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Lilly Family School of Philanthropy

The 2022 Global Philanthropy Environment Index Mexico

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QUICK FACTS

Legal forms of philanthropic organizations included in the law: Association, Cooperative, Endowment, Trust

Five main social issues addressed by these organizations: Arts and Culture, Basic Needs, Early Childhood Education, Health and Medical Research, Religion

Average time established by law to register a philanthropic organization: 1-30 days

Average cost for registering a philanthropic organization: USD 1,000

Government levels primarily regulating the incorporation of philanthropic organizations:
Other

A philanthropic organization (PO) is either officially registered as a civil society organization (*Asociación Civil*) by a public notary or operates as an informal group. Upon registration, civil society organizations automatically receive their tax-exempt status, but they cannot receive tax deductible donations until they are also registered as authorized donees (*Donataria Autorizada*), which is granted by the Mexican Internal Revenue Service (*Superintendencia de Administración Tributaria*, (SAT)).

Philanthropic Environment Scores:

| Year | Ease of Operating a PO | Tax Incentives | Cross-Border Philanthropic Flows | Political Environment | Economic Environment | Socio-Cultural Environment | Overall Score |
|------------------|------------------------|----------------|----------------------------------|-----------------------|----------------------|----------------------------|---------------|
| 2022 GPEI | 4.17 | 3.75 | 2.00 | 2.50 | 3.50 | 3.50 | 3.24 |
| 2018 GPEI | 3.93 | 3.25 | 3.75 | 3.10 | N.A. | 3.30 | 3.47 |

Source: Indiana University Lilly Family School of Philanthropy, 2022 *Global Philanthropy Environment Index*

Key Findings

I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

The three indicator questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration; (B) operations; and (C) dissolution.

Question One: To what extent can individuals form and incorporate the organizations defined?

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| Score: 4.0 |
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The Mexican Constitution guarantees freedom of association, resulting in a sizable number of both formal and informal groups and organizations that act freely within the law. Formal groups may register by a public notary under different formats: associations or institutions. The most frequent are: civil organization (*Asociación Civil* (AC)); Private Assistance Institution (*Institución de Asistencia Privada* (IAP)); Public Benefit Institution (*Institución de Beneficencia Pública* (IBP)). ACs are exempt from income tax while IAPs and IBPs are supervised and governed by a council called a *Junta de Asistencia Privada* (JAP), to which they must pay a specific quota (MXN 6 for every 1000 made per annum).

The sector has a distinct set of laws and regulations at federal, state, and municipal levels. Mexico is a republic of federated states. The three most important existing regulations at the federal level are: the civil code, the income tax law, and the federal promotion of POs law. As of 2004, a federal law to support PO activities was approved (*Ley Federal de Fomento a las Actividades de las Organizaciones de la Sociedad Civil*). Organizations may choose to register at the Federal Registry of Civil Society Organizations for civil society status, which does not include unions, faith-based, or political organizations, in order to obtain a registration number known as *Clave Única de Inscripción al Registro Federal de las Organizaciones de la Sociedad Civil* (CLUNI). This registry is managed by the National Institute for Development (*Instituto Nacional de Desarrollo Social* (INDESOL)), a government entity under the Wellbeing Secretariat (*Secretaría del Bienestar*). Organizations registered under INDESOL number around 40,000 Mexican organizations. The CLUNI is necessary for POs to be eligible for government and federal funding.

Question Two: To what extent are POs free to operate without excessive government interference?

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| Score: 4.0 |
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There are some limitations for groups and associations. The federal law covers all CSOs. However, religious (*Asociación Religiosa* (AR)) and political (*Asociación Política* (AP)) associations have separate rules of operation, registration, and taxation.

