

Building the Future

ADVISING LATIN AMERICAN PHILANTHROPY FROM MIAMI

CAF America

STEP

ADVISING FAMILIES ACROSS GENERATIONS



About CAF America

CAF America is a 501(c)(3) public charity and intermediary for international and domestic donor-advised grantmaking. In the past 5 years we have issued more than $2 billion in donor advised grants to thousands of charities in 120 countries. In addition to these grantmaking activities, we offer a full range of services for all types of philanthropic activities.

To learn more about CAF America's bespoke services, contact us at **info@cafamerica.org** or call our office at **+1 202 793 2232**.

About STEP Miami

STEP is the global professional association for practitioners who specialize in family inheritance and succession planning. We work to improve public understanding of the issues families face in this area and promote education and high professional standards among our members.

To learn more about STEP, visit **www.step.org.**

Growing Strategic Philanthropy

This report is the result of a collaborative research effort between Charities Aid Foundation America (CAF America) and the Miami Branch of the Society of Trust and Estate Practitioners (STEP Miami). Together, our organizations are committed to raising awareness among the private client services community in South Florida (particularly trust and estate advisors) about the opportunities, advantages, and benefits of helping their clients give more money to overseas charities.

The goal of this initiative is to inspire more strategic, tax-effective giving from donors with US tax exposure to charities outside of the United States. US mechanisms for international giving are uniquely suited to provide philanthropists with substantial tax benefits while ensuring regulatory compliance, mitigating risks, and protecting the reputations of all involved.

It is impossible to talk about international philanthropy in Miami without acknowledging the prominence of Latin American clients and donors in the philanthropic and private client landscapes. That is why we decided to focus our efforts on understanding the cultures of giving across Latin America to create recommendations for how advisors can best support their clients who diversify their investments there.

Through a survey shared among STEP members and interviews with key advisors and charities in Latin America, STEP Miami and CAF America have begun to map the landscape of cross-border giving among the clients of STEP Miami's membership, identifying dynamics that can serve as opportunities to advisors with an international client base. We found that there is a strong opportunity for helping high-net worth clients: 93% of the advisors who replied to our survey reported that their clients give annually to charities outside of the United States.

Miami is an incredibly philanthropic city, and it is also extremely diverse with a rich fabric of international residents. But the wealth management community we surveyed does not have the tools to adequately serve the diverse backgrounds of Miami's client base. This report begins to explain how advisors in Miami can better serve their clients in concrete ways, and we hope it inspires you to seek more information on how you can help drive more dollars to more charities and scale your clients' impacts.



