Funding Sources for Civil Society in Mexico:
Constructing a Matrix of Funders and Organizational Typology

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Abstract

There are a number of widely held assumptions about philanthropy in Mexico. One is that Mexican donors favor traditional charities and culture, rather than more controversial issues such as human rights or public policy analysis. Another is that the foreign donors who have supported these latter fields are now leaving Mexico in favor of poorer nations. Although anecdotes support these assumptions, they have not been treated as hypotheses to be tested against empirical evidence.

One reason that this kind of empirical analysis has been so rare is the difficulty of obtaining reliable data, especially from governmental sources. The availability of data from government sources is slowly beginning to improve. The two most official sources of data are the Mexican Treasury Department (Hacienda) and the government's Institute for Social Development (INDESOL). Each have database that offers a glimpse at the field through a particular lens: the former provides a list of organizations eligible to receive tax deductible donations and the latter has an information system based upon a census taken in 2000. Neither one provides data on levels and sources of funding. This paper will explore why this is the case and what this lack of systematic information implies about the sector in Mexico.

After a brief introduction the second section of the paper discusses the historical, political, and fiscal context of civil society and its sources of support. It provides a historical periodization of the sector, offers a brief discussion of its present political status, and briefly lays out the fiscal framework.

The third section provides an overview of the most important sources of support and discusses their present level of development, current practices, and levels of support. Unfortunately this section will not deliver on the promise in the title of this paper of providing a matrix of funding and organizational typology. What it does provide is a mosaic or overview, a first step toward the goal of a more systematic analysis of resource flows that would map sources of support and their recipients.

The fourth section reflects on this lack of data and argues that it is symptomatic of a larger pattern, i.e. the prevalence of informality in the sector. To paraphrase Soto, perhaps here there is a "mystery of social capital", i.e. that the prevalence of informal organizations might lead to greater bonding rather than bridging social capital and might prove a hindrance to democratic consolidation (Soto 2000). The final section will over some tentative conclusions concerning this research and the necessary measures to strengthen Mexico's third sector that emerge from this preliminary findings.

The author hopes to contribute to a growing field of research and work in understanding and fomenting domestic sources of support for civil society around the world.

1. Introduction: Sources of Support and the Shape of the Third Sector

It is said that philanthropy is the lifeblood of civil society. Therefore an assessment and analysis of the sources of support for the sector are crucial to our understanding its health and well-being. There are a number of widely held assumptions about the sources of support for the third sector in Mexico. One is that Mexican donors favor traditional charities and culture, rather than more controversial issues such as human rights or public policy analysis. Another is that the foreign donors who have supported these latter fields are now leaving Mexico in favor of poorer nations. Although anecdotes support these assertions, they have not been treated as hypotheses to be tested against empirical evidence.

One reason that this kind of empirical analysis has been so rare is the difficulty of obtaining reliable data, especially from governmental sources. The data and analyses that are available paint a rather discouraging picture of a sector that is underdeveloped when compared to those of the United States or its Latin American neighbors. This is worrying because the health of civil society is at stake, and therefore the strength of Mexican democracy. (Hewlett's concern over these issues led to the funding of the larger research project of which this paper is a part.)

The next section of the paper will discuss the historical, political, and fiscal context of civil society and its sources of support. It will provide a historical periodization of the sector and a brief discussion of its present political status and fiscal framework.

The third section will provide an overview of the most important sources of support, "the usual suspects", and discuss their present development, current practices, and levels of support. Unfortunately this section will not deliver on the promise in the title of this paper of providing a matrix of funding and organizational typology. What it does provide is a mosaic or overview, a first step toward the goal of a more systematic analysis of resource flows that would map sources of support and their recipients.

The fourth section will reflect on this lack of data and argue that it is symptomatic of a larger pattern, i.e. the prevalence of informality in the sector. Just as a high level of informality characterizes the for-profit economy in Mexico, so too does it shape the non-profit sector. To paraphrase De Soto, perhaps here there is a "mystery of social capital", i.e. that the prevalence of informal organizations might lead to greater bonding rather than bridging social capital and might prove a hindrance to democratic consolidation (Soto 2000).

The final section will over some tentative conclusions concerning this research and the necessary measures to strengthen Mexico's third sector that emerge from this preliminary findings.

2. The Historical, Political, and Fiscal Context

Mexican civil society was not created in the last decade, and neither is it an artifact of foreign support nor the recent civil society movement. As Guillermo Bonfil Batalla argues in Mexico Profundo: Reclaiming a Civilization (1996), there are pre-Hispanic traditions of collective work or *tequio* as well as democratic forms of collective decision-making. (These have been recognized by the Oaxacan state government's provision for local rule through habits and customs, or *usos y costumbres*.) In Democracy in Latin America, 1760-1900 (2003), Carlos Forment develops a compelling argument that there was a vibrant civil society in Mexico and other parts of Latin America throughout the nineteenth century, although it was not integrated with government and was of a different variety from the North American or European varieties. In a sense it was horizontally oriented between citizens without being vertically integrated with the formal institutions of church and state. This institutional disjuncture was continued, and perhaps even intensified, in the 20th century.

