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Fashion for giving starts to catch on

Sarah Murray says the lack of a charitable tradition fosters entrepreneurialism in the non-profit sector

Pick of the givers: remittances are more than 12 per cent of GDP in seven countries in the region Getty

Until recently, the word "philanthropy" rarely figured in debates on how to alleviate poverty or improve healthcare in Latin America. The church and state were the heavyweights in the delivery of social services.

A philanthropic sector is now emerging, but stronger institutional support and a deeper culture of giving must be established before the sector can play a bigger role in tackling social and environmental problems.

By contrast with some countries, where it is considered part of a robust civil society sector, philanthropy in Latin America has not always had positive associations.

History has been an influence. After the Spanish conquest, a system of patronage emerged on the plantations, while Catholic charities were closely associated with religious evangelising.

In the 1960s, political winds blew from the left, which happened again in the 2000s, so governments had a strong hand in providing social services.

"The combination of government and the church – not necessarily working in unison – led to very weak civil society in many countries," says Richard Kiy, president and chief executive of the International Community Foundation (ICF), a charity that aims to foster philanthropy in the region.

As a result, many of the philanthropic funds flowing into the region have come from outside, from organisations such as the ICF, which helps US donors to give, or from large international foundations such as the Kellogg Foundation, the Ford Foundation and the Shell Foundation.

The regional diaspora also contributes, as migrant workers send some of their income home. But the cost of doing this is often high.

In Latin America, remittances represent more than 12 per cent of gross domestic product in seven countries and in some, they are the biggest contributor to GDP, according to the Inter-American Development Bank.

However, in recent years a more sophisticated homegrown approach to philanthropy has been emerging. First, as companies have embraced "corporate responsibility", the private sector has taken a more active role.

Marcela Lopez-Macedonio, executive director of the Resource Foundation, a US non-profit that connects donors to development initiatives in Latin America and the Caribbean, says: "If you look at how the private sector engages in social and charitable activities, there's been a big push for engagement in terms of volunteering and creating consciousness of the issues."

Rather than just handing out funds to non-profits, corporate initiatives often take a more strategic approach, matching giving programmes with business goals.

As a result, many support education and employment skills development.

One example is "entra 21", a youth employability programme initiated by the Inter-American Development Bank and the International Youth Foundation and with corporate partners that include Microsoft, Nokia and Alcatel-Lucent.

But big international businesses are not the only participants in the new wave of corporate giving.

"Local corporations are often doing something related to their business practices, whether that's investing in local communities or forests," says Christina Walker, who oversees the US-based Nature Conservancy's efforts to engage Latin Americans. "Our biggest gifts have come from Latin American companies headquartered in Latin America."

Business success has also created a crop of wealthy individuals, some of whom want to give back to their communities.

"There's been a lot of sudden wealth in the region," says Ms Walker.

"And while they're putting most back into business ventures, we're seeing people wanting to put some into poverty alleviation, leadership development or conservation."

Most prominent is Carlos Slim, the Mexican telecoms magnate.

Others include Alfredo Harp, the former owner of Banamex (now part of Citigroup) and Roberto Hernández Ramírez, former Banamex chief executive. "They're three individuals that have taken a leading role as Mexican philanthropists in challenging others to give to conservation," says Mr Kiy.

In some ways, giving by the rich and elite is nothing new.

However, a different breed of philanthropist is emerging in in the region, for whom simply writing cheques is no longer sufficient.

Mr Slim even argues that the whole principle of charity is

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Cultural legacy has created cautious attitude to charity

Tax incentives

Church and state have been expected to provide for social welfare, observes **Alexander Kliment**

Despite tax systems that generally offer little incentive to give, private philanthropy in Latin America has grown in the past decade.

"The rules channel resources in a way that is not necessarily the most efficient," says Claudio Lottenberg, president of São Paulo's Instituto Israelita de Responsabilidade Social Albert Einstein (IIRSAE), the region's largest private donor according to a 2010 study by the Inter-American Development Bank.

In Brazil, for example, donors can write off a maximum of 6 per cent of taxable income as donations to officially registered non-profit organisations. Companies can list donations as business expenses, but only up to 2 per cent of their net income.