Ted Hart, ACFRE, CAP®
Charities Aid Foundation America
President & CEO

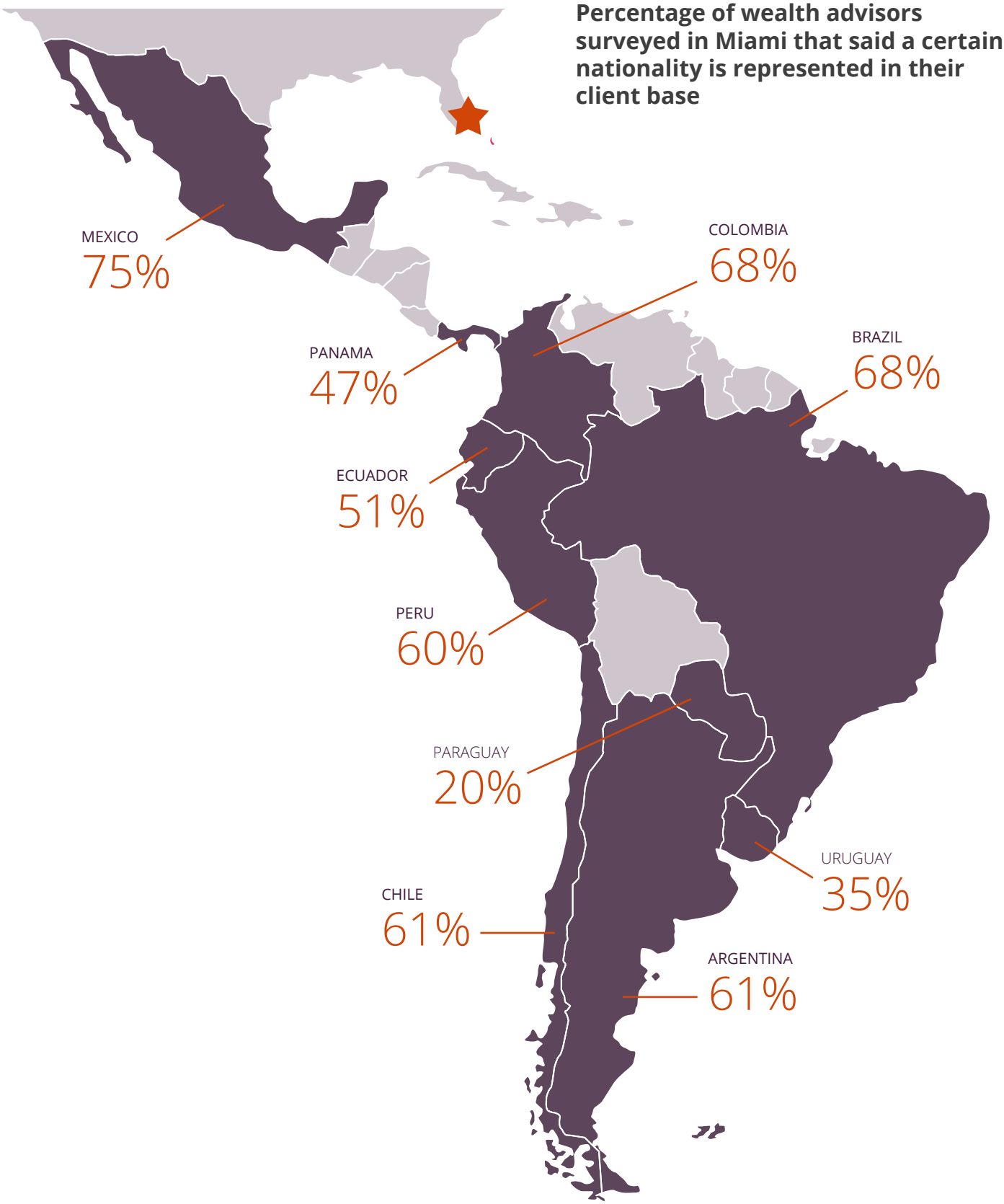


Fabio Concesi, TEP
STEP Miami
Chair

Miami's Private Client Landscape

Miami Shines as a Hub for Latin American Philanthropy

Percentage of wealth advisors surveyed in Miami that said a certain nationality is represented in their client base



Advisors Report their Clients Give Across Latin America

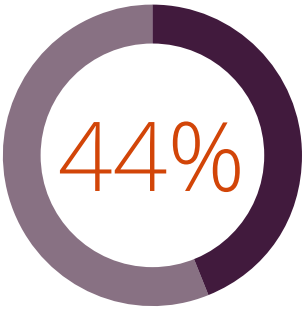
This *International Philanthropy Report* highlights the ways in which advisors in Miami and around Latin America are helping their clients give to charities across the region. Based on a survey of the membership of STEP Miami as well as inputs from key professionals from our network, it presents a strong description of how clients are giving and how their advisors can help. We also make a strong case for the importance of advisors building their expertise in international philanthropy to meet the needs of an international client base.



of Miami's wealth advisors said their clients, on an annual basis, give regularly to charities outside of the United States.



of Miami's wealth advisors said that more than half of their clients have global wealth.

