



**4th CIRIEC International Research  
Conference on Social Economy  
OCTOBER 24-26, 2013 - University of Antwerp**

## **Theme 9: Social economy, social inclusion and fight against poverty**

**Workshop 9.b. Supporting SE inclusion action**

### **PROMOTING SOCIAL INCLUSION AND EMPLOYMENT THROUGH MICROENTERPRISE DEVELOPMENT**

Dr. Alejandro Mungaray  
[mungaray@uabc.edu.mx](mailto:mungaray@uabc.edu.mx)

Dr. Martin Ramirez-Urquidy  
[martinramirez@uabc.edu.mx](mailto:martinramirez@uabc.edu.mx)

Dr. Natanael Ramírez-Angulo  
[ramireza1978@yahoo.com.mx](mailto:ramireza1978@yahoo.com.mx)

Dr. Michelle Taxis  
[mtaxis@uabc.edu.mx](mailto:mtaxis@uabc.edu.mx)

**UNIVERSIDAD AUTONOMA DE BAJA CALIFORNIA, MEXICO**

## INTRODUCTION

Developing economies are characterized by the important presence of microenterprises (MEs), which are regularly run by modest entrepreneurs with low human capital, who engage in survival activities since they lack of job opportunities in the formal job market. The proliferation of these units may also be explained by the job markets depression, given the current situation in the world economy characterized by low growth. Thus, the importance placed in MEs is supported by the fact that they provide an activity for a leaving to low paid employees and people unemployed or underemployed. This has made many governments recognize their importance and place considerable emphasis on their promotion. Promoting these enterprises have been an issue of the development reports and programs of international agencies such as the World Bank, the Inter-American Development Bank (IDB), the Economic Commission for Latin America and the Caribbean, and the European Commission, which regard these units as market-based strategy for poverty alleviation.

The Inter-American Development Bank (1997) define MEs as those survival productive units, often off the regulatory framework, whose owner carries out most of the activities of the business, whose employees are commonly family members, and do not make clear distinction between what is the family's and the enterprise's. However, MEs sector is probably the most innovative of the sector of the lowest income and a way out of poverty (BID, 2005). The productive contribution of these MEs in terms of value added is limited, but the figures suggest that they are very important as a share of total enterprises, as employers, and as self-employment units in Latin America and developing countries, but also their contribution to the increase of non-agricultural labor force in some developing countries is significant.

In Mexico, according to the National Bureau of Statistic INEGI, microenterprises are those productive units employing up to 10 workers. Units under this definition account for 95% of the enterprises in 2008 according to the latest Census. They provided 41% of the jobs and only 8.3 of value added. Those enterprises employing 2 or less employees are 55% in manufacturing, 62% in services and 70% in Commerce, but produce only 0.6%, 7.2% and 8.8% of the value added respectively. Besides, according to the World Bank, 75% of the employment in enterprises employing less than 5 workers is informal, that is, those are not properly registered in the social security system. In terms of registration in the tax institution, according to the Microenterprise Survey of INEGI, about 90% of MEs lack of this registration.

The MEs as conceived in the preceding paragraph share constraints due to their informal nature and size. Although the following is not a comprehensive list of these constraints, they are among the most important. First, they have null or limited access to formal financial markets to finance their investments and growth; their funds are raised informally from family links or friends. They also operate with low human capital, constraint arising from the fact that neither the entrepreneurs nor the employees can afford human capital investments due to their subsistence situation, and their human capital is accumulated from informal sources or from the low grades of education the entrepreneurs manage to achieve. Two out of three employees of MEs have at most secondary education. Thus, the most important sources of human capital of MEs are intergenerational transfer of skills and attitudes between family members, own experience and previous jobs, where they regularly get the abilities in the production of the goods. The human capital constraint also prevent the entrepreneurs achieve a formal organization not only before regulations, but also in terms of the management, which is reflected in the inability to register and analyze the enterprise figures as to make decisions and plan strategies to improve

over time. This constraint is also linked to limited technological and innovative potential, and to the lack of knowledge as to improve the marketing strategies leading to increased sales. There is also a market constraint, which is in part, the result of the MEs' informal nature. Since informality prevent the MEs reach formal higher income and more dynamic markets, they have to market their goods in marginalized-low income neighborhoods, facing a high degree of competition from similar microenterprises and sales volatility. Since the market is limited, the productivity of the sale effort is low, and the resources in terms of time and strength devoted to market the goods reduce the productive potential.