In Argentina, grant-makers can write off 5 per cent of taxable income, while in Mexico the limit is 7 per cent, according to data compiled by the US-based Council on Foundations.

Colombia's relatively generous rules allow write-offs of up to 30 per cent.

But these incentives pale next to those in the US – home to the world's largest philanthropic sector – where individual donors can write off 50 per cent of their income, and companies can deduct 30 per cent.

They also trail Europe. France, for example, limits write-offs to 20 per cent of an individual's taxable income, or 0.5 per cent of a company's annual turnover, according to the Council on Foundations.

In addition, while the US imposes a hefty inheritance tax that encourages the rich to will private wealth to the public good, this mechanism is largely absent in Latin America.

Brazil, for example, levies a 4 per cent tax on property transfers whether willed to family or to a foundation, according to specialists in the country.

The region's non-profit organisations are exempt from income taxes, but bureaucracy complicates registration in some countries.

In Mexico's highly centralised system, all applications for non-profit status are reviewed by a handful of federal lawyers in Mexico City, explains Monica Tapia, of Alternativas Sociales, a non-profit that seeks to bolster civil society in the country.

The review can take more than six months, she says.

In Brazil and Argentina, the discretion of local officials over minimum property requirements for non-profit institutions can create confusion and delays.

The weak tax incentives for private philanthropy stem partly from a cultural legacy that views social welfare chiefly as the responsibility of the church and the state, rather than private individuals.

But the need to close loopholes and boost revenues has also played a role.

"The broader framework for this in many countries is tax reform per se, and state capacity to actually tax well and fairly," says Cynthia Sanborn, professor at Peru's Universidad del Pacífico and director of a research centre at the university that focuses on Latin American non-profits and philanthropy.

"Because informality and evasion are still prevalent in some countries, it is hard to design and implement a system of tax benefits or exemptions that works, and works cleanly," she notes.

Peru offered generous incentives in the 1980s, but abuses led to their repeal in the 1990s, Prof Sanborn says.

> 'No amount of tax incentives [alone] will motivate someone to give'

In Brazil, the fiscal reforms of president Fernando Henrique Cardoso during the same period reduced incentives for philanthropy, as part of a broader effort to boost tax collection.

Today, fiscal responsibility laws make it difficult to increase the incentives that the Brazilian government can offer. Still, it has been increasing the number of areas of activity in which non-profit organisations are recognised.

Brazil has added incentives to lift investment in non-profits working on the World Cup and Olympic Games Getty

Brazil has long offered generous incentives for arts and culture investment, as well as write-offs for donations to municipal funds that work with needy children, but a recent law adds incentives for sports-related activities, to boost private investment in non-profits working in areas tied to the 2014 World Cup and 2016 Olympic Games.

In October, Mexico also expanded the list of eligible activities to include various civil society and human rights bodies.

But while deductions are available for a larger number of causes, the relatively low level of write-offs allowed for donors remains the same.

That does not bother many of the region's largest donors.

More than half the Mexican companies surveyed in 2008 by Alternativas Sociales said tax incentives played little role in their giving decisions. Roughly 40 per cent said improving their image was the key objective of donations.

"The bigger incentive is to have a less unequal society," says Samuel Azout, who left his post as president of Colombia's second largest supermarket chain, Carulla Vivero, to focus on philanthropy several years ago. "In the long run, that's better for our companies."

Mr Azout, recently named by Juan Manuel Santos, the Colombian president, to head a new agency on poverty reduction, says increasing tax incentives for giving is not high on the government's agenda.

Rather, his office will showcase the broader social and economic benefits of investment in poverty reduction.

Prof Sanborn says: "No amount of tax incentives [alone] will motivate someone to give.

"People are motivated to give by such things as personal experience, or family circumstances, religious faith, or even effective fund-raising. Tax incentives tend to come into play once the decision is made, to determine how much."

Increasing wealth helps boost business engagement

Foundations

Companies can be more flexible than governments and NGOs, writes **Vivianne Rodrigues**

A new class of wealthy companies and individuals have fuelled philanthropy in Latin America in recent years, where strong growth, stability and new attitudes have narrowed the gap with the US and Europe.

Companies such as Brazil's Natura, the largest cosmetics maker in Latin America – which established an institute for environmental causes – have joined other regional heavyweights in unprecedented giving.

