience in some parts of the country has been that recipients of donations of goods have encountered obstacles that occasionally cause the potential donor to withdraw the offered gift. There is a lack of understanding concerning this type of donation and whether it can be deducted from taxes.

10. Allow multi-year budgets and multi-year commitments of donations by companies so that CSOs can plan longer-term projects with greater confidence. Failing such a change, we believe that companies can explore with their accountants ways to structure donations to comply with accounting practice while helping to mitigate the negative impact of the current accounting standard on CSOs.
11. Work with counterparts in U.S. Customs to reduce constraints on in-kind giving, streamlining the process of moving donations across the border by standardizing procedures for each type of good and simplifying customs forms. Also, Hacienda's Servicio de Administracion Tributaria (SAT) import section should publicize standard procedures for each product.

## Business: Towards professionalization

### Business should:

12. **Have clear, durable and consistent philanthropic policies. It is not critical that a company create an independent foundation to manage its philanthropic work to achieve these goals.**

But businesses with sufficient resources should explore the possibility of creating a foundation because they generally provide better monitoring of projects and follow up on use of donated resources. If the company cannot create a foundation, it can professionalise its giving through more qualified personnel and better project management. Business should approach second floor institutions for assistance in achieving its philanthropic goals.

13. Take advantage of the assistance available through community foundations and intermediary specialty CSOs that can support new corporate philanthropists by evaluating and monitoring, training, and helping assure that the donor's wishes are realized.

We strongly urge corporations to unite to support expansion of the network of community foundations, utilizing the models already available in Mexico. <sup>11</sup>

14. Learn about the laws and norms regulating philanthropy by joining the various entities dedicated to that end. These are excellent sources of advice regarding how to establish a foundation and a host of other legal and financial issues related to corporate philanthropy.
15. Establish agreed goals, deadlines, performance standards and deliverables with CSOs, and then enter into an actual written agreement.\*
16. Provide professional training for corporate staff responsible for philanthropic work. Sponsor new initiatives by universities and other institutions to train those responsible for managing corporate giving.
17. Collaborate with CSOs in the definition of a project before the preparation of a written grant request. It is important that companies go beyond providing financial support or the donation of goods and actually provide professional expertise to the CSOs.
18. Expand their philanthropic work vertically through their chain of suppliers and to their clients, so as to achieve a multiplier effect for their donations. This is an area of great potential for development in Mexico. Similarly, chambers of commerce and industry can do a great deal more to encourage this type of collaboration horizontally among similar companies in an industry – among organizations who may share similar goals and be more effect in concert.
19. Assist with the creation of the operative infrastructure in the CSO to make sure that the donation achieves its optimal benefit. This can include the provision of accounting or legal support to assist with the creation of appropriate management systems.
20. Utilize when appropriate “second floor institutions,” organizations with expertise that can take the responsibility for properly providing receipts and for actually handling and distributing of donated money or goods. This can be of value in cases where companies experience difficulty making their donations, receiving a tax receipt, have problems with logistics, and getting their donations to a number of smaller CSOs with varying management capacities.

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\* For more information on the contract model between business and CSO, visit <http://walmartmexico.com.mx/esr.html> or contact María Gisela Noble at the e-mail address [mmgnobl@walmart.com](mailto:mmgnobl@walmart.com).

21. Adopt corporate social responsibility (CSR) models of behavior as proposed by CEMEFI and its sister institutions, moving beyond corporate philanthropy. A focus inward within the company, and outward to the larger concerns of society, is essential for any comprehensive plan of social responsibility. Consider the need of an outside audit to evaluate the performance of the company in CSR. Workers should be encouraged to participate in philanthropy even at very low levels of donations. A number of Mexican companies are providing worthy models for emulation in this regard.

## Implementation

The relationship between government, CSOs and business is a collaborative challenge that needs to overcome mutual suspicion and grow strong, in part by assuming the fact that efficiency translates to better use of resources, therefore better serving the community.

The recommendations given – condensing the concerns and proposed solutions expressed by each sector – are not a final point but a contribution to the dialogue and critical analysis process going on currently on the subject among the different actors in the corporate philanthropy of Mexico.