Efforts have been implemented by many governments and development agencies around the world to release the potential for social development though linking the support of MEs to employment and livelihood. The main intervention mechanism for MEs support has been traditionally the operation of microfinance programs and institutions, whose market has widened during recent years. Likewise, no financial services, in particular, Business Development Services (BDS) including technical assistance and training are developing as well with the support of some organizations and government agencies. Although the market for these services have not developed as has microfinance services, the fact that business development is not only about money, but about skills, training, and knowledge, makes its provision a relevant area in research and policy, and potentially, an issue where efforts of government and non-government organizations can render fruits.

This paper aims at providing answers to the microenterprise development quest of how to provide effective support through BDS oriented to the vast sector of low value added and informal microenterprises, as to mitigate exclusion, encourage formal self-employment and improve welfare prospects of underprivileged individuals running MEs. In order to accomplish this aim, the paper shares the experience of the program "Microenterprise Assistance and Training for Microenterprise Development and Employment" implemented in the State of Baja California, Mexico; as compensatory mechanism for the unemployment burden created by the recent economic crisis, which still situates the world economy under low growth prospects. This program has become a public policy with the collaboration between the State Government and the State Public University, The Autonomous University of Baja California (UABC). This public policy benefited from synergies of both institutions. On the one hand, the university provided a method to intervene informal microenterprises: the Program for Research, Assistance and Teaching of Small Enterprises (PRATS), an innovative model of assistance to deliver BDS to low value added MEs including technical assistance and training with the participation of senior students, which act as advisers to the MEs. On the other, the State Government, through the Secretary of Economic Development, developed financial instruments and support programs for MEs which are assisted by PRATS. The program includes a set of steps including selection, training, technical assistance over several weeks, data analysis, and assessment; ending up with the formalization though registration of the enterprise in the tax institution. This process provides the MEs a complete package of assistance and training support, and access to finance to stimulate the enterprise growth and survivor prospects. The program has assisted, trained, and formalized in the tax institution about 7,500 individuals running microenterprises, which in addition, has become subject to and has been given financial support. The experience in the implementation of this public policy has shown that an effective linkage government-university-microenterprise to promote welfare is possible to support MEs, that underprivileged individuals having low human capital are able to learn to operate formally, and that MEs learning and development to mitigate unemployment and increase welfare is possible. These results are supported objective measures and data; bringing interesting implication of public policies to developing countries.

## **BUSINESS DEVELOPMENT SERVICES FOR SMALL BUSINESS**

Business Development can be understood as a package of conditions providing the elements for the businesses to prosper in a market based economy, where several complementing institutions and

organizations play a role. Perhaps the most acknowledged elements for small business are financial and non-financial services. The former is compounded by the well-known models of Microfinance, as well as other services like deposits, insurance, and payment services. The latter includes a broad range of services attempting to provide the entrepreneurs some basic assets for livelihood, particularly human capital, by developing skills and knowledge (Carney, 1998). These services are often referred to as BDS: training, technology transfer, marketing assistance, business advice, mentoring and information, which are aimed at helping the entrepreneurs improve the performance of their businesses (Goldmark, 1996).

It has been established among scholars and development agencies that financial BDS at the level of MEs have walked toward sustainability by providing loans and charging interest rates to cover for the opportunity cost of the service, thus market provision has improved over time. Such a development has spread over the smallest enterprises too, helping the middle and upper poor with entrepreneur activities to sustain and expand their businesses (Johnson and Rogaly, 1997: 12). The story is quite different with regard Non-financial BDS, whose markets have not developed, and still have to “demonstrate that they can create profitable markets for their services” (Harper, 2001).