In Brazil alone, the number of non-profit foundations and associations tripled to more than 338,000 between the mid-1990s and 2005. That number is still rising, according to data from the São Paulo-based Group of Institutes, Foundations and Enterprises (GIFE).

Fernando Rossetti, the group's secretary-general, says: "More wealth and political stability in the region is having a profound impact on businesses and individuals, who can now afford to have longer-term plans and a greater level of social engagement."

GIFE, which was founded in 1995 with 25 participants, has grown to 134 members, who invested more than $1bn in 2010.

US and European agencies, such as USAID and EuropeAid, remain the largest givers to the region, with more than $2.7bn in combined donations.

Still, local corporate and individual philanthropists' contributions now outpace those of global organisations, such as the Bill & Melinda Gates Foundation and the Ford Foundation, which together allocated $119m to the region in 2008, according to the latest data from the Inter-American Development Bank (IDB).

The IDB survey ranked Brazil's Instituto Israelita de Responsabilidade Social Albert Einstein (IIRSAE) and Fundação Bradesco as the region's largest donors, with more than $320m in combined donations.

Mr Rossetti says that, until recently, the concept of philanthropy was intertwined with that of charity, because some of the region's first large-scale philanthropic institutions, such as Santa Casa de Misericórdia and IIRSAE, began with strong ties to religious or ethnic groups.

In fact, the word philanthropy is shunned by many regional foundations, which associate it chiefly with charitable healthcare and poverty alleviation.

Even Carlos Slim, the world's richest man and Mexico's largest individual donor, expresses ambivalence towards philanthropy.

Mr Slim, who established Fundación Telmex and Fundación Carlos Slim with a focus on child development and early schooling, said in an interview with the Financial Times in June that he believes in more investment, rather than "mere charity."

Mr Slim is not alone. Using Brazil as a proxy for the region, GIFE data shows that a majority of foundations and associations operating in the country still focus on education.

But the fastest growing segment of philanthropy is rights advocacy and development.

As some of the region's largest companies have expanded and started to position their brands as socially responsible, their philanthropic activities have evolved.

Fernando Rossetti: more wealth means money for social engagement

"Companies are realising it is not enough to announce a big investment somewhere, without taking some responsibility for [its] broad impact," says Claudia Calais, executive director of Fundação Bunge in São Paulo.

Founded in 1955 by Bunge, the agribusiness group, the foundation's mission was to invest in education, arts and sciences.

It has trained teachers and developed programmes geared to Brazil's public school system. With a 2011 budget of R$7.5m ($4m), the foundation's approach is becoming complementary to that of Bunge.

Ms Calais says: "Many municipalities are unprepared to receive large-scale corporate investments. And for a company, it's not viable to pour hundreds of millions into a factory deep in the hinterland, if it has no schools [or] infrastructure."

"That's when foundations can step in and help bring together their agendas with that of city governments and corporations to promote broader development in that particular territory."

Ms Calais cites initiatives in Brazil's northern Tocantins state, where Bunge is constructing a sugarcane mill.

Along with its work with state schools in the region, the foundation became involved in establishing landfill and water management facilities.

Bunge donated land, while the foundation commissioned and paid engineers to design the projects. State and municipal governments funded construction.

One reason corporate foundations are more flexible than government agencies and NGOs in their expertise and grant allocation, is their funding profile. While foundations tend to rely on, and be accountable, to a single or small number of funding sources, agencies and NGOs tap larger pools of funds.

"Foundations like ours have more flexibility than organisations that receive money from the UN, for example," says Elizabeth Headon, head of the Digicel Foundation in Haiti.

The Digicel Foundation was established by Denis O'Brien, the Irish founder of a mobile phone company that operates in Central America, the Caribbean and the South Pacific.

"This region is still prone to crises, and when they come, there's no question you absolutely need those very large global organisations in order to keep people alive," Ms Headon says.

"At the same time, it's not good for foundations in the long run to work only on founders' pet projects. In sum, there's room for both."