There are some necessary actions that do not belong to only one sector, but rather imply a crosscutting effort. We believe the professionalization of CSOs (included in recommendation number five) could be supported by second floor institutions and/or companies acting as in-kind consultants, as many of them already have a legal, accounting or marketing department. Government, business and community foundations in particular must reach out to the many non-registered CSOs that are honest, hard-working and addressing real needs. In order to promote their registration, the government should simplify the process by which a CSO becomes a registered as a non-profit permitted to issue tax-deductible receipts. Government should continue its work to streamline the registration process in all its agencies by explaining each step required (preferably on its website) and by helping CSOs understand the process.

We believe the implementation of the recommendations does not need to wait for a national consensus. They can be promoted by local action, driven by CSOs or business clusters with similar goals, and supported by chambers of commerce and industry taking more active roles regarding this issue.

Each sector should consider these recommendations as a general approach, meant to be discussed and adapted to individual circumstances and shared with other actors so as to make the new practices viable.

We also believe it is of the utmost importance that this process is not left adrift. It should be lead by committed entities and people who can guide others towards the necessary reforms in a transparent and inclusive manner.

The Institute of the Americas' commitment to this project includes working as a promoter and partner of the Mexican entities already working for social responsibility in order to achieve the required simplification, professionalization and transparency.

## Endnotes

1 Modification of the laws to support the development of civil society organizations has been a goal for organizations lead by CEMEFI, Fundación Miguel Alemán and Iberoamerican University for more than ten years.

In 1998, Fernando Castro y Castro wrote, “The current legal environment is not sufficient for the initiatives and purposes of the independent and organized civil society. The Government of the Republic considers that it is of primary importance to promote the establishment of a new regulatory legal environment that will recognize, favor and encourage social civic and humanitarian activities of civil organizations. On the other hand there are no adequate fiscal conditions that allow the creation and the measures of the development of civil organizations (...) This plan proposes to examine the convenience of establishing general regulatory kinds of activities.”

“Justificación para un proyecto de Ley de Fomento a las actividades de Bienestar y Desarrollo Social,” [Justification for a project of law to promote activities of social benefit and development] Las Organizaciones Civiles en la Transición, México: Red de Centros y Organismos Ecuménicos de Latinoamérica y el Caribe.

2 Alcántara, Liliana, “Center of Philanthropy says Mexico lacks a strong culture of giving; nation lacks philanthropic efforts, says CEMEFI official.” *El Universal* (Mexico), Jan. 17, 2005.

3 O’Brien, Maria, “Going Better on Good Causes.” *LatinFinance*, September 2004, p. 57.

4 Op. Cit 2, “Center of Philanthropy says Mexico lacks a strong culture of giving; nation lacks philanthropic efforts, says CEMEFI official.” *El Universal* (Mexico), Jan. 17, 2005.

5 Salamon, Lester M., S. Wojciech Sokolowski, and Associates, *Global Civil Society: Dimensions of the Nonprofit Sector, Volume Two* (Kumarian Press, 2004).

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7 Gaberman, Barry, “Building the Global Infrastructure for Philanthropy.” April 11, 2003. Lecture in the Waldemar A. Nielsen Issues in Philanthropy Seminar Series, Georgetown University. <<http://cpnl.georgetown.edu>>

8 Messenger, Rawdan, “Have you given today: A look at corporate philanthropy shows Mexico still has a long way to go.” *Business Mexico*, June 2003.

9 Op. Cit 6.

10 “GuideStar” (<http://www.guidestar.org>) provides charity financials, access to their tax forms, and encourages organizations to highlight their missions, programs, goals, and results. The GuideStar database contains basic listings for 1 million civil society organizations, with detailed listings for 85,000 organizations. Charity Navigator uses an involuntary system based on an organization’s financial picture. With 3,000 charity ratings, Charity Navigator uses a 1-4 star rating system based on financial information and compares the financial performance to similar organizations. See <http://www.charitynavigator.org>

11 As an example of the collaboration needed, there is Community Foundation of Chihuahua (FECHAC) as a best practice model. FECHAC is a business initiative in Chihuahua to tax salaries by a small percentage and put the money in a fund managed jointly by business and government representatives. In the course of ten years, it has provided support for the establishment of 1,433 projects and social programs, with a total investment of 346 million pesos.