

REPORT SUMMARY

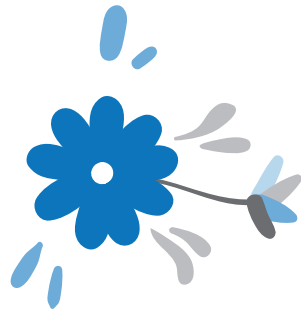
# COMMUNITY FOUNDATIONS IN MEXICO: A COMPREHENSIVE PROFILE 2009-2016

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## REPORT SUMMARY

# COMMUNITY FOUNDATIONS IN MEXICO: A COMPREHENSIVE PROFILE, 2009-2016



### AUTHORS:

María de los Ángeles Olvera Ortega

Michael D. Layton

Gloria Lisbeth Graterol Acevedo

Luz Magdalena Bolaños Martínez

# PREFACE

**Mexico has the largest number of community foundations in Latin America and the Caribbean.** These place-based philanthropic institutions began to emerge around 30 years ago in the region. The genesis, context, and scale of each foundation is different. What they share is a common commitment to respond to the ideas and needs of grassroots organizations in the communities they cover through training or grants, and the tenacity to establish a collective strategy, in the 14 Mexican states where they are present, in support of civil society and a better enabling framework. Since its founding in 2011, Comunalia, the network of Mexican community foundations, has shown the power of working together to mobilize local and national philanthropic efforts. In a joint program between the Inter-American Foundation and the C.S. Mott Foundation to strengthen the sector, the large majority of donors for activities became Mexican corporate foundations, community foundations themselves, and individual Mexican citizens.

In 2009, the Inter-American Foundation (IAF), the C.S. Mott Foundation (Mott Foundation), the Ford Foundation, and the Global Fund for Community foundations commissioned a study of the sector. This was intended not as an evaluation but to be informational, constructive, and forward-looking. And it was intended to place community foundations in a broader context of philanthropic development in Mexico and the global community foundation movement.

More recently, the effort was renewed by the IAF and Mott Foundation in 2016 to review progress since the last assessment, remaining obstacles, and the road ahead. The organization Alternativas y Capacidades, which drafted the 2009 assessment along with Teamworks, prepared this report based on their knowledge in community foundations. We are grateful also to the broad participation of staff and board members of Mexican community foundations. We remind the reader that the opinions expressed in this report reflect

those of the authors, and statements made herein do not necessarily reflect the views or policies of the organizations that provided the funding for the study.

Since Alternativas and Capacidades published the first study in 2009, several Mexican donors funded Mexican community foundations efforts or partnered with them, including Fundación ADO, Soriana, Monex, Citibanamex, Fundación Merced, and Fondo de Acción Solidaria. The 2017 Mexican earthquakes tested the efficacy of the local funding mechanisms described in this report, with Mexican and US-based community and corporate foundations channeling funding to four community foundations in the affected states of Puebla, Mexico State, Morelos, and Oaxaca. It is our hope that the study will be valuable to community foundations in Mexico or other Latin American and Caribbean countries, as well as other regions committed to expanding the role of their local philanthropic institutions.

**Gabriela Boyer**  
FOUNDATION REPRESENTATIVE,  
INTER-AMERICAN FOUNDATION

**Marcy Kelley**  
MANAGING DIRECTOR,  
OFFICE OF PROGRAMS,  
INTER-AMERICAN FOUNDATION

**Nick Deychakiwsky**  
PROGRAM OFFICER  
CHARLES STEWART MOTT FOUNDATION

# INTRODUCTION

Community foundations are a particular kind of civil society organization: they cultivate local leadership to address local challenges; they mobilize funds, supporting nonprofits to accomplish their missions and assisting donors to achieve their charitable aims; they often create endowments to lend sustainability to their efforts; and, they strive to have boards representative of and accountable to their communities (Mott 2012; Harrow et al. 2016). Worldwide, more than 1,850 community foundations operate in 73 countries. Latin America is home to 40 such organizations, 28 of which are located in Mexico (Community Foundation Atlas, 2017). Thus, in a part of the world where the growth of the social sector is essential to each country's economic and social development, community foundations have a critical role to play.

In 2009, the Mexico City-based advocacy and capacity building organization *Alternativas y Capacidades*, together with the San Francisco

consulting firm Teamworks, released *Mexico Community Foundations: A Comprehensive Profile*, a study funded by the Charles Stewart Mott Foundation, Ford Foundation, Inter-American Foundation and Global Fund for Community Foundations. This study updates the 2009 effort by examining whether there were substantial changes to the foundations' institutional and financial conditions in the intervening years.

This study covers 21 community foundations in Mexico. Of these, the study assesses the institutional characteristics of 17 and the financial conditions of all 21. In addition, it analyzes the sociopolitical context in which they operate and offers recommendations on how to strengthen their capacity. By understanding their administrative and programmatic capacities, community foundations will be better positioned to make a meaningful, lasting impact in communities—and remain sustainable.

# METHODOLOGY

For the current study *Alternativas y Capacidades* conducted a survey, to which 17 community foundations in Mexico responded. Additional financial information was obtained by collecting the foundations' transparency reports, which all tax-exempt organizations are required to present to Mexico's Tax Administration Service (*Servicio de Administración Tributaria*, or SAT) with data from 2008 to 2014. To enrich the study, we also conducted in-depth interviews with the executive directors of two community foundations and a partnerships coordinator at a third foundation. We

also held a roundtable discussion with representatives from 15 foundations as well as interviews with seven experts on the social sector in Mexico.

## **The model of community foundations in Mexico and the sociopolitical context**

The community foundation model emerged in the United States in 1914, when philanthropist Frederick H. Goff created the Cleveland Foundation. The objective was to have one local institution pool contributions from different actors and channel them to projects dedicated to improving

the quality of life of people in their own community (Natal & Muñoz, 2014). Under this model, community foundations were viewed as civil society organizations (CSOs) that “mobilize financial resources, principally from the local community, in order to make direct investments in the community institutions that work directly with the priority beneficiary populations” (Turitz & Winder, 2008, p. 327).