Additionally, some associations, institutions, and organizations can claim the tax-exempt status and some do not. The right for a PO to acquire a tax-exempt status must be solicited and processed through the SAT. The recipient then becomes an authorized donee or tax-exempt entity. POs that possess this status must be accountable through yearly reports and also have a set of strict rules and obligations for their operation. Every year this status is renewed and published through official

channels, specifically the *Diario Oficial de la Federación (DOF)*. If for whatever reason a PO loses its tax-exempt status, it has a full year to renew this status. If this does not occur, the PO may pass on their assets to another eligible PO. There is a possibility, after some specific required accountability of tax authorities, for POs to terminate their tax-exempt status and continue to perform as associations.

Question Three: To what extent is there government discretion in shutting down POs?

Score: 4.5

Depending on the type of PO, there are different termination conditions. PO governing boards can freely make the decision of termination. For termination of both formal associations and tax-exempt entities, all assets must pass on to another PO or to similar entities within the same set of regulations. Upon termination, no assets may be distributed amongst partners or founders.

II. Domestic Tax and Fiscal Issues

The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.

Question Four: To what extent is the tax system favorable to making charitable donations?

Score: 3.5

There are restrictions on how much companies can deduct on any given donation, with a ceiling of seven percent for corporations and individuals alike to deduct on their tax forms. Only POs with tax-exempt status with a certification from tax authorities may give a tax-deductible receipt. The processes of receiving tax benefits when making donations are clear for the donor and for the recipient.

Question Five: To what extent is the tax system favorable to POs in receiving charitable donations?

Score: 4.0

Processes are clear for all POs that are interested in obtaining tax-exempt status. Each PO that registers formally must declare a cause it is working for the benefit of society. This declaration is known as the PO's Social Objective (*Objeto Social*). For some, because of the cause they stand for or their activities, tax-exempt status can be difficult to obtain, since the revision of the cause and the final decision lies with the tax authorities.

There are approximately 60,000 POs in the country and for the past five years, approximately 9,000 POs have tax-exempt status. Every year, POs' tax-exempt status is ratified by Mexican tax authorities, with about 1000 authorized donees losing their status and must re-apply to obtain it again. Annual reports are mandatory to keep tax-exempt status and reports on money laundering are required if the donation goes beyond a certain specified amount (MXN 120,000, approximately USD 6,000).

III. Cross-Border Philanthropic Flows

The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.

Question Six: To what extent is the legal regulatory environment favorable to sending cross-border donations?

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| Score: 1.0 |
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There is no provision in the Mexican tax law to allow charitable donations out of the country that would be deductible for the donor. This makes cross-border donations from Mexico very difficult or almost impossible. There are a few exceptions for donations to international associations, and are allowed for certain cases of disaster relief or state emergency in other nations. Cross-border philanthropic activity works mostly through the Mexican Agency for International Development Cooperation (AMEXCID), which is a government institution.

Question Seven: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

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| Score: 3.0 |
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Donations towards Mexico from other countries are allowed. There are some regulations on these donations and they can be received without a large additional cost or taxation. Mexican POs, however, must beware of costs associated with receiving in-kind donations before accepting them, since hidden costs such as customs and transportation fees may curtail the effect of the donation. For detailed regulations, please visit: <https://www.ciesc.org.mx/>

IV. Political Environment

The four indicator questions in the next three sections concern the political context, economic conditions, and socio-cultural characteristics that influence the environment for philanthropy.

Question Eight: To what extent is the political environment favorable for philanthropy?

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| Score: 2.0 |
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Only recently, since the new administration of President Andrés Manuel López Obrador was initiated in 2018, positive government attitude and discourse towards POs has declined significantly. The president publicly disdains philanthropic activities and services provided by many POs that have existed since colonial times throughout Mexico. At the beginning of his term, Obrador presented an internal memorandum stipulating that only government entities were to be service providers and subsequently cut off all support to public-private projects. Many POs that relied entirely on governmental subsidies have disappeared during the 2018–2020 period. POs that did receive some government subsidies have diversified their activities and donation sources to survive. New ways of taxation and stricter rules of operation have been imposed on POs and some of their service provisions are now taxable.

Question Nine: To what extent are public policies and practices favorable for philanthropy?