The reasons explaining why BDS for small businesses have not taken off are multiple. A first element obstructing the market provision of these services is that most small business people do not consider buying other services different from financial, such as technical or management training, counseling or marketing information. Thus, convincing them that they need them, or making them actually buy them when they recognize they need the services is an important issue in developing this market. In fact, there is an unstructured observation that most small enterprises need, but do not demand BDS, as consequence the market for these services is small (Phansalkar and Sriram, 2001). Second, since micro-entrepreneurs “wear many hats” in their businesses and most BDS are delivered as classes or sessions out of their businesses, the willingness to demand such services is lessened even when they are provided through a subsidized program, because of the high opportunity cost the entrepreneur face undertaking these services. Another reason is that BDS are more difficult to deliver than financial services, due to the large range of problems the MEs face (Schreiner, 1999), making general methods of training, advice provision, and counseling, unsuited in many cases, reducing the value of the services to the entrepreneurs.

It has been proposed that on-call responses to specific problems can be a more promising area in supporting these units (Drury, et. al., 1994), but again provision difficulties because the extended trained staff needed to cover such as broad menu of specific problems the small businesses confront with, and the small scale of transactions that would rise the cost of provision of the service. In addition, deepening human capital in the form of entrepreneurship goes beyond of what can be taught in short courses transferring business skills. In fact, it is more difficult to shape an entrepreneur culture and transfer skills than providing financial services like giving loans to purchase inputs (Schreiner and Woller, 2003), although the former is able to provide a long run sustainability of the business rather than a one period benefit. A final reason is that they have been traditionally offered in conjunction with loans and other financial services (Goldmark, 1996), or “informally provided, or are “embedded” or “bundled” within other business relationships” (Harper, 2001). Thus, many entrepreneurs indirectly demand BDS as an eligibility requirement for receiving another service benefit, like financial resources.

The preceding discussion exacerbate for survival MEs, and provision of BDS becomes even more challenging, although there are now successful experiences in sustainable microfinance programs over the developing world to support the poor. First, BDS particularly those to expand their business skills are constrained by the reduced schooling of these enterprises, so the scope of learning that is possible to achieve diminishes. Second, their opportunity cost of engaging in training programs increases substantially relative to larger enterprises since they generate survival levels of sales and profits, making practically impossible for them to buy the services by themselves. Consequently, the market for BDS at this level is null. Nevertheless, as for larger firms, this fact does not preclude the essential nature of the

services to help enterprises, as result there is an understanding that BDS must be provided by the support of subsidies at the level of MEs, and efforts toward delivering those services have been made by organizations under different schemes. The question behind the provision of basic BDS is perhaps not whether they can create profitable markets, like those for microfinance, or how to create them, but rather how to deliver them with adequacy and sustainability as to raise peoples' basic capabilities to take care of their businesses in order to improve welfare, given their limited alternatives for a living in the job markets.

## **THE PROGRAM FOR RESEARCH, ASSISTANCE AND TEACHING OF SMALL ENTERPRISES**

### **Background**

The Program for Research, Assistance and Teaching of Small Enterprises (PRATS) was created as a CS program in 1999 at the Autonomous University of Baja California (UABC), Tijuana, Mexico with the participation of few students and MEs, but was implemented systematically since 2001 with the support of funds. In the most general way, PRATS has been designed to take advantage of the human and physical capital, as well as other intangible assets already in possession of the Public Universities System. It also attempts to fit the organization and institutional arrangements governing HEI, to the growing concern of the government and other non-government organizations about microenterprise development, and on sustainable ways to care for such a broad sector of society. Thus, resources such as faculty, students, networks, facilities, equipment, and other assets become more socially profitable by being optimally used in favor of society (Mungaray, 2002). At the same time, Constitutional commandments embedded in universities are more fully accomplished, such as creating human capital linked to the country's need, extending science and technological progress to society, and organizing the constitutional CS as to benefit the unprivileged agents (Mungaray and Ocegueda, 2000).