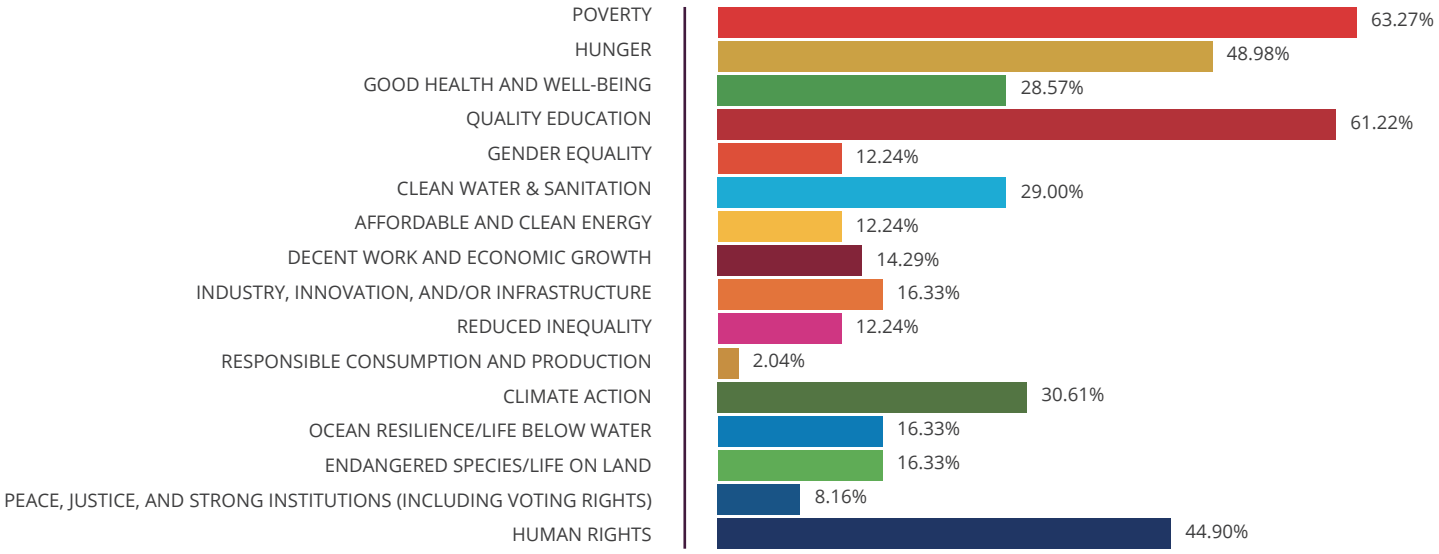


of gifts made by the clients of Miami's wealth advisors are in support of charities or charitable activities outside the US.

High-net worth individuals and families in Miami have a clear interest in giving to charities internationally. This reflects the international nature of the client base in the city, and reaffirms their generosity towards charities in other countries and desire for direct impact on the ground. The motivations for this giving range from donating to organizations in the communities they come from, to supporting larger nonprofits providing support for key issue areas, to giving to the private foundations of their friends and families.

How Donors Give

Advisors reported their clients have given to 16 of the 17 Sustainable Development Goals (SDGs).



Latin American Cultures of Giving

More is Needed to Encourage Strategic Philanthropy Across Latin America

Donors across Latin America are generous and caring, but a lack of tax incentives and a culture of mistrust hinders the nonprofit space. Younger generations are challenging a deep-seated patrimonial approach to charitable giving within their families, focusing instead on delivering clearly-measurable social impact. Our interviews with advisors and key charity partners across the region suggest that there is a pressing need for better solutions for Latin American philanthropists.