Partnerships focus efforts on education

Skills to stick with: SABMiller has introduced an education programme for children on its Azunosa sugar plant in Honduras Newscast

Corporate schemes

Naomi Mapstone looks at how businesses are getting involved and asks why

When SABMiller, the brewer, was assessing its social responsibility spending in El Salvador, it looked first to its distribution chain of "mom and pop" stores.

"We asked what sort of support we could give them. The reply was micro-credit and financial management training," says Andres Peñate, vice-president of corporate affairs for Latin America.

Nearly 10,000 store owners have since taken up loans for expansion.

"It's not that these people don't have access to credit – they have access to loan sharks," says Mr Peñate. "We give this money at competitive interest rates."

Although SABMiller tailors its philanthropy by country, from an anti-child labour programme in Honduran sugar plantations to Panamanian road safety pushes, its spending is increasingly linked with its supply chain, and with education programmes.

This reflects a trend in the region, where big informal economies and knowledge or skills shortfalls are seen as barriers to continued growth.

While health projects have long attracted philanthropic efforts in the region – last year Carlos Slim, the Mexican billionaire, and Bill Gates teamed up with Spain to donate $150m to maternal health, malnutrition and vaccination schemes in Central America and Mexico – education and entrepreneurship are playing catch-up.

According to a recent paper by the Brookings Center for Universal Education, Latin America and the Caribbean tie with the Asia-Pacific regions in attracting the biggest number of US companies contributing to education. The lion's share goes to Brazil, Mexico, Argentina, Peru, Chile and Colombia.

"The financial sector's focus on entrepreneurship is particularly relevant," says Justin van Fleet, the paper's author, "because when more people gain the skills to start a small business, demand will be greater for financial services, including banking and loans".

For Citibank, which has operations in 24 countries in the region, financial education, entrepreneurship and microfinance are natural priorities.

Pam Flaherty, president and chief executive of the Citibank Foundation, says: "We believe our philanthropy is in some ways like venture capital – it's money that can experiment to discover what works, so that public funders or the marketplace can take over."

Between 2008 and 2010, Citibank spent more than $32.5m on social investments in Latin America, mainly in microfinance and entrepreneurship.

This year, it sponsored the first Latin American Financial Education Congress, hosted by the Latin American and Brazilian banking federations.

It is also working with BM&FBovespa, the Brazilian stock exchange, various agencies and the World Bank on a pilot programme in 450 high schools – part of the country's financial education strategy – and on online and home-based financial literacy courses that have reached 80,000 Brazilians.

Ms Flaherty says the foundation is also working in conjunction with the Inter-American Development Bank (IDB) to attract conditional cash transfer recipients – those who are given cash payments for sending their children to school or bringing them for health check-ups, for example – into the formal banking sector.

> 'When more people gain the skills to start a small business, demand will be greater for financial services'

Luis Alberto Moreno, president of the IDB, says these kinds of public private partnerships are important to the region's development. Since 2008, the bank's office of outreach and partnership has joined with corporate givers such as the PepsiCo Foundation, Coca-Cola and the Bill & Melinda Gates Foundation.

Guillermo Carvajalino Sanchez, a sociologist who advises philanthropic bodies in the region, says Brazil and Colombia have the most corporate philanthropic foundations per capita.

As head of the Bogotá-based Foundation for the Institutional Development of Social Organisations, Mr Carvajalino interviewed directors of 24 of Colombia's biggest corporate givers: 20 worked in education and 17 in economic development and entrepreneurship activities.

Mr Carvajalino says many are seeking to influence public policy by using their business acumen to improve outcomes.

The Corona Foundation, the philanthropic wing of the wealthy Echavarría Olózaga family, has had notable successes in shifting public policy since it was founded in 1963.

Bogotá Como Vamos ("Bogotá, how are we doing") is a groundbreaking citizen accountability scheme to monitor governments, which launched in Colombia's capital city 12 years ago.

"It was a project to make the mayor of Bogotá accountable for his development plan," says Andrés Echavarría Olano. "And it's become very strong. We've replicated it in about 10 cities in Colombia and in Brazil."

The foundation also led the country's first private sector pilot to improve public hospital management, which was later rolled out to more than 100 hospitals.

Mr Peñate says that SABMiller is also keen to be "a pilot of public policy".

In Colombia, it has launched a business training and seed funding scheme and online network to connect "angel" investors with fledgling entrepreneurs.