Mexico’s first community foundation, the San Miguel Community Foundation, was created by expatriates from the United States in 1976, and registered with the Internal Revenue Service as a 501(c)(3). Since then, throughout Mexico, local businesses, philanthropic stakeholders, and international donors have been responsible for promoting the growth of community foundations (Tapia, 2008). However, in Mexico, community foundations do not solely procure and channel resources to other organizations. In many cases, they also operate programs directly, in part because of the absence of legally constituted, tax-exempt organizations or *donatarias autorizadas*, a result of the complexity of the sector’s regulatory framework (Especialist, 2016; Layton 2017). In this way, Mexico’s community foundations have responded to the specific needs in their particular context and created a hybrid model of grantmaking and operating programs (Sacks, 2000). This hybridity, is a common feature of foundations elsewhere in the world.

Despite being the Latin American country with the most community foundations, Mexico’s legal and social environment limits their development. Johns Hopkins University’s Nonprofit Sector Project found that the size of Mexico’s civil society’s workforce, at 3.1 percent of the economically ac-

tive population, placed it well below the 41-country average of 5.7 percent as well as Argentina, Brazil and Chile. Federal government databases have 38,701 registered CSOs, for an average of 31 CSOs for every 100,000 residents<sup>1</sup> (Muñoz, 2014). Only 8,862 CSOs<sup>2</sup> are tax-exempt due to the high costs that an organization faces to acquire this status, as well as the ongoing costs of compliance and restrictions. Specifically, they are prohibited from donating to other organizations or grassroots groups that are not also tax-exempt organizations, as stipulated by the Income Tax Law (*Ley de Impuesto Sobre la Renta* or LISR). The 2016 reform of the LISR made it possible for tax-exempt organizations to support productive agricultural and artisanal projects in the most socio-economically marginalized areas of the country. However, this expansion in the letter of the law is still quite limited in practice.

Public funds intended for CSOs are also scarce. Data from 2008 to 2011 from the Satellite Account of Not-for-Profit Institutions in Mexico (*Cuenta Satélite de Instituciones sin Fines Lucrativos de México de 2008-2011*) show that only 9 percent of CSOs’ funds come from public sources. Meanwhile, 53 percent are generated internally by the organizations themselves, and 38 percent from the contributions of individuals, for-profit companies, and other organizations in the sector (Muñoz, 2014, p. 57). In addition, the National Survey of Volunteer Action (*Encuesta Nacional de Acción Voluntaria*, or ENSAV), in its three editions (2005, 2012 and 2016), signals a tendency for Mexicans to donate directly to other people, churches, and disaster relief efforts, rather than to social organizations (Butcher, 2017). The National Survey of Philanthropy (*Encuesta Nacional de Filantropía*, or ENAFI), in its three iterations (2005, 2008 and

<sup>1</sup> It is estimated that the total of 38,701 CSOs in Mexico is in reality under-reported, as it does not consider those legally-constituted organizations that do not have a CLUNI (Unique Registration Code for CSOs) and are not tax-exempt organizations (*donatarias autorizadas*).

<sup>2</sup> Information obtained from the Official Federal Gazette of January 12, 2017.

2013), found a strong preference to donate directly to those in need due to a profound distrust of organizations (Layton & Moreno 2010 & 2014). These intertwined trends of organizational informality

and public distrust have held back the growth of institutionalized philanthropy in Mexico (Layton & Moreno 2010; Layton & Mossel 2015).

## INSTITUTIONAL DEVELOPMENT OF COMMUNITY FOUNDATIONS<sup>3</sup>

Institutional development refers to the resources and capacities that organizations construct “to enhance their impact in addressing social problems, to manage their resources more efficiently and to achieve sustainability in the long term” (Carrillo, García, & Tapia, 2006).

### Legal status and the tax regime

The legal status and the tax regime in which community foundations are registered define their rights and obligations. Based on our questionnaire results, 14 community foundations are classified as civil associations (*Asociación Civil*, or A.C.)<sup>4</sup>; one is a private assistance institution (*Institución de Asistencia Privada*, or I.A.P.)<sup>5</sup>; one is a private charitable institution (*Institución de Beneficencia Pública*, or I.B.P.)<sup>6</sup>; and one has legal status abroad. All community foundations in the study are tax-exempt organizations in Mexico, with the exception of San Miguel Community Foundation, which is registered abroad in the United States.

These results are consistent with the 2009 study.

### Governing bodies (governing board and *patronato*)

The 2009 assessment confirmed that the boards of Mexican community foundations were on the path toward being more professionally organized and operated.

- Just over half (nine) of the foundations exceeded the self-imposed minimum number of stipulated board members.
- Between 2009 and 2016, there was little change to the educational level of board members, with 31 percent having a postgraduate degree, 66 percent a bachelor's degree, and 3 percent a high school degree.
- In both 2009 and 2016, board members were found to be highly involved in promoting their foundation in the community, making financial decisions, facilitating relationships with

<sup>3</sup> Findings reflect survey responses from 17 of the 21 community foundations in our sample.

<sup>4</sup> Civil organization is a non-profit organization legally established before a notary, in accordance with state laws. It has a member assembly (formed at times by members of the operating team or the governing board) and some, by their own decision, also form a governing board.

<sup>5</sup> IAP is a nonprofit organization that provides social assistance services, is legally established, and must have the approval of and be registered before the Board of Private Assistance (*Junta de Asistencia Privada*, or JAP) of the state where it is located. IAPs are under the supervision of the JAP, which must approve their annual plans and budgets, with variations according to the different laws in existence. One of the requirements to be approved and registered before the JAP is to have a governing board, called a *patronato*.

<sup>6</sup> IBP is defined in the same way as an IAP, though it is called IBP in some states, such as Puebla.

community leaders, and approving financial reports and annual budgets.

- The diversity of sectors represented by the members of the boards is an element that greatly distinguishes community foundations from other CSOs in Mexico. The sectors featured on governing bodies remained virtually unchanged since 2009: In 2016, 66 percent of board members hailed from the business sector, 11 percent from CSOs, 7 percent from academia, 6 percent from the educational sector, and 10 percent from other sectors.

As for board procedures, governing boards in 2016 were developing strategies to bolster foundations' work and the financial support they provide.