Charities are seen as source of impact, but also suffer from general mistrust

While charities across Latin America do good work and are critical to advancing social development and helping the most vulnerable, they face uphill battles to demonstrate their legitimacy and build trust with members of the public. This theme emerged in many countries:

- In Mexico, *Asociaciones Civiles* are not transparent to the public, meaning they must do more to establish a good reputation and attract donors.
- In Brazil, excessive philanthropic giving by one person can be seen as self-aggrandizing by the public,[1] leading many to give anonymously or not at all.
- In Colombia, many believe that philanthropic foundations are created solely to be a vehicle for tax exemptions.[2]
- In Argentina, there is a prominent culture of solidarity among citizens. Many respond to crises themselves, rather than taking an indirect route and donating to charities. This means that charities need to invest more in proving their value to private donors.
- In Chile, many view the philanthropic sector with distrust and suspicion. These attitudes have played a large role in the lack of development the sector has experienced over the years. Described as *chaqueteando*, the distrust has led many Chileans to believe that philanthropy is used for individual gain rather than for public benefit.[3]
- In Peru, "NGOs have generally been viewed as weak and unprofessional."[4] While this is generally seen to be the result of poor tax incentives for private sector giving, it means that it is harder for Peruvian charities to attract new donors.

> "Generally, people are concerned about a lack of transparency, which contributes to a mistrust of charities. The public doesn't feel like they know where philanthropic money is coming from, and whether it is being used well."
>
> **Caroline Gonzalez**
> *Fundación Monte de Piedad*

Third-party institutions that certify a charity's legitimacy can help build trust between it, the community, and donors looking to make an impact. Proving that a charity is not tied to banned activities is both difficult and critical to ensuring that donors can give with confidence. Any donor must be confident that his or her gifts are going to be used for their intended purposes. Advisors whose clients wish to give internationally should seek expert advice on how to do so in a way that protects clients from risks, is fully compliant, and most importantly protects their reputations.

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1 *Philanthropy in Brazil: An overview.* SDGFunders. (2017, June 7).
2 *Philanthropy Ecosystem in Colombia 101.* SDG Philanthropy Platform. (2017, November).
3 *Chile: From Prosperity to Purpose Perspectives on Philanthropy and Social Investment among Wealthy Individuals in Latin America.* UBS Philanthropy Advisory; Hauser Institute for Civil Society, Harvard University. (2015, June).
4 *Peru: From Prosperity to Purpose Perspectives on Philanthropy and Social Investment among Wealthy Individuals in Latin America.* UBS Philanthropy Advisory; Hauser Institute for Civil Society, Harvard University. (2015, June).

SPOTLIGHT: BRAZIL

A success story in advocating for new legal vehicles for philanthropy

Historically, the legal and tax systems in Latin America have not been structured to support strategic philanthropy and the charitable sector. This was the case in Brazil, prior to 2019, where there was no legislation regulating endowment funds. Seeing an opportunity for change, The Institute for the Development of Social Investment (IDIS), CAF's partner in Brazil, decided to advocate for a more enabling legal environment for family philanthropy.

In 2018, a devastating fire at the Brazilian National Museum acted as the tipping point and served as further proof of the need for formal endowment regulations. Michel Temer, the Brazilian president at the time, recognized this need and signed a Provisional Measure into place which ensured that museums and other non profits would be able to benefit from endowment funds. Soon, a group consisting of over 60 organizations, including IDIS, was formed as the "Coalition for Endowments."

In January 2019, after a decade of advocacy work with IDIS at the helm, Brazil's first endowment law was finally enacted. Law No. 13,800 now regulates philanthropic endowment funds in Brazil and has implications beyond legal and regulatory controls - it has positively impacted the level of public trust in the philanthropic sector.[5] Additionally, the regulation created the first legal financial instrument which enables support towards "institutions and projects focused on topics of public interest (e.g. education, science, culture, health, environment and other)."[6] Such developments show the need for improvement within the regulatory space and demonstrates how nonprofits are leading the charge towards a more enabling environment for philanthropy.