The main objectives of PRATS are delivering BDS *in situ* at no cost to unprivileged enterprises, conduct research on small firm development, and build up a model of teaching, and learning for students in the field of Economics, Business, Management, and surrounding disciplines. From the HEI perspective, PRATS constitutes a Service Learning approach of teaching, encouraging the students' professional learning, experience and entrepreneurial skills; and a research-action method of doing research while providing care, thus not only empowering their linkage to society, and the teaching-learning process, but also making pertinent research. The following Chart represents the main goals of the program, which are consistent with the purposes of the public Higher Education System. This creates an institutional synergy in favor of microenterprise development.

The program provides the students the opportunity to apply their profession, access their social context, and develop a feeling of affection for their community and the value of solidarity (Mungaray and Sanchez, 2003). Students in PRATS attend the microenterprises for a twelve-week period and work as consultants, developing a complete program of data collection, processing and analysis, ending up in a report on the enterprise's performance to be provided to the entrepreneurs, and comments for improvement. While the students involve with the entrepreneurs, they transfer knowledge, economic and business concepts, and management and technical skills, allowing these agents acquire some human capital that they would have never gotten otherwise. In addition, the *in situ* assistance constitutes also an on-call response to specific problems the entrepreneurs confront with, where the students can serve as a consultant during the weeks they engage in the enterprise operation.

The academic, educational and social impact of the project has been attractive to NGO's, government organizations and some universities, which have funded aiming to transform PRATS into a model that enable other HEI to reproduce it as Service Learning program in their respective geographical regions. Thus, the State Government of Baja California (GEBEC), Mexico, through the Ministry of Economic Development (SEDECO) and the Autonomous University of Baja California (UABC) have implemented a

comprehensive program of microenterprise assistance since 2009, based on the Program for Research, Assistance and Teaching of Micro and Small Enterprises (PRATS) designed by UABC. The result of this experience is the program “Microenterprise Assistance and Training for Microenterprise Development and Employment” implemented in the State of Baja California, Mexico, as compensatory mechanism for the unemployment burden created by the recent economic crisis, which still situates the world economy under low growth prospects. This program has become a public policy with the collaboration between the State Government and the State Public University, The Autonomous University of Baja California (UABC). This program will be named PRATS-BC GOVERNMENT from now on.

The microenterprise-assistance feature of the program is intended to make free provision of BDS by the students. The main service is training, which is aimed to develop human capital in the organization by transferring some economic education, accounting, finance, and cost techniques; and business concepts as well as, as to improve entrepreneurs’ assets for their livelihood. There is not a specific method of doing this; rather it is a spontaneous process arising naturally as the relation between the students and the entrepreneurs strengthens, and it is enhanced by the entrepreneurs’ interest in learning these techniques as tools for their businesses.