- Eighty-two percent, or 14 community foundations, had a strategic plan. Those that did not indicated that they intended to develop one within the next 12 months—a similar finding to that of 2009.
- Compared to the earlier study, more foundations established procedures regulating their grantmaking or donations, from 76 to 94 percent, contributing to a stronger and more transparent grantmaking process.
- They also developed written policies related to program evaluations, labor practices and conflicts of interest. However, 12 percent fewer foundations, from 71 to 59 percent, created and/or expanded policies related to the use of their endowment fund.<sup>7</sup>

Despite these positive steps, foundations have room for improvement on at least two fronts:

First, one of the functions of community foundation board members is to contribute their own funds and facilitate the procurement of other resources to help the organization meet its goals and be sustainable. In 2009, 100 percent of the community foundations in our study received help from their governing boards in procuring funds; in 2016, 88 percent of the foundations mentioned such support. In relation to receiving donations from board members, only 65 percent reported receiving this type of support in 2016, a decrease of 29 percent.<sup>8</sup>

And second, while governing boards tend to be diverse in the sectors they represent, they tend to be less diverse in terms of gender. In fact, in the period studied, the proportion of men serving on governing boards increased by 9 percent between 2009 and 2016.<sup>9</sup>

### **Operating team**

The 2016 data show that executive directors of the community foundations we studied have a high level of education and a low turnover rate. The high retention of executive directors often results in leaders with greater expertise and influence, which can contribute to the longevity and impact of community foundations.

As for staff, Mexican community foundations also have worked to offer better working conditions,

<sup>7</sup> In 2016, of the participating community foundations (17), ten had written policies on endowment funds (59 percent), 16 had procedures to grant financing or donations (94 percent), 15 had evaluations of financing or programs (88 percent), 11 had labor policies (65 percent), and 10 on conflicts of interest (59 percent).

<sup>8</sup> In relation to the information gathered in 2007 on donations from the board to the community foundations in the 2009 study, 74 percent of board members donated money in cash, stocks, investments, land or buildings; in comparison to the 2014 data, which reflect that 41 of the board members made this type of contribution. While the 2007 data indicated that 33 percent of the board members made donations in kind, 2014 information shows that 20 percent made this type of contribution.

<sup>9</sup> In 2009, 61 percent of the board was made up of men and the remaining 39 percent of women, while in 2016, 70 percent of the board is represented by men and the remaining 30 percent by women (29.9 percent.)



which indicates a commitment to professionalizing the sector and ensuring its financial sustainability. For instance, from 2007 to 2014, the number of employees at all community foundations that participated in this study grew considerably, from 134 to 197. It has been a gradual but important increase in the workforce, and can be interpreted as a reflection of foundations' efforts to invest in improving their operations and working environment.

The number of salaried individuals grew as well; we documented a 45 percent increase in employees who enjoy labor benefits in accordance with the law, such as social security, vacations or bo-

nuses. The salaries and benefits that community foundation employees receive reflect the financial capacity of the foundations to assume these costs, as well as their ability to attract the best professionals to work in their organization.<sup>10</sup>

In terms of community foundation operations, roundtable discussion participants reported that their key challenges were having trained staff and building trust among beneficiaries and donors. And they identified their most significant challenge as being able to empower communities—through formal and informal education—to manage and lead their own development.

## ACTIVITIES OF COMMUNITY FOUNDATIONS

### Thematic areas

Mexican community foundations have grown and diversified the thematic areas of work to which they direct their resources from 59 areas in 2009, to 73 in 2016. In both studies, we found a consistent focus on the issues of education (65 to 77 percent), health (59 percent to 47 percent), and the environment (29 percent to 47 percent). In terms of themes not covered by the questionnaire, we found that many community foundations also address grassroots development (11), and development and capacity building of CSOs (eight).

In fact, building the capacity of local CSOs or grassroots groups is a principal task of commu-

nity foundations in Mexico. This includes helping CSOs develop their institutional capacity by providing consultancies, courses, and workshops (76 percent); promoting networks and shared interest groups (67 percent); promoting volunteerism in the community (62 percent); providing institutional capacity building services for community or grassroots organizations (61 percent); promoting local philanthropy and recognizing local philanthropists (54 percent); and, informing and, underscoring public policy development (35 percent).

### Local engagement

Many foundations directly consulted with local actors, such as opinion leaders, authorities, and

<sup>10</sup> The changes from the study 2009 to 2016 (respectively) of the range between the lowest and highest net salaries of a full-time employee were from \$4,021 Mexican pesos and \$67,015 Mexican pesos to \$5,000 and \$120,000. The salaries are reflected in 2014 constant pesos, so that they are equivalent with the 2017 data gathered in the 2009 study. To convert the nominal salaries from 2007 to 2014 constant pesos, the National Index of Consumer Prices (*Índice Nacional de Precios al Consumidor*) was used.

CSOs, to assess the needs of the communities with which they collaborate and to understand the problem areas to address. A large proportion of community foundations then rely on their governing board and foundation director to prioritize what issues they will support.

### **Regulatory structure**

One principal challenge faced by Mexico's community foundations is having an adequate regulatory structure and carrying out local and national advocacy efforts. However, the foundations that participated in this study emphasized the important work being done by Comunalia, the Mexican network of community foundations, to influence the regulatory structure of civil society at the federal level. Comunalia has also pushed to standardize best practices and lessons learned from community foundations.

### **Direct programming**

More Mexican community foundations have undertaken direct programming. As mentioned earlier, a key characteristic of community foundations is that they mobilize resources – especially from their community – to make grants to other organizations or grassroots groups. Providing grants is part of foundations' strategy to strengthen the capacity of local organizations and their leaders. This does not exclude community foundations from assuming a role in operating programs themselves. Between 2009 and 2016, more Mexican community foundations played a role in operating programs, from 47 to 65 percent; on the other hand, fewer community foundations made grants, passed-through funds and identified projects for donations carried out by other organizations, dropping from 100 to 82 percent, or in terms of raw numbers 14 of the foundations surveyed made grants and three did not.

### **Outreach**

Mexican foundations have also been increasing their use of public calls for proposals. While the processes community foundations in Mexico use to identify organizations or projects to finance vary, most do so through public calls for projects (15 or 88 percent), project visits (15 or 88 percent), meetings with CSOs (13 or 76 percent), recommendations from board members or *patronatos* (11 or 65 percent), or invitations to previously supported organizations to develop a project to be funded (11 or 65 percent). Compared to 2009, there has been greater openness to public calls, which demonstrates that foundations are adopting more transparent mechanisms. Still, transparency and accountability<sup>11</sup> must be worked on widely in the social sector in Mexico. This theme is significant given the weak levels of confidence in the work of the CSOs, where nearly three-quarters of Mexicans state that they have little or no trust in social organizations (Layton & Moreno 2010, p. 109).