Among its early successes are Colcircuitos, a technology company that started with $90,000 of seed capital from SABMiller in 2008 and this year generated sales of $1.6m.

Contributors

Sarah Murray
Contributing Editor

John Paul Rathbone
Latin America Editor

Alexander Kliment
FT Contributor

Benedict Mander
Venezuela & Caribbean Correspondent

Naomi Mapstone
Andean Correspondent

Vivianne Rodrigues
FT Contributor

Adam Thomson
Mexico City Bureau Chief

Ursula Milton
Commissioning Editor

Steven Bird
Designer

Andy Mears
Picture Editor

For commercial opportunities, contact: **John Moncure** on: +1 212 641 6362; fax: +1 212 641 6544; email: john.moncure@ft.com

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Fashion for giving catches on

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flawed and that investment in job creation is what is needed to solve the region's problems.

This view is shared by younger philanthropists. As the children of elite families return from their studies in the US or Europe, many bring a desire to become involved in philanthropy and social enterprise – but in a more hands-on way than their parents, applying business skills to problems.

What is also new is giving by Latin America's growing middle class.

When the Nature Conservancy conducted a study of philanthropy in Brazil, it found that a quarter of the population was making monthly gifts. "That's directly related to the increase in the middle class," says Ms Walker.

Set against this rise in philanthropy, is the fact that institutions and regulatory structures are weak or non-existent.

Unlike the US, where individuals and companies can offset charitable donations against large parts of their taxable income, Latin American tax systems provide few such incentives.

Moreover, the absence of inheritance tax in many countries discourages the creation of the kind of private foundations many in the US use to manage wealth transfer.

For Latin American non-profits, securing tax-exempt status can be burdensome. The dearth of grant-making organisations has also hampered growth.

However, institutional weakness has fostered entrepreneurial spirit.

"Because so many Latin America non-profits could not rely on private philanthropy, they developed fee-for-service opportunities," says Mr Kiy.

Carlos Slim: investment in job creation, not charity, will change the region

He adds that, until recently, 74 per cent of the average non-profit's income came from fees for services, 15 per cent from the public sector and 10 per cent from private donations. "And when you separate out international giving, national private philanthropy was in single digits."

This is borne out by research by the Johns Hopkins Centre for Civil Society Studies. In a ranking of 36 nations, Latin American countries – with the exception of Argentina – appeared in the bottom 10 in terms of volunteering and giving as a share of GDP.

Partly as a result of this, social entrepreneurship – which uses market-based models to tackle problems – is strong and growing. "You have some amazing social entrepreneurs in Latin America, just because philanthropy has been weak," says Mr Kiy.

Social conditions also favour this approach. The region has big economic inequalities and small and medium-sized enterprises play an important role in creating jobs.

"Social entrepreneurship is attempting to build coalitions, whether in the private or philanthropic sectors," says Kathleen Newland, who is helping launch La IdEA, a US Department of State initiative supporting diaspora entrepreneurs with social and business ideas to address economic growth and youth unemployment in the region.

With philanthropy still a relatively small sector, many see social and for-profit entrepreneurs as having an equally if not more important role in delivering services and reducing poverty in the region.

Lack of tax incentives discourages giving

Mexico

Adam Thomson considers why the country has a more frugal attitude than some of its peers

A few years ago, when Carlos Slim was asked about philanthropy, the Mexican telecoms billionaire said he disagreed with "going around like Santa Claus". His views seem to have changed little since then.

"Poverty doesn't go away with charity, social services, paternalism or speeches," the world's richest individual told the FT in June this year.

"You can only defeat poverty with jobs and with people who create jobs."

To judge by some studies, many of his countrymen feel the same way. Mexico may have a $1,000bn economy, be home to 112m people and at least 12 billionaires. But it also has some of the world's most frugal givers.

According to a 2003 investigation by the US-based Johns Hopkins Comparative Nonprofit Sector Project, private donations to the country's not-for-profit sector are equivalent to just 0.04 per cent of gross domestic product – about 40 times lower than in the US, and the lowest in the Johns Hopkins study of 35 developed and developing countries.

Regional peers such as Brazil, Argentina and Colombia, which were also in the study, give considerably more on a proportional basis.