Looking to the future, there is work to be done to create such an environment. Law No. 13,800 did not bring any tax incentive for individuals and companies that contribute to local endowments, nor did it impact the Brazilian government's position that donations to non-resident beneficiaries are subject to withholding income tax. This includes donations to foreign charities or foreign endowments, and to State Gift Tax. Brazilian families who want to contribute to foreign charities or endowments normally have to use their offshore structure to make such a contribution, with risk of further having to dispute against the tax authorities whether these taxes are actually applicable or not. There are many improvements that can be made to facilitate charitable contributions with ease, Brazil's endowment law is one step towards a brighter future.

Underdeveloped Legal and Tax Structures Hinder Giving

Many countries across Latin America lack a tax incentive for charitable giving, or make it difficult to claim a deduction, disincentivizing the drive of capital to charitable purposes.[7] Tax incentives are critical in facilitating charitable contributions because they "reduce the cost of donations, avoid opportunistic behaviours and, if they are designed well, mobilise resources to public goods at a lower cost than the tax cost that this type of exemption presents at the tax level."[8] Many advisors compare benefits in Latin America with more favorable incentives available in the United States.

Country	Tax Benefits	Maximum Allowable Deduction for annual gifts totaling $100,000	Estimated Tax Savings per $100,000 donation, with total income of $500,000
United States	Top tax rate: 37% Can deduct up to 60% of AGI for gifts of cash to a public charity.[9]	$100,000	$37,000
Mexico	Top Tax Rate: 35%[10] Can deduct up to 7% of income, if given to an authorized donee and if the amount deducted for donations together with all authorized deductions is under the limit of $175,505 Mexican pesos or 15% of income.[11]	$35,000	$12,250
Peru	Top Tax Rate: 30%[12] Can deduct up to 10% of net income after taking into consideration carry forward losses, if given to a qualified organization.[13]	$50,000	$15,000
Brazil	Top Tax Rate: 27.5%[14] Can deduct up to 6% of income, but only for donations to very specific situations – Children and Adolescent Municipal Funds (FUMCAD), cultural and sports/formation of athletes projects approved by the Government.[15]	Up to 6% of the individual income tax due	The amount donated, up to 6% of the individual income tax due, can be directly offset against such tax – so, the tax savings correspond to 100% of the amount donated
Chile	Top Tax Rate: 40%[16] Can deduct up to 5% of their income for donations to qualified organizations.[17]	$25,000	$10,000

5 *Davies, R., & Fabiani, P. Brazil's New Endowment Law Could Strengthen Philanthropy and Democracy Around the Globe.* Stanford Social Innovation Review. (2019, March 13).
6 *Eight-Year Long Fight for New Law in Brazil.* Charities Aid Foundation. (n.d.).
7 *Despite Slight Improvement in Global Philanthropy Environment Since 2018, Key Hurdles Continue to Threaten the Philanthropic Ecosystem.* Indiana University Lilly Family School of Philanthropy. (2022, March 10).
8 Aninat, M., Vallespin R., & Villar R. *Rules and Incentives: Mapping the Legal Framework for Non-profit Organisations and Philanthropy in Latin America and the Caribbean.* WINGS. (2022, April 19).
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12 *Peru: Individual - Taxes on Personal Income.* PricewaterhouseCoopers. (2022, January 11).
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15 *Nonprofit Law in Brazil. Council on Foundations.* (2021, August).
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17 *Aninat, M. Country Report 2018: Chile.* Indiana University Lilly Family School of Philanthropy. (2018).



Developing Philanthropy in Latin America

An Impact-Focused Next Generation Lacks Tools for Strategic Philanthropy

Longstanding traditions of giving across wealthy Latin American families focus primarily on helping people within specific communities and are based on trust, mutual relationships, and family history. Since the nonprofit sector in many Latin American countries is underdeveloped as compared to the United States, the state is commonly seen as the most important provider of social services. Charities and philanthropists are therefore not considered a core part of the social safety net. This means that wealthy families and individuals do not feel compelled to make large, public commitments to delivering impact.