In the 2016 study, we found just over half of community foundations (nine, or 53 percent), board members (governing board or *patronato*) and staff decide how and where to provide grants. In other cases (six, or 35 percent), a committee formed by members of the governing body, staff, and local experts spearhead grantmaking decisions. The participating community foundations maintained their grantmaking requirements and processes—which included considering a variety of community stakeholders for support—indicating an effort to improve the philanthropic culture and promote transparency.

### **Monitoring and evaluation**

Community foundations are committed to monitoring and evaluation. All 17 participating foundations indicated in 2016 that they monitor and eval-

<sup>11</sup> "Transparency refers to the level of openness and divulging of information relative to the values, processes, and procedures of a CSO..., accountability constitutes both the moral obligation and the capacity of a CSO to respond to and assume responsibility for its actions, activities, and messages." (CIVICUS, 2014, p.8).

uate, internally and externally, the results of the programs and projects that grantee organizations implement, through written reports by the organization (17), verification of expenses (16), and site visits (15). These measures have been maintained since 2009, where 16 foundations requested written reports or conducted visits, and 14 requested that the grantee organization verify its expenses. Between 2012 and 2014, seven community foundations (41 percent) commissioned an external evaluation of their programs, recognizing the importance of measuring their efforts to understand how they are making a difference.

### Communications

Community foundations also have worked to increase their visibility and widen the audiences to which they communicate. In 2009, “the foundations centered their communication efforts above all on their current donors, the members of the governing board, and other CSOs.” (Berger *et. al.*, 2009, p.9). In general the results in 2016 indicated that community foundations increased their communication efforts to two key sectors, with outreach to potential donors growing by 41 percent and to the general public by 12 percent; however, outreach to the government decreased by 18 percent.

## FINANCIAL ASPECTS OF COMMUNITY FOUNDATIONS

As stated above in the Methodology, the financial data for this section comes from two sources. First, 12 of the 21 community foundations responded to a survey and provided financial data from 2012 to 2014. Second, we collected data for all Mexican community foundations from the Transparency Website of the SAT. (The one exception is the San Miguel Community Foundation, for which information was gathered through their 990s filed with the IRS). The data from the SAT has been reviewed and systematized for the database of *Fondos a la Vista* (Funds in Plain Sight), with information over seven years, from 2008 to 2014. The SAT requires organizations to classify their financial information in an idiosyncratic manner, and these classifications are described in the corresponding sections below: Income, Grantmaking and Expenses and Assets.

Unrelated to the requirements of the SAT, there are two other important characteristics of the presen-

tation of the financial data in this section. First, because Fundación del Empresariado Chihuahuense (FECHAC) represents such a significant part of the sector, the data is broken down into three aspects: the sector as a whole, FECHAC, and all other Mexican community foundations. Our data show that FECHAC accounts for roughly two-thirds of the Mexican community foundation sector’s assets and grantmaking and roughly half of its income: by way of comparison, according to the 2017 Columbus Survey of Community Foundations, the largest US community foundation, Silicon Valley, represents 15 percent of the sector’s assets and 22 percent of the sector’s grantmaking (Foundation Center n.d.). FECHAC owes its robust finances to the fact that its revenue derives primarily from a ten percent surcharge on state payroll taxes, self-imposed by Chihuahua’s business community (de Leon Gonzalez 2015). Second, the data that follow have been converted from Mexican pesos to constant US dollars (2014), so as to take into

account the impact of inflation when looking at data over the seven years from 2008 to 2014.

Despite an environment that is unfavorable for philanthropy and civil society in Mexico, the community foundation sector has achieved relative financial stability. What the aggregate data and averages do not capture is the challenges and vicissitudes of individual community foundations, some of whom have lost their nonprofit status during the period under study. While some Mexican Community Foundations (MCFs) are firmly established and others have good fundraising capacity, a limited number face ongoing challenges to their continuity operation (Investigación en Salud y Demografía, S.C. 2017). Below are highlights that emerged from our analysis of the available financial data for the sector as a whole.

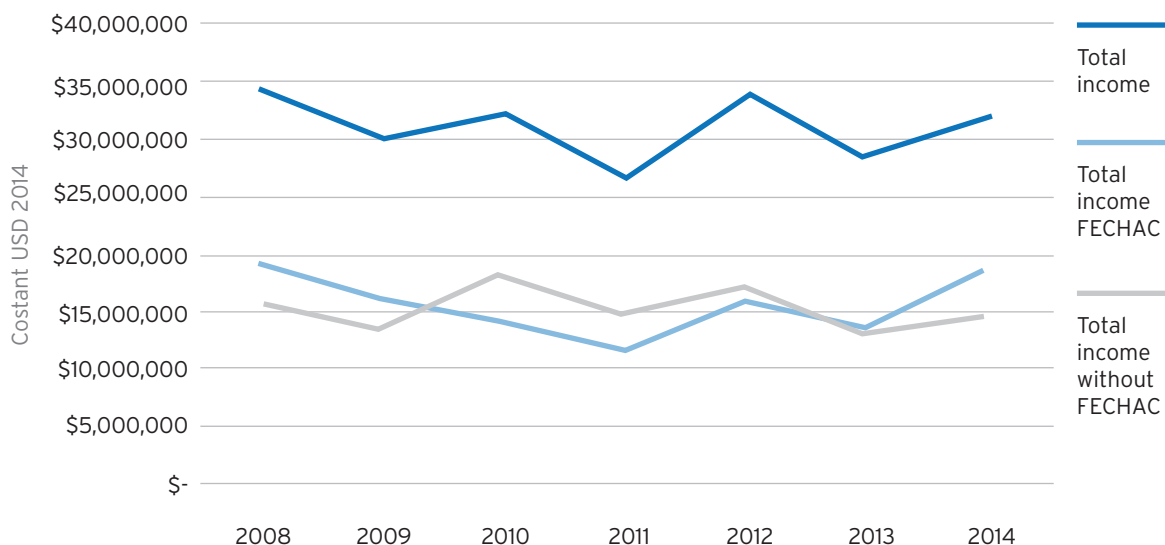
### Income

The SAT requires nonprofits to divide income into two general categories: Donations Received and Other Income (such as tuition, investment income, fees for services, etc.). While each nonprofit categorizes Other Income as it deems appropriate, Donations must be classified into six subcategories: individuals, businesses, and government, and then these three types are split into domestic or foreign sources. As **Figure 1** indicates, inflation-adjusted income declines slightly across all three lines, with peaks and valleys along the way.