Score: 3.0

The freedom to support all causes with donations exists and the rules and regulations that are in place for tax authorities to regulate the sector are efficient in their work and in the application of the law. Only a few government entities and secretariats have specific ties with POs, but they are quite weak and are becoming more so within the new administration. A 2016 Organisation for Economic Co-operation and Development (OECD) study shows how government turnover makes it difficult for officials to understand and work with the Mexican philanthropic sector. In addition to this trend, new regulations and government attitudes previously described in this report are presently hindering the public-private relationship.

V. Economic Environment

Question Ten: To what extent is the economic context favorable for philanthropy?

Score: 3.5

Studies from the United States Agency for International Development (USAID) show that the economic context up until the beginning of 2020 had been relatively stable (USAID, 2018; USAID, 2019). There was a fair amount of activity in terms of donations from corporations and foundations.

Unfortunately, the current economic situation is not favorable to POs, due to the COVID-19 pandemic and its impact on the economy. A fair amount of foundations rechanneled some of their funds to alleviate the pandemic-related needs, leaving other causes somewhat unattended. The present health crisis has lowered economic inflows and reduced the possibilities of private donations for POs. Changes in government policies in the past two years have also scared away foreign investment and produced less economic stability, which is not favorable for philanthropic contributions.

VI. Socio-Cultural Environment

Question Eleven: To what extent are socio-cultural values and practices favorable for philanthropy?

Score: 3.5

There is a Christian religious tradition due to a majority of Mexicans professing the Catholic religion, with 77 percent of the population being Catholic according to the 2020 National Institute of Statistics and Geography (INEGI) census. This tradition is at the root of philanthropy in Mexico and many POs are ingrained with these core and traditional values, with many organizations oriented to administer direct care services for the less fortunate. Causes have diversified over the years into more civic activities providing services that address issues such as gender, disabilities, migration, human rights, and environment, to name a few of the most relevant.

There is a certain mistrust from the population towards some POs at present. This may be from a lack of visibility on their work, results, and achievements and also from the sector overlooking the importance of publicly demonstrating a PO's response capacity in times of crises.

Informality is another important factor for many existing organizations, and it can be said that formal volunteering, participation, and civic engagement are still in development. A recent study (2017) found that 83 percent of the adult population participates in both informal and formal volunteer activities, representing 73.7 million adults in Mexico. INEGI only counts volunteer workers that participate in formal nonprofit institutions. Volunteers counted in these institutions were reported to be 1.8 million in 2014, which grew to 2.2 million by 2019. The differences between formal and informal volunteer activity in the philanthropic sector show large differences in civic participation. However, there are important structures and strong infrastructure organizations in place as POs' capacity building has grown recently. Many POs have begun to understand the need of becoming more professional in their work, especially in the effort of fundraising.

VII. Future of Philanthropy

These questions are used to provide a general picture of the future of philanthropy in this country as well as recommendations to improve the philanthropic environment.

Current state of the philanthropic sector

The baseline for the philanthropic sector is strong and has persisted since the colonial times. The sector has grown and become more effective and efficient to address societal challenges. The number of tax-exempt organizations has also grown in the past five years: from 9,270 POs in 2018 to 9,603 in 2020 (Indiana University Lilly Family School of Philanthropy, 2020). Capacity building and strengthening of the sector, as well as strong intent of establishing relationships and alliances to build up and change public policies is a trend (Villar, Butcher, & Puig, 2020). It has been adverse to the philanthropic sector, affecting its credibility and destroying some opportunities of public-private partnerships.

Three major recent events affecting the philanthropic landscape between January 2018 and December 2020

- 1) In February 2018, one of the first missives of the new administration was to cut off government-PO relationships and ostracize those that were working in providing direct services to the public. The intent was for the public to know that all help and service provisions would come from the present administration instead. The reason, given by the president himself, was that PO intermediation had given rise to discretionary allocation of funds, opacity, and corruption. Federal funding was also cut off during this time for all existing POs.
- 2) During 2019, new fiscal changes from tax authorities geared towards tax-exempt POs were presented. The allegations from the government and tax authorities aimed to curb corruption that was basically nonexistent. These changes were carefully reviewed by lawyers and tax experts within the sector. The changes resulted in a sector response led by a group of established POs who finally managed to challenge these impositions and obtain less aggressive results for tax-exempt organizations.