As Michael Layton of the philanthropy unit of Mexico City's Itam university says: "The sector is really underdeveloped in Mexico and that makes it hard to get things moving."

One of the problems is that few people pay taxes. With a large informal sector and plenty of loopholes in the tax code, it is little wonder that Mexico has one of the lowest takes in the region – less than 10 per cent of GDP a year excluding oil revenues.

This is a challenge for philanthropy: legislation that allows Mexicans to deduct donations from their tax bills – an approach that works in the US – is much less effective. As Mr Layton puts it, "the tax incentive is hollowed out".

Moreover, the not-for-profit sector is small, even by Latin American standards. According to the finance ministry, there are only about 5,000 organisations that are legally registered to receive tax-free donations. Compare that with 50,000 in Ecuador, a country of 15m people.

Lourdes Sanz of the Mexican Centre for Philanthropy argues that part of the reason is that national laws impose many rules on organisations that want to register with the finance ministry. For example, they have to renew their registration every year, generating paperwork.

They also have to obtain a letter of approval from one of the government's ministries but few ministries are legally able to provide this.

Not only that, but registered organisations cannot spend more than 5 per cent of their donations on administrative costs – a level far below what most international not-for-profit organisations consider viable.

Ms Sanz concludes, "the institutional side of giving in Mexico is very weak".

Francisco Marmolejo at the University of Arizona, an authority on higher education, says that the resulting low levels of philanthropy could spell serious problems for Mexico's relatively young population, nowhere more so than in education.

"There is a huge demand for educational services, but governments in Latin America cannot provide adequately because of competing needs," he says.

"Philanthropy could help fill the void, but there is not enough of it in Mexico."

So acute is the lack of philanthropic funding for education that some universities have had to come up with novel alternatives.

For example, the Tecnológico de Monterrey, one of the country's best known universities, has gone to the extraordinary measure of funding part of its monthly salary bill through a lottery system.

Like many things in Latin America, there is a certain lack of clarity over Mexico's philanthropic sector.

Donations to the Catholic Church are not included in many statistics, a fact that probably underplays significantly the amount that Mexicans give away.

And donations to help people affected by natural disasters tend to be generous.

> 'Poverty doesn't go away with charity, social services, paternalism or speeches'

There are also several notable examples of Mexican billionaires working with regional governments on development programmes.

In spite of his public disdain for charity, Mr Slim has two foundations, with an endowment of at least $5bn.

Among other things, they fund health and education programmes throughout Mexico.

Ricardo Salinas Pliego, one of the country's wealthiest businessmen, has joined forces with the state government of Chiapas to build urban communities to provide basic services to people who once lived in rural areas.

But in a recent interview with the FT, Mr Salinas Pliego admitted that philanthropy in Mexico was not easy. "In the rest of the world, rich people will give a donation and businessmen give to charities," he said.

"But in Mexico, the execution capacity of what we call the social sector is missing. I find it much more effective to set up the actual social organisation and then fund it with my money."

UNAM university in Mexico City: some institutions have come up with novel alternatives to philanthropic funding Reuters

Microcredit Small loans, huge growth

In 1990, a few young Mexicans had the idea of forming a non-governmental organisation to help the country's poor.

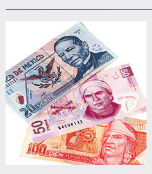
They called it Compartamos, and they saw an opportunity to provide Bangladesh-style microfinance to millions of mainly rural communities throughout the country.

Compartamos did not remain as a not-for-profit NGO.

In 2000, it became a regulated financial-services company and, in 2006, a fully-fledged for-profit bank.

Today, it is backed by many traditional investors, and is listed on the Mexican Stock Exchange.

At the time, many voices in the not-for-profit sector cried out in horror, saying that the company was betraying its roots and would inevitably lose sight of its mission to serve the poor.



'Credit for Women' is a scheme offering 16-week loans

But Carlos Danel, co-founder and executive vice-president, says Compartamos became a bank precisely to overcome the problems and limitations that went with NGO status and the low levels of philanthropy in Mexico.

"There was very little international co-operation, because we were considered a middle-income country. We were part of international aid, not a recipient of it," explains Mr Danel.