Throughout the period, FECHAC's income and those of the other MCFs remained at rough parity, hovering between \$12 and \$18 million.<sup>12</sup> The other MCFs began the period at about \$15.5 million in total income and ended at \$14 million. FECHAC's

**Figure 1.**

Total Income for all Mexican Community Foundations, disaggregated by FECHAC and all other community foundations, 2008-2014, (CONSTANT USD 2014)



<sup>12</sup> Dollars in this section refer to constant 2014 USD.

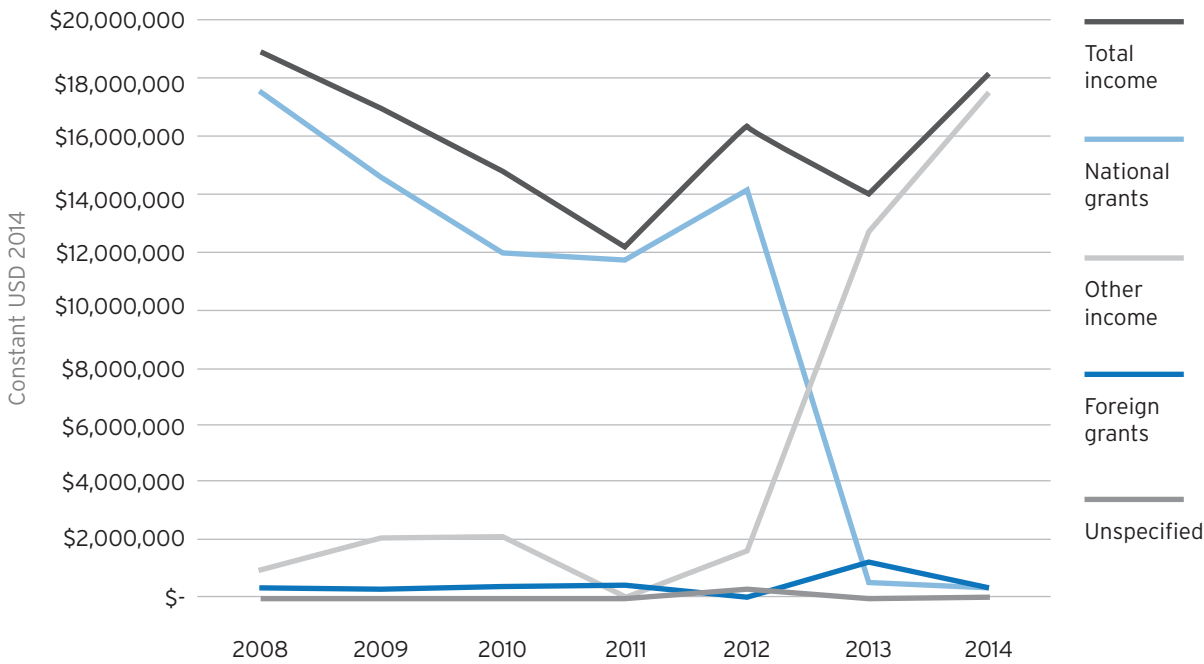
income saw a dramatic decline from more than \$18.7 million in 2008 to less than \$11 million in 2011, followed by a recovery to end at nearly \$18 million in 2014, reflecting the fluctuations of state income tax revenues in the aftermath of the economic crisis, which began in the US in 2008 and spread quickly to Mexico with lingering after effects.

National donations and total income swapped places in 2013 as FECHAC’s most important source of income, due to a change in how FECHAC classifies its revenue from the state income tax surcharge (**Figure 2**). Throughout the period this income represents about 90 to 95 percent of FECHAC’s total revenue.

The mix of sources of income for Mexico’s community foundations has one important commonality with that of other Mexican nonprofits and one

major divergence (**Figure 3**). The commonality is that Mexican nonprofits, including MCFs, do not rely heavily on foreign donations: after a peak of 17 percent of their income derived from this source in 2008, MCFs reported from 10 to 12 percent of their income from foreign donations during the rest of the period, much like the nonprofit sector as a whole (Layton et al. 2017, p.160, Table 7). Their major divergence is their reliance on income from donations: while Mexican nonprofits consistently garner about 80 percent of their revenue from Other Income (Layton et al. 2017, p.160, Table 6), MCFs reported only 11 percent of their income as Other. Combined, these patterns imply that MCFs are contributing to the mobilization of local philanthropic sources and suggest that they may be playing a role in strengthening the philanthropic culture where they operate.

**Figure 2.** Total Income for FECHAC, disaggregated by Other and National, Foreign and Unspecified Donations, 2008-2014 (Constant USD 2014)



**Figure 4** presents the data on income in terms of FECHAC’s total revenue and average income for the other MCFs, as well as the number of MCFs for whom data is available. FECHAC begins the period with a high of \$18.7 million 2014 USD and ends at \$18 million, hitting its nadir in revenue at \$12 million in 2011. The other MCFs had average income from 2008 until 2012 of between \$900,000 and \$1 million. In the last two years that average dips to below \$800,000. As indicated in Figure 1, FECHAC’s income in the last year reported exceeded the combined income all 19 community foundations.