In terms of more recent history, the single most important event for civil society in Mexico was the founding of the National Revolutionary Party (or PNR in its Spanish acronym) in 1929. The PNR and its successor the PRI, the Party of the Institutional Revolution, dominated national politics until Vicente Fox's electoral victory in 2000. The corporatist model of the PRI drew on a tradition of strong, centralized authority, and had important implications for the shape of public life:

> And the new Revolutionary State had a strength that came from its being as ancient as it was recent. Especially under Cardenas, at a culminating point in its development, it combined the spirit of the missionaries with that of the Crown and the more hierarchical features of the Church – protective, corporative, and paternal. Though it expressed (in its essential functioning) the Spanish tradition of linkage between the "Two Majesties," the Revolutionary State – as molded by Cardenas – had most of all supplanted the Church. The corporate State would offer its benediction to everyone (organized in groups with varying degrees of dependency); the State would protect and oversee and judge …; the State would teach the truth, in its schools and, as the Church had always done, in the visual gospels of painted walls. *The health and welfare of Mexicans were now primarily the responsibility of government*. (Krauze 1997, 484, emphasis added)

The most important points here are that: it is the state's responsibility to provide for the well-being of the citizens, not the responsibility of citizens themselves; and, that groups were to be dependent upon the state. Thus part of the PRI's modus operandi, along with electoral fraud, control of the media, and intimidation, was the development of its own clubs and organizations combined with the consistent cooptation and manipulation of any independent groups. This strategy maintained what Mario Vargas Llosa termed "the perfect dictatorship", pre-empting the development of effective opposition for decades without resorting to military dictatorship. There was no need for a philanthropic sector given the reach and power of what Octavio Paz called the "Philanthropic Ogre", the single-party state. This institutional arrangement translated into a set of cultural values

and practices that permeated all aspects of Mexican society – the rich and the poor, urban and rural – and undermined the vibrancy of civil society.[1]

During most of the century civil society co-existed with the PRI by focusing on works of traditional charity sponsored by the church or businesses and their associations. By the 1960s and 1970s donor institutions began to emphasize rural development, and fell into increasing disfavor among government officials (Natal et al. 2002, 29-31). The sector and patterns of funding began to change dramatically in the 1980s: this more recent history deserves a more detailed, decade-by-decade assessment:[2]

> 1980s "La Crítica": Often referred to as the "lost decade" for Latin America, characterized by economic crisis. Organizations shift from more highly politicized aims to issues of economic development. More formal non-governmental organizations (ONG's by their acronym in Spanish) emerge, with greater expertise and professionalism. By the end of the decade a very clear distinction emerges between the ONG's and social movements, particularly the feminist and green movements. The earthquake in November of 1985 that hits central Mexico and devastates parts of Mexico City is the key event of the decade. Many point to the experience Mexicans had of organizing and helping themselves in the face of governmental indifference and incompetence as a key moment in Mexican democratization, instilling a sense of citizenship and empowerment. This popular outrage was heightened in July of 1988, when the PRI apparently stole the presidential election away from Cuauhtémoc Cardenas of the leftist Party of the Democratic Revolution (PRD in its Spanish acronym). The PRI's candidate, Carlos Salinas Gortari, came to office under pressure to institute reforms. By the end of the decade there is a growing role for foreign funders, especially in the fields of human rights and democratization.
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> 1990s Neo-liberalism, Pro and Con: Salinas undertakes an ambitious agenda, seeking to privatize the economy, liberalize trade, and to a lesser extent modernize the PRI. He also undertakes a massive social program called "Solidarity" (*Solidaridad*) that organizes the poorest communities as a prerequisite to gain government funds. The goal, consistent with the long history of the PRI, is to co-opt potential critics and head-off social demands (Verduzco 2003, 87-88). The contradictions within his project are made apparent when the on January 1, 1994 the North America Free Trade Agreement comes into effect and the Zapatista uprising begins in southern state of Chiapas, i.e. the conflicting images of a modern, liberal nation and a rebellion by impoverished, indigenous campesinos. To his credit Salinas lets stand the electoral victory of the opposition National Action Party (PAN in its Spanish acronym) in the governor's race in Baja California Norte in 1989. On the other hand his administration witnessed – and perhaps aided and abetted in – the rise of narco-traffickers and a number of political assassinations, marring his self-portrayal as a modernizer. The two most

[1] This historical trajectory stands in stark contrast with the Founding and constitution of the United States, which emphasize the values of limited government, federalism, and freedom of association.

[2] This periodization is drawn from Aguilar (1997), and the history of these decades is told by Verduzco (2003, chapter 3) and Natal et al. (2002, 26-36).

lasting impacts upon civil society were: the proliferation of social movements against neo-liberalism and globalization, focused on issues such as opening up agricultural markets to free trade and energy markets to foreign investment; and, the growth of organizations focused on issues of social development, human rights, environmental protection, and public policy and governability. The former reacted – at times violently – against governmental policy, and the latter took advantage of the opening of public space for greater citizen participation. (See Verduzco 2003, 90-92). The most important development in terms of organized philanthropy was the introduction and promotion of the community foundation model by the Center for Mexican Philanthropy (CEMEFI in its Spanish acronym.)