At the same time, he says, private-sector donations were almost non-existent. "We couldn't finance ourselves to grow more quickly."

The two phases of the company's history are revealing about Mexico's under-developed philanthropic sector. In its first 10 years – as an NGO relying on aid and private donations – Compartamos signed up 64,000 clients.

In the seven years after it became a regulated financial institution, with access to international capital markets, it grew to 616,000 clients. Today, it has more than 2.2m.

Almost all that growth was thanks to its flagship short-term loan scheme – "Credit for Women" – which consists of a 16-week credit ranging from 1,500 pesos ($105) to 27,000 pesos a person, but given to a group of women, who share the responsibility of repaying the total amount.

The high average annualised interest rate Compartamos charges – about 68 per cent – together with its stock market listing, have attracted a fair amount of criticism.

But Mr Danel says that the rates are higher than traditional bank loans only because of the much greater administrative costs associated with many small-denomination loans spread over a large geographical area.

Besides, the relative ease of tapping capital markets, as opposed to individual donors, has enabled the company to lower the average annualised interest rate it charges customers by about 3 percentage points each year since it became a financial institution.

As for losing sight of its mission, Mr Danel argues the company is still doing exactly what it set out to do more than 20 years ago.

"The only thing that has changed are the stakeholders," he says.

Adam Thomson

Focus grows on financial viability of doing good

Social entrepreneurs

Sarah Murray looks at some innovative partnerships and business models

In poor urban areas of Colombia, an innovative partnership between Ashoka, a non-profit network of social entrepreneurs, and Colcerámica, a large building supplies company, is helping raise living standards.

Buying through local community leaders – who understand the needs of those who can only afford to expand their home one room at a time – residents can afford to install ceramic tiling, improving both their sanitation and their pride in their home.

This partnership between a private-sector company and a non-profit network is one of the innovative models emerging in Latin American countries, as momentum gathers behind the idea that philanthropy alone cannot solve all the region's problems.

"Philanthropy makes a lot of sense for some things," says Maria Emilia Correa, an expert in sustainable entrepreneurship.

"But when you can make a business out of solving a social or environmental problem, you have sustainability in the real sense, because it's going to work even if you have no donations."

Based in Chile, Colombian-born Ms Correa is working with a team on a project called Sistema B. This aims to replicate the "B-Corporation" model emerging in the US, whereby a new type of company can be incorporated with a mission to use business strategies to create public benefit.

Reflecting the growth of "values-based" business models, Latin America will be a focus of attention for those who recognise the potential of this form of development.

In October 2012, the Social World Enterprise Forum will be held in Latin America for the first time – in Rio de Janeiro, Brazil, hosted by NESsT, a non-profit that promotes social enterprise in emerging markets.

The forum is likely to be attended by a diverse group of organisations. Social entrepreneurs range from individuals and non-profits to revenue generating enterprises, as well as joint ventures such as the Colcerámica-Ashoka partnership. But all are turning to innovative market-driven models to solve social and environmental problems.

The new approach is evident in Brazil, for example. A survey of 140 Brazilian social enterprises by the Aspen Network of Development Entrepreneurs, the Avina Foundation and Potencia Ventures found that 64 per cent were operating as conventional businesses, and did not rely on donations. And while the remainder partly relied on donations, they intended to become financially self-sufficient.

Moreover, self-sufficiency can be achieved within the public or non-profit sectors.

In Brazil, where hospitals often lack specialists to meet high demand for cardiac treatment, Juliana Bacis Ceddia, a cardiologist, is helping finance the treatment of heart defects among infants, children and adolescents from poor families.

Target for improvements: hospitals in Brazil often lack the resources to meet demand for specialists Alamy

She discovered that if a hospital increased the number of patients it examined, it could claim additional federal funds, financing the rental of an echocardiogram machine.

The machine not only improves care, but also attracts more patients, generating even more federal funds.

Philanthropy also plays a role, with non-profits such as Washington-based TechnoServe using their charitable funding to provide technical and financial support, and mentoring to help social entrepreneurs accelerate the growth of their enterprises.