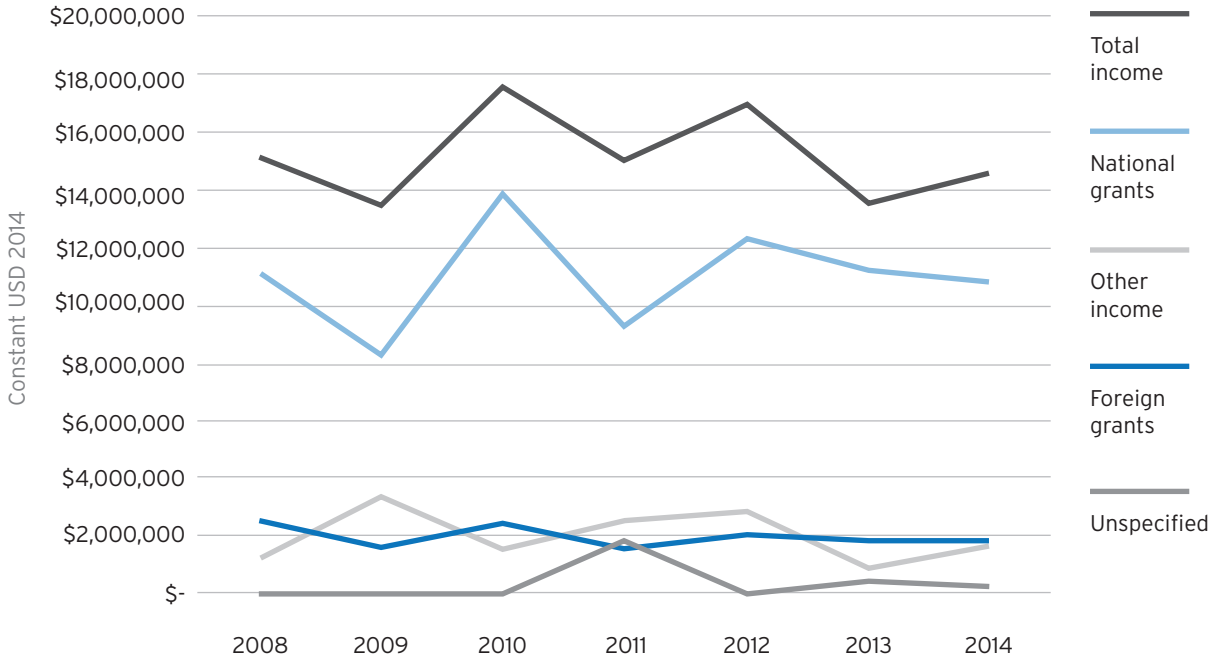
**Grantmaking and Expenses**

In general, community foundations are understood first and foremost as grantmaking institutions that draw their leadership from and serve a defined geographic area (Harrow et al. 2016, 308). In Mexico,

however, community foundations often take on a variety of roles in addition to grantmaking.

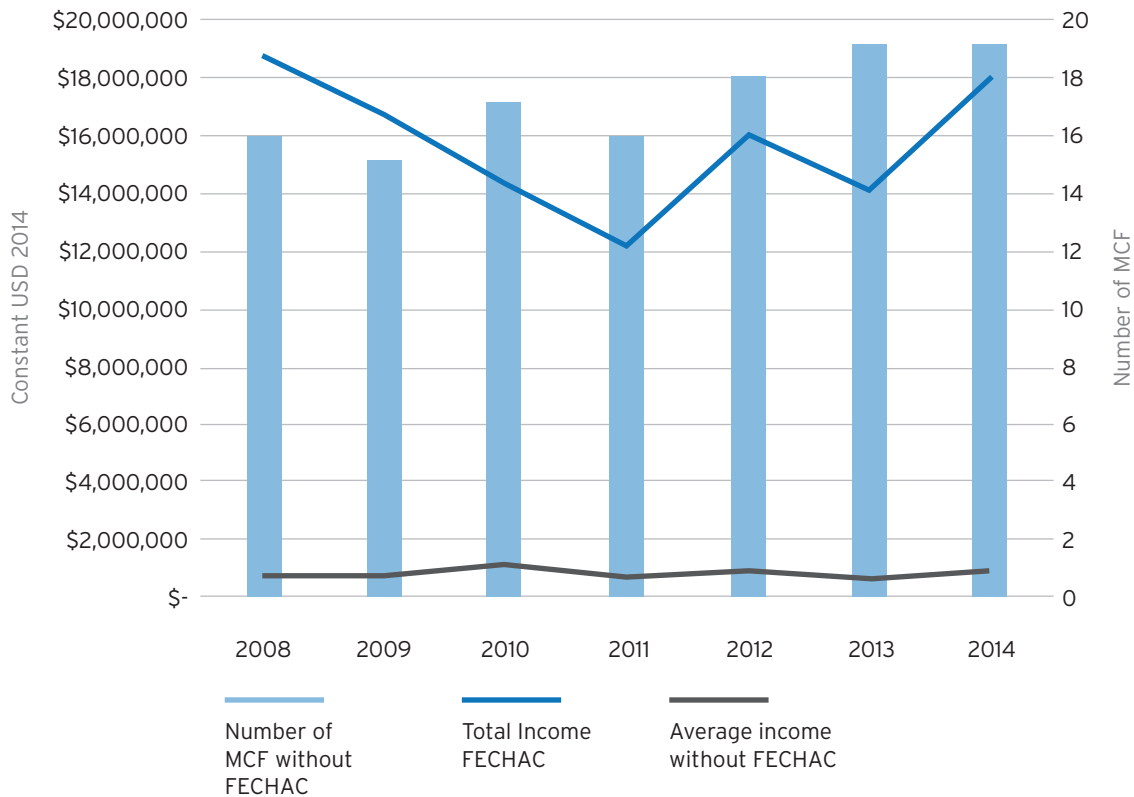
In interpreting these data, it is important to take into account two elements – one regulatory and one operational. First, under Mexican Tax Law, a nonprofit can only make a Grant to another registered, tax-exempt organization. As pointed out above, many organizations in Mexico are not so registered, therefore some community foundations (and other funders) find alternative ways to offer financial support to unregistered nonprofits and this support can be categorized as an Expense rather than as a Grant. Second, Mexican community foundations often operate their own programs, consistent with their hybridity in both making grants and running programs: researchers have found that many foundations outside

**Figure 3.** Total Income for Mexican Community Foundations without FECHAC, disaggregated by Other, Domestic and Foreign Donations 2008-2014 (Constant USD 2014)



**Figure 4.**

Average Income for Mexican Community Foundations without FECHAC vs. Total Income FECHAC 2008 . 2014 (Constant USD 2014)



the US, including community foundations, operate in this manner (Smith 2016; Toepler 2018). The hybridity of MCFs is also a reflection of an under-developed nonprofit sector in Mexico, such that MCFs undertake efforts to promote local philanthropy, build nonprofit capacity, and operate other programs in states where few nonprofits are present.