2000s "Democratic" Mexico?: The election of Vicente Fox to the presidency from the opposition National Action Party (PAN) signaled for many the advent of democracy in Mexico. This assessment incorrectly equates alternation in office at the national level or electoral democracy with democracy itself, which also must meet other conditions such as separation of powers, respect for human rights, and the rule of law. The results for civil society have been mixed. The administration began by convening roundtables to promote dialogue and engage the sector in formulating social and development policy and establishing a liaison office. Some government departments, particularly the Secretary of Social Development (SEDESOL) and its affiliated research institute (INDESOL), have funded organizations and research on their impact at unprecedented levels. This, however, has led to concerns about organizations becoming fully dependent upon government largesse and losing their independent voices. In addition, the liaison office was closed down and it seemed as if Martha Sahagún de Fox capitalized on this work in the establishment of her *Fundación Vamos México* (FVM). Consciously modeling her effort on the charitable work of Eva Peron, Sahagún launched FVM in 2001 with a gala concert event featuring Elton John. This institution perpetuates the longstanding confusion between what is governmental and what is philanthropic, enjoying a privileged status with the business sector but failing to address the key underlying issues in the sector's legal and fiscal framework. Many view the foundation as advancing a narrow personal agenda and undermining the budding identity of the sector, most particularly the ten-year old *Fundación Vamos*. Perhaps the most fundamental problem in the sector is the sense of drift and lack of purpose: once the ogre of the PRI was defeated, there was no well defined, over-arching goal. Sadly, there are numerous examples of social movements and protests turning violent and at times overturning duly elected municipal authorities. The Zapatista rebellion in Chiapas with its areas of "good government" and the machete-wielding protestors in Atenco, in the state of Mexico, who halted the federal government's plans to construct a new airport for Mexico City, are only the two most highly visible examples. In terms of philanthropy, the emergence of Mexico as the 9th largest economy in the world and the victory of an opposition party in the presidential election seem to have resulted in a lessening of interest on the part of foreign donors.

As this brief history bears out, the state has intervened repeatedly in one from or another to dominate the sector, undermining its independence and identity. This experience goes hand-in-hand with the widespread perception on the part of the general public – as well as the private sector – that the government bears sole responsibility for social development and the provision of public goods. (This observation is expanded upon below in the section on individual giving.) There is a limited sense of citizen engagement and responsibility for problem solving. This has led to an attitude on the part of the third sector that alternates between antagonism and protest on the one hand, and patronage and dependence on the other.

National Reform

On December 15th, the last day of its 2003 legislative session, Mexico's congress approved the Law to Encourage the Activities of Civil Society Organizations (*Ley Federal de Fomento a las Actividades Realizadas por las Organizaciónes de la Sociedad Civil*), which the President signed into law at the end of January. The legislation was first proposed to Congress in 1995 by a group of organizations including Foro de Apoyo Mutuo (FAM), Convergencia de Organismos Civiles, Centro Mexicano para la Filantropía (CEMEFI), and the Fundación Miguel Alemán. The first three are umbrella organizations and the last is a foundation, and all are based in Mexico City. (For a translation of the law into English see the CEMEFI website, http://www.cemefi.org/index.cfm?page=MXLEGISLATION004)

The law itself states that it is intended to encourage civil activity *not* regulate the sector: this is what the organizations sought, being distrustful of government intrusion and oversight. What it generally does is set out mandates for various governmental secretaries to seek greater citizen and organizational participation and to encourage government funding for the sector. It also creates a Register of Organizations to be maintained by the Secretary of Social Development, spelling out the rights and responsibilities of registered organizations, as well as the penalties for violations. While groups are prohibited from partisan politicking and religious proselytizing, they gain the right to apply for governmental funding and to participate in forums for citizen participation. Perhaps most interestingly it requires the establishment of two new bodies: a Inter-Secretarial Commission to Encourage the Activities of Civil Society Organizations consisting four Secretaries of the national government (Treasury, Interior or *Gobernación*, Social Development, and Foreign Relations; and, a Technical Committee, consisting of nine representatives of civil society organizations, four from academia, professional, scientific, and cultural sectors, one from each house of the legislature, and one appointed by the Commission. The latter Committee will have the responsibility for the implementation of the law, including creating and maintaining the registry.

Although the law mandates changes in public policy it does not specify what they are to be. Hence, the sponsoring organizations intend to organize themselves to propose the necessary follow-up legislation. The issue of private philanthropy is not taken up directly by the legislation, although the need for greater governmental support is a key theme. (This echoes the attitude of the primacy of governmental patronage that has inhibited the growth of private philanthropy. At present the registry will provide

information about the organizations within government, but will not lead to greater overall transparency for the sector.

What more general lessons can be gleaned from this experience? First, the length of time that it took to pass the legislation, combined with its unanimous approval, indicates that the sector is not a priority for the legislature, generating neither profound enthusiasm and urgency nor serious opposition.

Marta Sahagún de Fox, Vamos México, and Philanthropy

The day after President Fox signed the Law to Promote The Activities of Civil Society Organizations, the Financial Times published its account of Marta Sahagún's foundation (Silver 2004). This piece of investigative journalism set off an intense firestorm of controversy. At the center of the controversy were the questions: were government funds used to support the foundation, in terms of the staff of the first lady? Has she inappropriately used her political status to monopolize corporate philanthropy? Is she using charitable activities as a cover to advance her presidential ambitions? While the Congress conducted an initial investigation and exonerated her of any wrongdoing, Sahagún and Fox have remained on the defensive (AP Online). More recently the controversy has re-ignited, with newly published financial statements creating greater confusion and the accusation that the National Lottery, a governmental entity whose mandate is to fund social services, has inappropriately funded Vamos México and/or its grantees (Jimenez 2004, Salazar 2004). (The fact that the directors of the two organizations are sisters and longstanding friends of the first family adds a troubling element of nepotism to the picture.)