This is in stark contrast to the United States, in which a strong culture of public philanthropy has existed since the early 20th Century. Famously, Andrew Carnegie penned the article that gave birth to the 'Gospel of Wealth,' in which wealthy people identified it as their responsibility to give back to those less fortunate. In modern times, the Gospel of Wealth has given way to similar contemporary ways of framing the motivations behind their philanthropy, such as the Giving Pledge, in which high-net worth individuals pledge to give away a majority of their wealth during their lifetimes. For context: there are more than 230 signatories of the Giving Pledge, but only 2 of those are from South America.[18]

In contrast, Latin American philanthropy finds its roots in the almsgiving traditions of the Catholic Church. Because of this, it is traditionally conservative, local, and done privately. However, younger generations of wealthy families are increasingly turning to more strategic ways to deploy capital for social good. Environmental, Social, and Governance (ESG) Investing, once a peripheral offering tailored to progressive investors, is now becoming more mainstream.

> "For Latin American philanthropy to evolve, we need a group of people to declare themselves **philanthropists**, and to model the way for others to follow.
>
> **Paula Fabiani,** *CEO, IDIS*

Especially within high-net worth Latin American families, the lack of established charitable vehicles coupled with the absence of tax incentives for charitable giving means that impact investing has emerged as the next logical stage of many Latin American families' philanthropic strategies - even when those strategies actually involve little to no actual philanthropic giving.

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[18] *Pledge Signatories.* The Giving Pledge. (n.d.).



A Universal Framework for Impact

Sustainable Development Goals (SDGs)

While wealthy families are increasingly looking to make a measurable impact, the tools to measure that impact often prove elusive. The United Nations' Sustainable Development Goals (SDGs) provide a framework for global progress that donors can use as a guide for impactful investment.[19] The simplicity of the SDG Agenda is that it allows separate issues to be linked to one another to demonstrate multifaceted impact.[20] With the proper guidance, donors can be confident that their dollars are creating an impact that resonates globally across multiple SDGs.

Incorporating SDGs into cross-border philanthropic strategies creates an inclusive framework for giving. Donors looking to support community development would find that they've impacted not only SDG 11 (Sustainable Cities and Communities) but SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 3 (Good Health and Well-Being), SDG 4 (Quality Education), SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth), SDG 10 (Reduced Inequalities), and SDG 16 (Peace, Justice, and Strong Institutions) as well.[21] The SDG framework does not just end at impact, however, it extends beyond to provide a methodology for measuring progress on each of these interlocking causes. Donors are able to track progress made within topic areas that are important to them through milestones, publications, and related content on the United Nations website.

Truly strategic philanthropy requires donors to plan their gifts with an intent to make a specific impact. It goes beyond ensuring deductibility and regulatory compliance. The Sustainable Development Goals make this possible by showing donors how to measure the impacts their grants can make, helping build a map for making a global impact.

> "The younger members of wealthy families are very interested in values based, or ESG investing. How to measure the impact of those investments in the world and communicating that effectively - is key."
>
> **Joe Kellogg,** *Partner, Head of Wealth Planning, WE Family Office*

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[19] *Sustainable finance: Supporting the Sustainable Development Goals.* Bank of America. (n.d.).
[20] *The 17 Goals.* United Nations. (n.d.).
[21] *Sustainable finance: Supporting the Sustainable Development Goals.* Bank of America. (n.d.).

Advising International Philanthropy

Advisors Can Do More: The Case for More Cross-Border Philanthropy Services

Clients want to know how to give internationally and look towards their wealth advisors for support. While some provide domestic philanthropic services, there is a discrepancy between the international and domestic advisory services offered by wealth advisors.