> 'When you can make a business out of solving a social problem, you have sustainability in the real sense'

In Guatemala, TechnoServe's business plan competition helped Manuel Yax, the entrepreneurial general manager of a farming co-operative, to expand the business, raising annual sales from $600,000 to $760,000 and increasing the area the co-operative's smallholder farmers cultivate by 25 per cent.

Endeavor, a New York-based non-profit, identifies what it calls "high impact" entrepreneurs – many of them in Latin America – and provides them with business mentoring.

Rhett Morris, Endeavor's research director, believes that, given the relatively underdeveloped state of philanthropy in many Latin American countries, as well as the limitations of government social programmes, entrepreneurs will play an increasingly important part in delivering essential services.

"The traditional players in sectors such as healthcare and education – the government and the Catholic church – don't have the access to resources they once had," he says.

"So, to make sure these critical services are delivered to people in Latin America, new services providers are having to emerge."

Companies supported by Endeavor include Enova, a Mexican enterprise that designs, builds and operates small educational centres called the RIA – Red de Innovación y Aprendizaje (Learning and Education Network). Based on e-learning, the centres target low-income urban communities.

Since May 2009, Enova has opened centres in 42 locations and more than 14,000 students have completed its courses. It aims to improve the education of 5m poor Mexicans by 2013.

This ability to grow rapidly is what Mr Morris sees as the potential of entrepreneurship to accelerate development.

"The conditions are ripe for social entrepreneurs with a for-profit model built in, because it's easier for them to achieve scale and serve more clients faster," he says.

For Ms Correa, the growth of social entrepreneurship in the region goes hand in hand with the emergence of a generation of professionals who want to bring their values to work.

"People are better educated now and they come from school and college with a more value-oriented outlook that they want to be consistent with their daily lives."

Venezuela Private sector crowded out

As far as Hugo Chávez, Venezuela's president, is concerned, the "criminal oligarchy", as he sometimes calls those opposed to his socialist government, should not dabble in philanthropy.

Indeed, the munificence of his "Bolivarian Revolution", underwritten by the country's vast oil reserves, has allowed his government to monopolise the role of giving to the needy.

Huge sums of money have been ploughed into social programmes that, by government estimates, have reached more than 20m people, and Mr Chávez has overseen a reduction in poverty by more than half.

But beyond simply crowding out private sector efforts to help the poor, some argue the government has also played an active role in ensuring there are fewer opportunities to do so.

"It's not only that the government doesn't like [corporate philanthropy], it's actually doing something to put a stop to it," says a Venezuelan who runs a private non-profit organisation involved in microfinance and who preferred to remain anonymous for fear of reprisals.

"The government has pulled the rug from under our feet, as it doesn't like microfinance. It's exactly what they don't want because it enables people not to have to depend on them."

He says changes to banking laws have made microfinance increasingly less viable for his foundation and many microfinance organisations have been forced to move into conventional banking to survive.

But in spite of persistent attempts to diminish the affluence and influence of the rich, who Mr Chávez considers his political opponents, as well as a generalised hostility to the private sector, corporate philanthropy is surviving.

Pressing social needs mean there remains plenty of room for non-profit organisations in sectors such as healthcare, education and housing.

A proportion of the most important private sector philanthropic work is carried out by some of Mr Chávez's most high-profile adversaries.

One of the country's biggest charities is the Polar Foundation, the social arm of the largest privately owned company.

Mr Chávez has repeatedly threatened to expropriate Polar, the food group, and he once said, Lorenzo Mendoza, its president would go to hell for being rich.

Private philanthropy has also flourished in areas where the government struggles to deliver.

Many public hospitals are in poor condition, for example, but the Children's Orthopaedic Hospital in Caracas, a non-profit private foundation set up in 1945 by Eugenio Mendoza, a relative of Polar's president, is flourishing.

But for many companies, being socially responsible is a challenge, and often not a priority. "With so much regulation and low profit margins there's not much room for manoeuvre," says Asdrubal Oliveros, an economist at Ecoanalitica, a consultancy.

"The government wants to monopolise the social arena to generate political returns . . . It is part of the DNA of '21st century socialism' that the state just keeps growing."

"We are very happy we have been able to survive in this environment and to do the work we do," says the philanthropist involved in microfinance.

Benedict Mander

Hugo Chávez: no fan of corporate giving