This incident and Sahagún's management of FVM have undermined the impression of the sector in general and of philanthropy in particular, conflating in the public's mind political power with private initiative. This distinction between political society and civil society is crucial in Mexico, where the PRI has so dominated and overwhelmed civil society. This has left the impression that philanthropy and foundations are more a matter for those who wield political influence to promote themselves, rather than a means for citizens to take action to promote a public good.

Legal and Fiscal Framework: Too Many Regulations, Not Enough Data

Two of the key questions regarding the regulation of the nonprofit sector are how easy (or difficult) it is to establish a nonprofit organization and what tax incentives are in place for the sector. In Mexico a legal entity not subject to taxation might take on a number of legal forms, the most common of which is the civil association (*asociación civil* or *A.C.*). A study commissioned by ITAM demonstrated that organizations face a thicket of regulations to take the next step and obtain the ability to issue tax-deductible receipts (Avalos 2004, see also CEMEFI website). For many organizations the most onerous of these regulations are the "miscellany" (*resolución miscelánea fiscal*), which are promulgated by the Tax Administration Service (S.A.T.), the Mexican I.R.S. One such requirement is that an organization obtain a document from the "appropriate governmental authority" stating that it is competent to operate programs in a particular realm, say education or social services. The problem is that many agencies are not

prepared to issue such documents to civil society organizations, either due to the failure to have process to do so and/or their unwillingness to assist non-governmental entities that might be critics or rivals.

In terms of fiscal incentives both individuals and businesses can make tax contributions to organizations that are deductible in terms of income taxes. In addition, Mexico has a value added tax (VAT) that is applied to goods and services, from which nonprofits are exempt in certain circumstances: "Services provided free of charge; Education in institutions officially validated or recognized by the Public Education Ministry; Services provided by associations or entities organized for scientific or cultural ends; Admission tickets for public events; Professional health services by individuals with a medical degree, be they provided individually or through a non-commercial partnership" (Castro Salinas 2003). However, Mexico does not have an estate tax. (In the US major philanthropists, from Andrew Carnegie to George Soros, have argued that an estate tax is crucial to promoting philanthropy among the wealthy and building up endowments. In sum, there are some important fiscal incentives in place for the sector: their impact is vitiated, however, by the high degree of informality in the economy in general and the third sector in particular, as well as the administrative difficulties and complications involved in actually realizing the process.

Quite often it is the taxing authority that maintains financial data related to the sector, tracking the number of organizations, the level and sources of charitable giving, etc. Unfortunately at this time the S.A.T. does not have the means to collect data on authorized organizations nor donors. This is due in part to the information that is collected from organizations as well as incompatible computer systems between the section responsible for charitable organizations and that which collects data on tax returns. This situation was made possible by the relative indifference of the authorities toward the sector and by its small size.

These factors add up to significant obstacles both to be a formal nonprofit organization or to gather information, especially financial data, about the sector. One individual intimately familiar with the framework criticized it for its unreasonableness and inconsistencies and stated, "Its leitmotif is, 'We don't trust you'". The impact of these obstacles upon the level of formality in the sector is discussed below.

3. Demand, Supply, and the Usual Suspects

"Demand Side": An Underdeveloped Formal Sector

Mexico's nonprofit sector is underdeveloped compared not only to the U.S. and Canada but also when compared to Eastern European or other Latin American nations. Quantitative data from the Johns Hopkins Comparative Nonprofit Sector Project bears out this assertion. Among the 22 nations surveyed, which include developed and developing nations, Mexico was last in place in terms of: size of the sector, as measured by the number of organizations, percentage of GDP (.5), or percentage of fulltime non-agricultural employment (.4); rates of volunteerism; and, level of private and governmental support for the sector (Salamon et al. 1999, chapter 22). Although these measures are themselves frequently criticized for measuring only the formal aspects of the sector, the prevalence of informality is itself problematic, especially in terms of

encouraging (a) greater social investment from individuals and entities that require legal compliance and tax deductions, and (b) greater professionalization in the field. (This issue is discussed at length in the following section. In addition, see Verduzco 2004 for a reflection on these issues.)

Sources of Nonprofit Revenue, 1995 (Percent)

	México	Latin America Average	22-Country Average
Public Sector	8.5	15.5	40.1
Philanthropy	6.3	10.4	10.5
Fees	85.2	74.0	49.4

Adapted from Salamon et al. 1999, Figure 22.8, page 439.

The preponderance of fees can be explained both in terms of supply and demand for funding: the prevalence of private schools and professional associations in Mexican sector favors a greater demand for fees; the lack of a "supply" of governmental and philanthropic resources would inhibit the growth of other kinds of organizations which find it harder to rely on fees, e.g. human rights organizations. There is anecdotal evidence that in reaction to the withdrawal of international support some organizations are increasingly turning to fee-generating activities to support themselves, rather than seeking grants and are shedding their nonprofit status in favor of less restrictive and onerous legal forms.

"Supply Side": Overview of Donor Institutions in Mexico

What is the universe of donor institutions? Two separate studies came up with fairly similar numbers. The Center for Documentation and Research on Civil Organizations (CEDIOC) based in the Universidad Autonoma Metropolitana - Iztapalapa, estimates that about 786 organizations offer some form of financing, generally aimed at individual scholarships, but only 84 of these are grant-making institutions that give financial support to other organizations (Calvillo Velasco and Favela Gavia undated, 46). This number roughly corresponds to the number of "donor institutions" identified in a study published by CEMEFI, the Mexican Center for Philanthropy, of 109, although only 73 completed the author's survey instrument (Natal et al. 2002). (In an interview with one of the authors he claimed that only a handful of these, perhaps 15, were actually grant-making foundations in the US-sense of the term.)