In **Figure 5**, we capture the funds dedicated to Grants Made and Expenses, which provides insight into how MCFs are dividing their resources between two critical activities. Twice during the period studied, in 2010 and 2012, Expenses ex-

ceeded Grants Made: this is entirely due to a spike in expenses reported by MCFs other than FECHAC, and Grants Made show a decrease in those two years, due also to non-FECHAC MCFs. In terms of Expenses, FECHAC hovers around \$1 million throughout the period, while all other MCFs start with Expenses (\$3.6) below Grants (\$4.4), but after those two peaks (2010 with \$9.5 and 2012 with \$9.7) level off at \$6.6 in 2014. In terms of grantmaking, FECHAC and its counterparts both start out in 2008 at \$4.4 million each: by 2014, FECHAC has nearly doubled its reported grantmaking to \$8.1 and the other MCFs show a slight increase to \$4.6 million.

### Assets and endowment funds

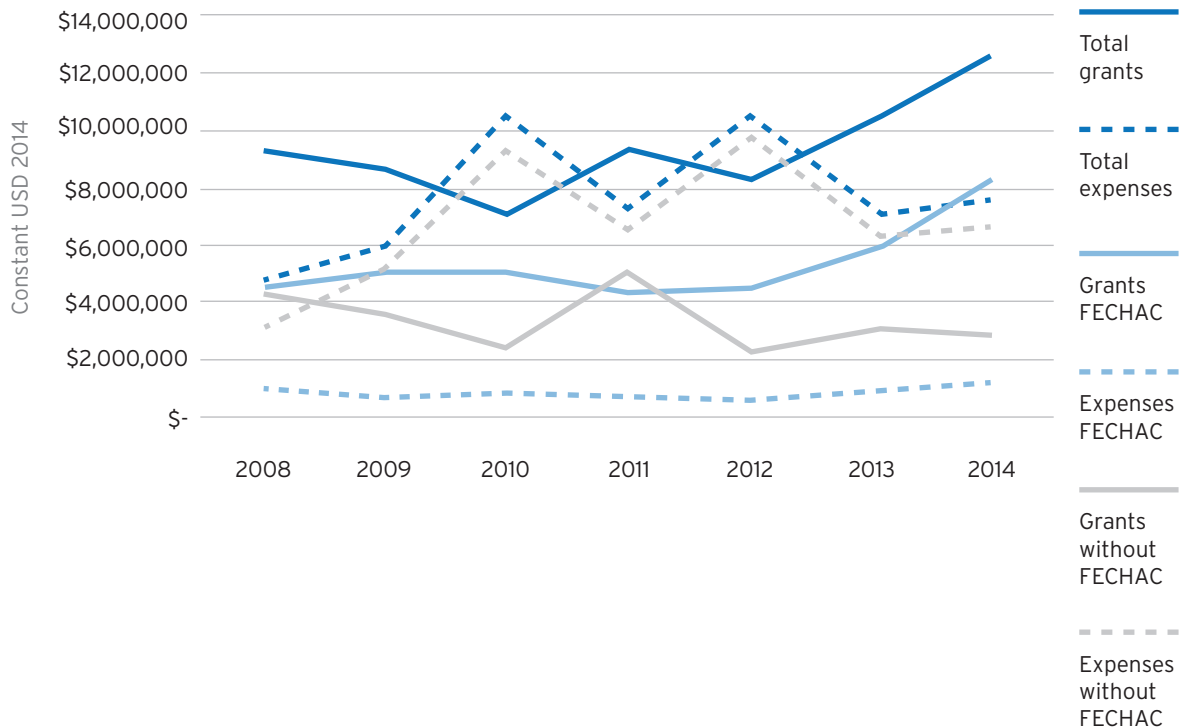
Under the SAT classification scheme, assets must be classified as current, fixed or deferred, but there are no universally agreed-upon standards for the application of those terms. As a rough measure of the financial health and size of the sector, **Figure 6** reports Total Assets and shows that the sector as a whole held \$37.5 million USD in 2008, and after taking a hit in 2009 this amount steadily increases to holdings of \$40.7 million in 2014. FECHAC has the lion's share of assets beginning the period with \$24.2 million and ending with \$27.5 million (or two-thirds of total assets), while all other MCFs begin and end the period with \$13.3 million.

While the assets of the community foundation sector as a whole have remained stable, it is dif-

ficult to come to any firm conclusions about the sector's financial stability as a whole. Endowment funds typically indicate greater institutional stability. Although our survey results found a decrease in the number of MCFs reporting endowments—and other assets available for grantmaking—between 2009 and 2014 (Table 2), the survey did not explore why this occurred. An accurate analysis of the reduction in the number of MCFs reporting endowments would require this additional data and understanding how each foundation manages its endowment fund. Future research on whether foundations with an endowment experience greater stability in their grantmaking and operations than those without could help guide grantmaking in support of endowments.