- 3) The year 2020 brought a pandemic that forced many POs, foundations, and corporations to work together in alliances to combat a common health crisis. Private and corporate donations increased along with a surge of volunteer activity during lockdowns.

Future development trends in the philanthropic landscape

Definitively all forms that include technology: crowdfunding, training and capacity building online, promotion of pro-bono participation. Giving online efforts such as *#Un Día para Dar*, the equivalent of *#Giving Tuesday* (2019) are beginning to emerge and become available to the public in Mexico. Their 2019 report indicated that the number of similar platforms had grown to seven and the dollar value of what they processed was approximately USD 150,000. Numbers for 2020 are still being processed. New forms of philanthropy such as venture philanthropy and impact investing are beginning to permeate the Latin American region. The recent establishment of Latimpacto, a network for venture philanthropy in 2020 is an example of new ways of looking and investing for the region.

Three key recommendations to improve the environment for philanthropy

- Visibility is key for the nonprofit sector. Diverse social marketing and positive press are needed to turn around the sector's public image and enhance trust in PO for the benefit of the public good. It is important to increase public recognition, but also to increase all forms of giving: from individuals, foundations, corporations, and foreign aid since Mexican federal funds have become nonexistent;
- The government has seen the activity of the sector in response to the COVID-19 pandemic and should reconsider its co-participation with POs. Enhancing the participation of all sectors is necessary to achieve the Sustainable Development Goals (SDGs), as well as to strengthen the development of democracy in the nation; and
- Capacity building for existing POs will be key for a stronger philanthropic sector in the future.

VIII. Philanthropic Response to COVID-19

These questions are used to provide a general picture of the philanthropic response to the COVID-19 pandemic in this country and recommendations for improving cross-sectoral collaboration.

Areas where the nonprofit sector and philanthropy are playing a role in responding to COVID-19

The Mexican philanthropic sector has been responding in many ways to the COVID-19 pandemic. POs have covered all areas of service to others: such as health, food banks, online psychological help, migrants, gender issues, domestic violence, halfway houses, indigenous populations, youth in distress, disabilities, the elderly, orphanages, and nursing homes. Nonprofits have been particularly active in the medical and front-line response, with the provision of all kinds of materials necessary to curb the pandemic. Foundations and large POs focused their donations to the Covid-19 issues and have been reporting extra funds, beyond their budgets to the problems that have surged due to the crisis.

Innovation and new trends in the nonprofit sector and philanthropy related to COVID-19 responses

The COVID-19 pandemic has accelerated several processes that occur normally, especially the formation of coalitions and alliances within the sector to alleviate problems and get the necessary work done. These alliances have been a mixed bag of large and small POs that covered front line needs, with large foundations and corporations channeling funds and resources through them during the crisis.

Impact of COVID-19 on the philanthropic environment

The impact of the COVID-19 pandemic has demonstrated the strength and the possibilities of adaptation of this sector. Not only from the technological point of view due to quarantine mandates, but also from the creative ways POs have continued to work under stressful conditions. Volunteering and participation changed to helping others get new jobs that were lost to even donating more than individuals usually would or lending money to those in need. Taking care of others beyond family was widespread, even in quarantine.

Anticipated impact of COVID-19 on the philanthropic environment in 2021

2021 seems to be as difficult as the previous year, despite the possibility of vaccine provisions. However, as of February, due to government actions, the expectations of beginning mass vaccination campaigns in Mexico is low and the philanthropic sector must not show signs of declining. Many corporations have lost income and large donations will decrease. For those foundations which depend on their founding companies and their donations, the same scenario is viable. Many individuals have lost income in this period and will find it difficult to participate in fundraising drives, although the most recent nationally televised fund drive for Fundación Teletón in December broke its own fundraising record.

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