Within Mexico there are at least two types of foundations that exist side by side, distinguished in terms of their age and in terms of how closely they follow the criteria laid out by the Worldwide Initiatives for Grantmakers Support (WINGS). In general the lack of legal distinction between donor institutions and service providers is reflected in the practice of most *fundaciones*, which more often than not operate programs. This includes a number of the community foundations that are listed in the Group of Community Foundations organized by CEMEFI. These organizations tend to follow a traditional pattern of philanthropy in Mexico, characterized by boards composed of family and associates and closed, often opaque processes for grantmaking. Their focus

tends to be *asistencialista,* i.e. supporting traditional charities like hospitals, retirement residences, orphanages, etc.

Models of Foundations in Mexico

Criteria	WINGS Model	Mex: Traditional	Mex: Transitional
Board	Representative of Community	Closed board emphasizing ties of family or friendship.	More representative board.
Geog. Focus	State or city.	Located in Mexico City, focus varies.	Located in state capital with a state focus.
Programs	Do not operate.	Often operate programs.	Focus on grantmaking, but sometimes operate programs.
Sustainability	Committed to building endowment.	Nearly two-thirds have endowments.	Committed to building endowment.
Source of Resources	Local.	Local predominates.	Many originate with foreign support, but move toward local.
Transparency	Commitment to transparent processes and disclosure.	Financial and funding information usually not made public.	Financial and funding information often made public.
Examples	Not applicable.	Fundación Miguel Alemán, Fundación Mexicana para el Desarrollo Rural, Fundación Cozumel.	FECHAC, Fundación Comunitaria Puebla, Fundación Comunitaria Oaxaca, Fundación Vamos.

The largest and oldest of the traditional foundations is the Monte de Piedad, which was founded in the 18th century. It supports 1,000 nonprofits, which represents roughly one out of every five officially recognized nonprofits, and over the last seven years has made grants of over 1.6 billion pesos (roughly $180 million USD). It generates income by serving as a pawnshop and charging a nominal interest rate. In recent years it has greatly increased its level of transparency and implemented competitive procedures for making grants. (See its website, http://dns.montepiedad.com.mx/.)

A transitional model of philanthropy has been emerging over the last ten to fifteen years. As more community foundations are established there is a strong trend towards greater transparency, accountability, and program evaluation. These institutions are bringing a new "way of doing business" to philanthropy in Mexico. But their principal virtue is that they are also home grown, adapting the community foundation model to their particular setting. They use the language of "resource mobilization" and have successfully used international funds to leverage local support and to serve as a catalyst for greater corporate involvement. Their focus is on a model of social and community development, attempting to bring about systematic change. On a daily basis they are confronted with the underdevelopment of the sector – the high level of informality and the low levels of professionalization – and are seeking creative means to overcome these obstacles, such as the creation of organizational networks and the provision of training opportunities. (See CEMEFI Community Foundations Web site http://www.cemefi.org/index.cfm?page=FC: see also the website of the Chihuahua

Businessmen's Foundation (Fundación de Empresariado Chihuahuense A.C. or FECHAC), http://www.fundacion.org.mx/, which is bilingual. FECHAC is perhaps the largest of the community foundations. This case is discussed further below under corporate social responsibility.)

Government

In a study undertaken by CEMEFI and sponsored by a government agency (INDESOL), Garcia et al. (2003) report that the federal government in México allocated $1,180,655,600 pesos ($109,411,139 USD), to 2,735 projects sponsored by 2,676 organizations (102). This amounts to slightly more than $40,000 USD per project. The fact that data were available to researchers and that the government itself sought out such an analysis are encouraging steps away from the clandestine methods of the PRI and reflect the greater availability of data after the implementation of federal legislation facilitating access to public information. Even more important is the increasing professionalism and objectivity with which proposals are being reviewed and evaluated by key secretaries.

One of the key challenges (or contradictions) pointed out by the authors is that the government is setting higher, stricter standards of organizational and administrative standards for organizations to compete for government support, yet these same agencies do not support institutional development or many costs outside of direct program delivery. Thus although organizations are expected to establish more formal systems and procedures they are not offered the resources necessary to do so.

Individual Giving

The Philanthropy and Civil Society Project is in the process of designing a national survey to understand both behaviors and attitudes around giving and volunteering in Mexico. (The Independent Sector's survey is the model for this effort, and the research director, Christopher Toppe, has provided valuable guidance.) In order to test part of the questionnaire the coordinator of research for the newspaper Reforma, Alejandro Moreno, applied some of the questions in to a quarterly political survey of residents of Mexico City (Reforma/Investigación 2004). (The surveys were conducted in homes of 855 residents of Mexico City on the 24 through 26 of April 2004.) The results were shocking. While 63 percent reporting giving to people who ask for money on the street, only 40 percent report giving to more formal campaigns. When asked if the trusted or not fundraising campaigns held on behalf of the needy, 72 percent responded no and only 23 responded yes. This is indicative of a very high level of distrust of formal institutions: a person would rather give directly to a mother with her baby or an old person asking for a few pesos on the street than a formal charity which claims to help these same groups.

Responses to, Do you trust or distrust fundraising campaigns on behalf of the needy? (¿Confía o desconfía de las campañas de donación de dinero para gente necesitada?)