74%

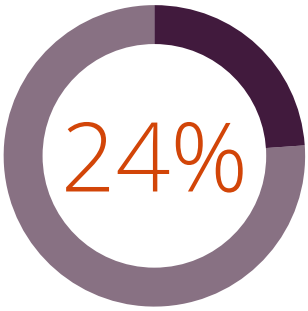
of advisors surveyed said they advise their clients on philanthropy



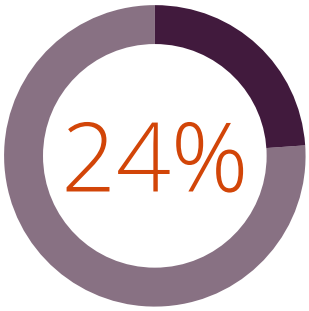
only 1 in 4 advisors reported that they have services that help their clients give internationally.

Few Advisors Can Support their Clients' International Giving

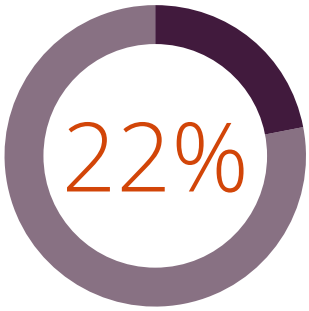
Percentage of advisors who provide services for International Philanthropy, by adjacent services offered



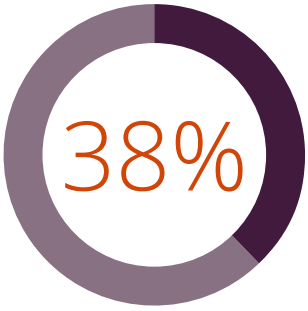
provide international tax advice



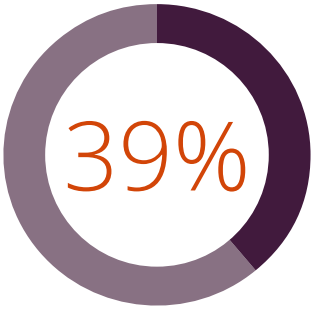
advise on Private Foundations



set up and manage Charitable Trusts



provide Donor Advised Funds (DAFs)



provide philanthropic advisory services

How Advisors Can Grow Strategic Philanthropy in Latin America

The clients of Miami's wealth advisors are looking to support charities in Latin America with funds that are donated here in the US. However, this report has found that while advisors are not meeting this demand, they are aware of this discrepancy within their services and are looking to do more. There are many steps that advisors can take to effectively support their clients with their philanthropic missions, some of which include:

1) Allowing clients access to US tax benefits
2) Leveraging a trusted partner to ensure that the nonprofits your clients support are legitimate
3) Utilizing Donor Advised Funds (DAFs) and other vehicles which provide a nimble tool for delivering impact

Advisors should readily be able to provide vehicles for donors to benefit from the US Charitable Deduction while supporting non-501(c)(3) organizations with their funds. This is possible by working with intermediary organizations that offer international validations services, such as CAF America. These organizations can ensure that the 3 Rs are met: regulatory compliance, risk management, and reputation protection.



The 3 Rs are factors that must be considered when advising clients on philanthropic strategy in order to mitigate the risks that are inherent to international grantmaking. Such a partner would be able to offer 3rd party reviews of your client's charity beneficiaries so that you and they can be confident that the grantee in question is legitimate. Most importantly, this allows clients to build trust among their family, their communities, and the public in other countries.

Choosing a partner that is experienced in this field and knowledgeable about such nuances not only mitigates risk, but it can provide other benefits. This includes building one's capacity to fully engage the next generation of clients by working with low-touch giving vehicles (such as DAFs) that offer a refreshing change from a clunky family foundation. Furthermore, a trusted partner would be able to assist advisors and their clients in creating the most impact by incorporating methodologies such as the SDG framework into one's philanthropic strategy.

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METHOD

The survey that informed this report was created by CAF America and disseminated by STEP Miami to their membership between March 15 and April 1, 2022. We received 65 responses. Data is unweighted. Not all respondents answered every question. In addition, we would like to thank the three advisors who participated in interviews for this report as well as our partners RACI (Argentina), Fundación Monte de Piedad (Mexico) and Instituto para Desenvolvimento do Investimento Social (IDIS, Brazil) for their contributions.