**Figure 5.**

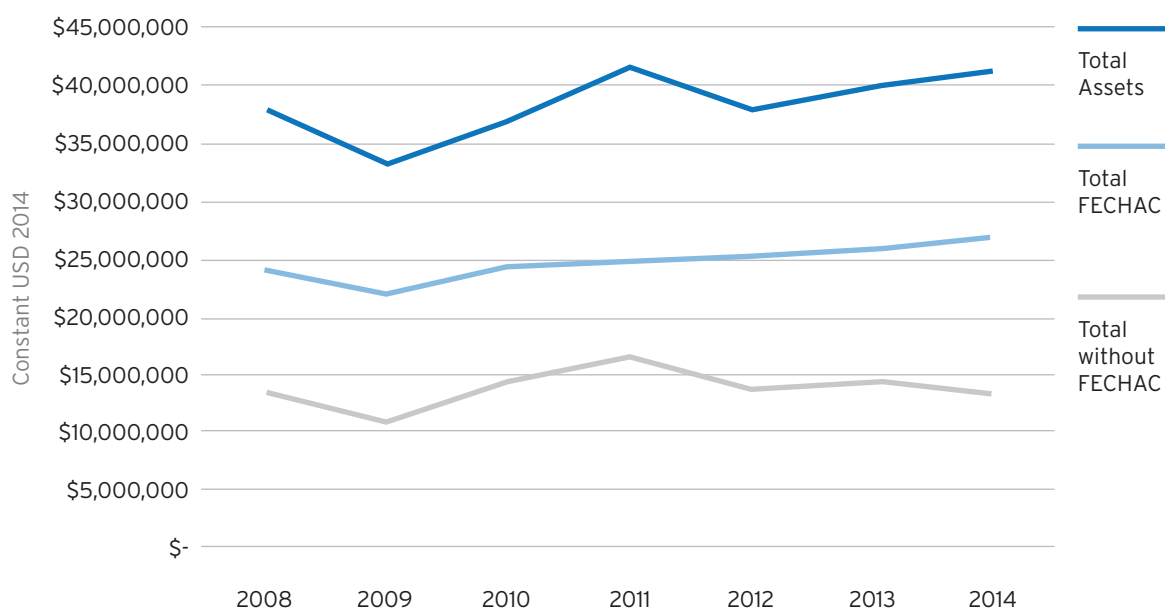
Total Grants Made and Expenses for all Mexican Community Foundations, Disaggregated by FECHAC and all other community foundations, 2008-2014, (CONSTANT USD 2014)





**Figure 6.**

Total Assets for all Mexican Community Foundations, Disaggregated by FECHAC and all other community foundations, 2008-2014, (CONSTANT USD 2014)

**Table 2.**

Foundations with different types of funds for grantmaking, 2009 and 2014<sup>13</sup>

Types of funds	2009	2014
Endowment fund <sup>14</sup>	11 (69%)	8 (62%)
Donor-advised funds	10 (63%)	8 (62%)
Designated funds	12 (75%)	8 (62%)
Unrestricted funds	9 (56%)	4 (31%)
<b>Foundations that responded</b>	<b>16 (100%)</b>	<b>13 (100%)</b>

Source: Prepared by the authors with data from Alternativas y Capacidades, A.C., 2016

<sup>13</sup> With respect to the 2009 study, the types of funds considered were: designated, donor-advised, issue area (field of interest), unrestricted, family, and co-investment funds with government, business, or individuals. For this study, endowment fund was added.

<sup>14</sup> "...fund established by a nonprofit organization for its own benefit. The interest accrued is used to create a source of income for the organization, and the capital must remain intact so that it can be reinvested... [contributing to the attainment of] institutional permanence, financing above all its operating costs." (Berger et.al., 2009, p.95).

# RECOMMENDATIONS

1

## STRENGTHEN THE INSTITUTIONAL CAPACITY OF COMMUNITY FOUNDATIONS BY:

- **Cultivating diverse governing bodies.** Community foundations should strive to create boards of directors whose members are more representative of the diversity of their community. This should include working toward gender equity and community representation, two key weak points.
- **Identifying and adopting best practices.** One of the most important reflections that emerged from the roundtable discussions with community foundations was about the role they play in the nonprofit sector's ability to contribute to the development of their region: the commitment to the effective use of resources is critical to their legitimacy, credibility, and long-term sustainability. Strengthening this role requires identifying and promoting best practices as they relate both to the internal operation of the community foundations themselves as well as their grantees and partners.
- **Building capacity for advocacy.** To impact public policy, it is essential for community foundations to improve their technical capacity in advocacy. Doing so will also strengthen foundations' local work as well as the advocacy agenda in cooperation with Comunalia, especially at the national level.
- **Ensuring their financial sustainability.** It is essential to create support tools that contribute to guaranteeing the financial sustainability of community foundations and that take into account the unique challenges of the Mexican context. This requires diversifying resources and elevating the role of each foundation's board in procuring funds.

2

## DEMONSTRATE IMPACT AND INCREASE VISIBILITY

Perhaps the single most difficult question every nonprofit needs to address is, what difference do you make? The challenge of answering this question is particularly acute for community foundations, who are accountable both to their donors and to their grantees. To the extent that a community foundation can demonstrate and strive to quantify its community impact, will enhance its credibility and legitimacy with key stakeholders. Clearly MCFs have more work to do to demonstrate their impact, and engaging external consultants to evaluate their internal management and their grant portfolios could go a long way toward achieving this goal. Ideally, each community foundation should become a learning organization and strive for continual improvement, incorporating evaluations and lessons learned both in internal practices and in external communications.



### 3

#### **CREATE A STRONGER ENABLING ENVIRONMENT FOR PHILANTHROPY AND CIVIL SOCIETY**

Particularly under the auspices of Comunalía, there has been work in recent years to identify opportunities that create a more enabling environment for the social sector and the efforts of community foundations. However, we recommend that foundations become more individually involved in this process to create a more favorable context for their work and the sector as a whole, while always keeping the local context in mind. Fostering a favorable environment will help advance public policy advocacy and encourage proposals that respond to the needs and the reality of the sector.



### 4

#### **PROMOTE TRANSPARENCY AND ACCOUNTABILITY**

As organizations that build the capacity of, and facilitate linkages among, a diverse group of local and national actors, it is critical for community foundations to practice and demonstrate transparency and accountability. This can be done by encouraging self-regulation of civil society organizations, standardizing best practices, promoting uniform programmatic and financial reporting standards, and carrying out greater outreach to the general public to increase the visibility of the community foundation model.

## CONCLUSIONS

The data show that community foundations in Mexico have strengthened their capacity in multiple aspects relative to the assessment published in 2009. They have made great strides in increasing their level of institutionalization, developing solid organizational structures, and professionalizing their staff. The participation of community foundations in spaces of reflection and collaboration has allowed them to develop an identity that is relevant to the logic of Mexico and a broad vision of the roles that they play in their communities, particularly their support for and advoca-

cy on behalf of the nonprofit sector. Community foundations also have achieved a deeper understanding of the challenges that exist in the enabling environment for philanthropy and civil society at the local, state, and national levels, which enhances their standing with key stakeholders. These successes in recent years will allow Mexico's community foundations to bolster their collective efforts and expand their role as a key unifying force among distinct actors, allowing foundations to further contribute to social development and strengthen the capacity of CSOs.

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