Trust Alot (Confía Mucho)	6%
Trust Somewhat (Confía Algo)	17%

Distrust Somewhat (Desconfía Algo)	31%
Distrust Alot (Desconfía Mucho)	41%

Source: Reforma/Investigación 2004.

The results of the World Values Survey 2000 confirm this assessment. Base on their analysis of this data, Moreno and Méndez state, "From a comparative perspective, tolerance and interpersonal trust in Mexico are more limited than in other regions of the world" (undated, 29: see also 7-9).

In terms of High Net Worth Individuals, there are a handful of individuals (such as Manuel Arango, founder of CEMEFI and his own foundation) and families (such as the Sarvitjes of the Bimbo company) that are outstanding leaders in the field. Sadly, they are the exception rather than the rule. In a small number of interviews conducted with the wealthy the overwhelming consensus was that Mexico lacks a philanthropic culture and that the wealthy had little interest in social development.

Diaspora Philanthropy: The Power of Remittances

During the last decade Mexicans have become the single largest immigrant group in the US, in term of legal migration, illegal migration, and permanent residents. These Mexicans and Mexican-Americans have even given pause to the likes of Samuel Huntingdon, prompting him to worry about the "Hispanic [mainly Mexican] Challenge". The numbers are impressive. Torres Blair states, "It is estimated that at present, almost 23 million inhabitants of Mexican origin reside in the United States (legal and illegal immigrants who have settled in the US). This represents about 8% of the total population of the USA. Around 10 million of them are Mexican born, and of that 10 million about 5.3 million are undocumented." (Torres Blair 2004, 5, citing: Passel, Jeffrey. Mexican Immigration to the US: The Latest Estimates. Migration Information Source. March 1, 2004). All told they account for about 8 percent of the US population.

To switch to a Mexican perspective, the Mexican origin population in the U.S. represents nearly a quarter of the nation's present population. The remittances they send back in 2003 added up to "$13.226 billion dollars, making remittances the number 2 source of dollar income in the country after oil exports….[at] $16.835 billion dollars" (Torres Blair 2004, 9). While the overwhelming majority of these resources are for families, migrants and their Hometown Associations – organizations in the US based on a common point of origin in Mexico – have targeted increasing resources for a variety of public purposes back home.

This flow of resources has caught the attention of Mexican and international officials. Although a number of states (most notably Tlaxcala) and the federal government (via SEDESOL) have offered matching program called 3 for 1, many Hometown Associations are not happy about ceding control to governmental authorities and compromising their priorities. The UN, World Bank, Inter-America Foundation, and Inter-American Development Bank have held conferences and initiated programs to examine issues such as the high transfer costs and how to maximize the impact of these resources.

Corporate Social Responsibility

Here as elsewhere financial data is hard to come by: most companies do not publish financial statements with their annual reports on charitable activities. Since 1997 CEMEFI has operate a Corporate Social Responsibility program (*Responsabilidad Social Empresarial, RSE*). It is one of the first of its kind in Latin America and includes 54 business and 23 corporate foundations (http://www.cemefi.org/index.cfm?page=CEM_RSE). Others have joined this effort such as *Red Puentes* (literally translated, Network of Bridges), which attempts to bring together business, academia, and civil society organizations in a multinational network. According to Haslam, Mexico is roughly at the same level as the two other nations of North America in terms of his measure of corporate citizenship. It is, however, ahead of its Latin American neighbors on many measures.

Corporate Citizenship in North America: Levels of Activity

	Private Sector Participation	**Govt. Advocacy, Prom.**	**General Public Awareness**
Canada	Medium-High*	High*	Medium*
Mexico	Medium	Medium	Low-Medium
United States	Medium*	Low-Medium*	Low-Medium*

Source: Haslam 2004 Table 2, 4. See pp. 9-10 for more on companies.

A key leader in the field is the Chihuahua Businessmen's Foundation (Fundación de Empresariado Chihuahuense A.C. or FECHAC), which is also a leader among community foundations. Established a decade ago, FECHAC's funding comes from a tax self-imposed by the state's businesses. As the organization describes it:

> Under the 1994 law, 29,000 business owners working in the state contribute the equivalent of 10% of the basic state payroll tax to the Social Trust Fund of the Chihuahua Business Community. This mechanism, plus interest earned and other donations, provide the foundation with approximately 6 million dollars annually, funds from which only 5% is spent on administration, and 95% on grant-making and related activities such as research. (http://www.fundacion.org.mx/)

The organization is an important, innovative model of community philanthropy and corporate social responsibility. Because of its steady and substantial stream of income it has been able to develop at a rapid pace. Its accomplishments include: grants totaling more than $30 million USD in ten years; developing a decentralized grantmaking process that engages local business leaders in the state's nine largest cities; a cooperative agreement with the local campus of the Tec de Monterrey to create a Center for the Strengthening of Civil Society, which has sponsored three state-level meetings; and, an inventory of the state's NGOs and the development of a tool for self-assessment.

Thus far the only other state to attempt to replicate this model is Sonora, thus far unsuccessfully. An attempt to do so at the national level is FUNDEMEX (Mexican Businessperson's Foundation, Fundación del Empresariado de México). This foundation is being sponsored by the Coordinating Council of Businesspeople (Consejo Coordinador

Empresarial or CCE), one of the most important national business organizations in Mexico, and was formally incorporated in June 2004. Funding is to come from a voluntary contribution made by businesses in Mexico City and help from the North American Development Bank (NADBank). Its leaders hope to act as a catalyst for similar organizations at the state level throughout the country. If successful this effort could mobilize significant resources and put the Mexican business community at the forefront of corporate social responsibility.

International Cooperation[3]

Preliminary data reveal the impression that Mexico has suffered major cuts in its level of international support. According to the Japan International Cooperation Agency (JICA), the top five major funders cut back their annual support dramatically during the 1990s, from nearly 400 million USD to less than 4 million.

Top Five Providers of Official Development Assistance 1993-1998 (USD millions)

Rank / Year	1	2	3	4	5	Total ODA Mexico
1993	Spain 210.6 (53.1%)	Japan 80.9 (20.4%)	France 52.0 (13.1%)	USA 20.0 (5.0%)	Germany 15.8 (4.0%)	396.9
1994	Japan 183.1 (46.1%)	Spain 143.2 (36.1%)	France 35.8 (9.0%)	Germany 14.6 (3.7%)	Great Britain 5.2 (1.3%)	396.8
1995	Japan 288.3 (79.0%)	France 27.1 (7.4%)	Spain 15.1 (4.1%)	Germany 13.8 (3.8%)	Great Britain 4.4 (1.2%)	365.1
1996	Japan 212.8 (77.6%)	USA 26.0 (9.5%)	Germany 12.4 (4.5%)	France 6.5 (2.4%)	Great Britain 5.7 (2.1%)	274.3
1997	Japan 41.4 (46.7%)	Germany 12.5 (14.1%)	France 10.3 (11.6%)	USA 8.0 (9.0%)	Great Britain 5.5 (6.2%)	88.7
1998	Spain 12.9	Germany 12.8	France 10.8	USA 8.0	Great Britain 6.9 (6.2%)	3.8

Source: Japan International Cooperation Agency website (http://www.jica.go.jp/mexico/principal_01.htm)

More recent numbers from the OECD indicate that the level of support has increased since 1998, but has not regained its pre-1997 levels. The US is now the leading donor to Mexico, with its major provider of aid being the US Agency for International Development (USAID). . The numbers reported by the OECD would imply that the aid provided by USAID is roughly half the total for the US. In three of the last four years the aid budget has increased rather significantly, and despite the expected cut in FY 2005, funding is project to remain above the level achieved in FY 2003. USAID has five program areas: Transparent Governance and the Rule of Law; Natural Resources Management; Access to Finance; Access to Finance; Training, Internships, Exchanges, and Scholarships (TIES).

[3] Foreign foundations, i.e. nongovernmental donors, have been left out of the current paper.

Top Ten Donors of Gross ODA, 2001-02 Averages (USD millions)

1.	United States	64
2.	Japan	30
3.	France	23
4.	Germany	15
5.	EC	13
	Sub-Total: Top 5 Donors	145
6.	Spain	10
7.	GEF	9
8.	IDB SPEC OPER FUND	7
9.	Netherlands	3
10.	UNFPA	3
	Total: Top 10 Donors	177

Source: OECD web site (accessed 9 July 2004).

USAID Assistance to Mexico (USD thousands)

Fiscal Year (FY)	Amount	Pct. Change
2002	23,224	Not Applicable
2003	27,290	17.5%
2004	33,027	21.0%
2005 (Requested)	28,645	-13.3%

Source: USAID web site. (http://www.usaid.gov/locations/latin_america_caribbean/country/program_profiles/mexicoprofile.html)

3. Toward a Matrix: The Absence of Data and the Prevalence of Informality

The lack of hard data for the sector is a reflection of the relative weakness of the formal sector and, in a larger sense, the rule of law. The informal or gray economy is a pressing issue in the country. According to a paper published by the World Bank, the size of the informal economy in 1999/2000 in Mexico represented 30.1 percent of GDP, as compared to 16.4 in Canada and 8.8 percent in the United States (Schneider 2002).[4] The OECD recently estimated that Mexico is losing 35 percent of its workforce's annual contribution to the social security system due to informality (Carrill 2004). Another consequence of this problem is that the majority of individuals and businesses lack any fiscal incentive to make formal donations and support formal charitable institutions.

The other social costs of informality are also high: "Most developing countries, considering their stage of economic maturity, have generous social-security plans and labor rules for workers. The problem is that these provisions apply to only a fraction of them: people employed by the public sector and formal companies. The vulnerable workers of the informal economy earn, on average, lower wages, receive poorer health and safety protection, and have less opportunity to unionize" (Farrell 2004). Sadly, this is all too common a practice in nonprofit organizations.

[4] This figure compares favorably with the average for Latin American nations of 40 percent.

Why is informality so prevalent in both economies? And, why does it matter for the third sector?

In a recent study undertaken by the McKinsey Global Institute (MGI) examined this issue and cited three factors that contribute to informality: "limited enforcement of legal obligations—a result of poorly staffed and organized government enforcement agencies, weak penalties for noncompliance, and ineffective judicial systems"; "the cost of operating formally: red tape, high tax burdens, and costly product quality and worker-safety regulations"; and, "social norms contribute to the problem. In many developing countries, there is little social pressure to comply with the law" (Farrell 2004). Clearly in Mexico each of these is equally applicable to the third sector.

Why does it matter? First I will examine the arguments as they apply to the for-profit economy, and then I will offer a novel twist in terms of the development of social capital. MGI argues that informality impedes both growth and productivity in two ways:

> First, the powerful incentives and dynamics that tie companies to the gray economy keep them subscale and unproductive. Second, the cost advantages of avoiding taxes and regulations help informal companies take market share from bigger, more productive formal competitors. (Farrell 2004)

In terms of the first point, the argument is that there is a ceiling through which informal enterprises dare not break, for fear of attracting attention from the authorities. In terms of finance, this means they cannot use banks or other institutions and must turn to moneylenders: analogously, organizations that are not formally incorporated cannot turn to donor institutions. A reliance on fees or street solicitations is consistent with this point and with Mexican experience.

Similarly, informal enterprises cannot turn to the authorities for help: "Informal businesses can't rely on the legal system to enforce their contracts, protect property rights, or resolve disputes, so *it is risky for them to engage in transactions with parties outside the immediate community*" (Farrell 2004, emphasis mine). But there is also a lesson here in terms of social capital. The situation described above in similar to that of bonding social capital, in which a social trust is limited to a small, tightly knit community. The reliance on institutions and higher levels of social trust is more consistent with bridging social capital. The question is, does an inhospitable legal and fiscal framework reinforce or help engender more bonding social capital, while a stronger enabling environment would encourage the formation of groups who exhibit more bridging social capital? As Putnam argues, "Bridging social capital can generate broader identities and reciprocity, whereas bonding social capital bolsters our narrower selves" (2000, 23: see also Granovetter 1973). The implication of this argument is that the same vicious circle of informality that makes it hard for a market economy to prosper can also undermine the capacity of the third sector to create the kinds of organizations that can generate the sort of bridging social capital that Putnam argues is crucial to democracy.

There is also a problem of market segmentation that has an anology for the third sector:

> In developing countries, [consumers] they can typically buy either very expensive, high-quality goods and services like those found in rich countries or cheap, low-quality goods and services from informal enterprises—often, without full

> knowledge of the hazards and risks. Goods and services targeted at the middle market are missing. … The small and midsize businesses that might develop products to meet the needs of middle-market consumers are mostly informal, lacking the ability and incentives to fill the gap. (Farrell 2004)

The same logic of how a firm grows from small to large might well apply to the infrastructure of the third sector. Is it this kind of movement that promotes the growth of the sector? Is it through this sort of organizational trajectory that organizations can take on larger causes and more effectively bring about changes in public policy or implement more innovative social development strategies?

In a sense, it is difficult to make the transition from being a small-scale informal organization to being a larger scale endeavor, just as in the for-profit sector. Part of what is lacking is an infrastructure of philanthropy – training, leadership development, support, know-how, funding (elements of professionalization) – that make it possible to make this transition. Obviously not all organizations want to make this transition, but what of those who do? The table bellows is an attempt to sketch out the logic of this argument: that the effectiveness of the rule of law has a crucial impact upon a series of developments for the generation of social capital.

Rule of Law	
Effective: Clear, coherent regulations; Sound administration	Ineffective: Complex, arcane regulations; arbitrary, inefficient administration
Greater Formality	Greater Informality
Higher institutional, interpersonal trust	Lower institutional, interpersonal trust
Bridging Social Capital	Bonding Social Capital

To paraphrase Soto, perhaps here there is a "mystery of social capital", i.e. that an inhospitable fiscal and legal regime might encourage the prevalence of informal organizations, thus leading to greater bonding rather than bridging social capital (Soto 2000). Just as the lack of clear, enforceable property rights undermines capitalism, so too might the lack of a strong enabling environment undermine the creation of bridging social capital and hence democratic consolidation.

4. Concluding Reflections

There are a few, rather obvious next steps, both in terms of a research agenda and a reform agenda. In terms of research I hope to fill in the missing pieces and move from composing a mosaic to providing a matrix that truly captures the flow of resources in the sector. As in most construction projects the time and effort involved in building this matrix was grossly underestimated. The silver lining is that it forced me to think more about the deeper underlying issues, and I hope to reflect further on the impact of informality upon the third sector in Mexico.

In terms of reforms, both the government and the sector can move forward – both separately and together – to address some of the problems identified here.

Clearly together they need to work toward the creation of an infrastructure of philanthropy. Gaberman identifies four elements: "the institutions that resource civil society, the institutions that hold them accountable in that task, the institutions that capture the learning from the activities founded, and the institutions that support and nurture the resource providers" (2003, 6). Each of the areas – funding, accountability and regulation, training and research, and the legal and fiscal context – are in need of attention in Mexico. A number of networks, consultants, researchers, and a number of the leading Mexican community foundations are all heading in that direction. Generating reliable, comprehensive data on the sector is clearly an important element of this infrastructure, as is analyzing that data in order to understand and strengthen the sector.

One key aspect of this is the creation of a more supportive legal and fiscal framework combined with more streamlined administrative procedures. This is the work of government but clearly requires the participation and engagement of the sector.

Another key element is transparency – it is perhaps the only cure for distrust. Yet how can the sector overcome its own (well-founded) distrust of governmental authorities and media critics? The key is connecting greater transparency with clear, meaningful incentives, such as greater and easier access to resources.

Understanding the pattern of resources flow is not an end in itself, and nor is increasing the amount of resources to civil society. The ultimate point of the exercise is to enhance the ability of the sector to make its contribution to Mexican society- promoting social development, improving communities, and enhancing democratic participation and accountability. The ultimate purpose of the infrastructure of philanthropy is to create a more vibrant sector and a stronger democracy so that the people of Mexico can address their pressing need for social justice and social development.

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