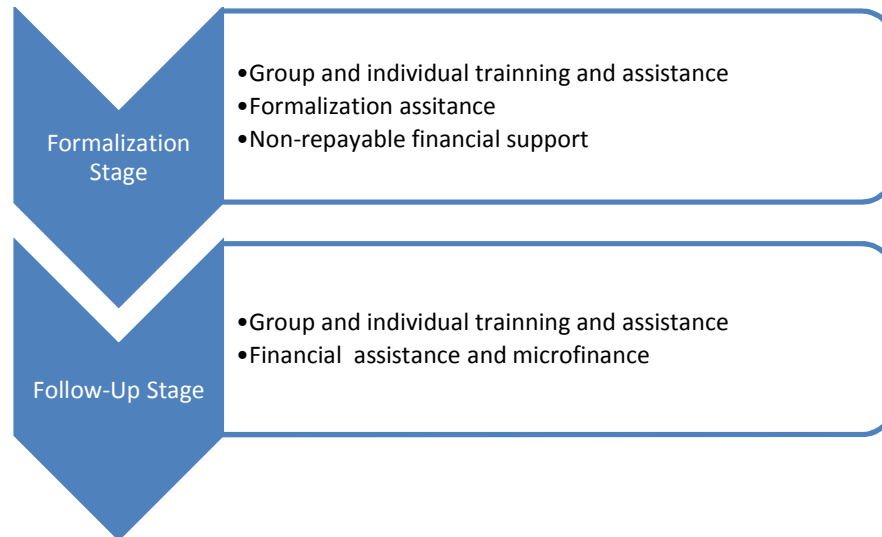
Other services are also provided such as marketing and business advice, where elements like economic and financial evaluation, cost analysis, market analysis, and marketing strategies are introduced to assess the performance of the enterprise. With this, the students as consultants gather elements to provide counsel to the enterprise on how the business can be improved, or whether the business is able to be financed for investments by a microfinance institution. Finally, the program makes provision of information particularly on regulations ruling the business environment, financial services from government or non-government programs and institutions, and other non-financial services, among other useful information not at hands of the entrepreneurs.

## **THE PRATS-BC GOVERNMENT MODEL OF MICROENTERPRISE ASSISTANCE**

The PRATS-BC GOV model of assistance has two stages, as shown in chart 1: the stage of formalization and the follow-up stage. The formalization stage includes site assistance, group training business elements through courses and workshops, and the granting of a non-refundable financial support to strengthen micro-enterprises in their transition to formality. The follow-up stage includes a monitoring process to microenterprises that have been formalized, trained, assisted and supported with resources in the first stage, where entrepreneurs are selected so that after a few months of monitoring and support by the program, link to the low-cost financing, aiming to strengthen the business development of some of the most promising micro.

The training, support and arranging the students perform coordinated by teachers themselves that enable the small businessman to understand the new responsibilities that joining the formal market. Similarly, Business Assistance Center (CAE) of the State Government implements these actions through staff and students in social community service or internships.

### **CHART 1: PRATS-BC GOV**



In general, the assistance method of PRATS-BC GOV runs in five basic stages as shown on chart 2:

- Student recruitment and training
- Selection of microenterprise
- Assistance and training to individual entrepreneurs and groups
- Analysis, evaluation, formalization, and granting of financial support (Formalization Stage)
- Accompaniment, ME assistance and support and monitoring (Follow-up Stage)

### **Student Recruitment and training**

The model incorporates students in the fields of management and accounting, business, economics, marketing, international business and other related fields, who have an interest in helping small businesses. The program coordinators evaluate students enrolment requests to enter and conduct meetings with the interested students. These meetings are intended to familiarize the students and describe the main components of the program. The meeting also intends to emphasize the importance of the students work in microenterprises and also the importance of their participation in the project as a State Government Public Policy to support the Microenterprise and promote employment.

The project offers a training program for participating students. The training program is intended to cover some of the basic elements that students apply in enterprise in order to standardize the framework of concepts among students. The topics concern the development of Micro and Small Enterprises. The experience during the existence of the program plays an important role in providing real cases, and concepts on business, finance, economics, markets and business regulations, among other related topics. The training program reviews many of the skills and techniques learned by the students during their careers, using real data from small businesses that were previously assisted.. The training phase plan also establishes what students perform in business.

### **Selection of Microenterprises**

One of the disadvantages of some support programs is that entrepreneurs should attend the service provider's locations, and not the other way around. This becomes an important element discouraging the

MEs to receive services, as they have to leave their tasks and routines in their business. Given that entrepreneurs in these businesses develop multiple tasks such as management, production, sales, among others, leaving their businesses produces a considerable opportunity cost. To overcome this, the students themselves seek the MEs in various ways, either by visiting slums door to door, going to community centers, schools and other infrastructure in neighborhoods. The disadvantaged MEs operate within their homes in what is known as family workshops. Other MEs are more visible as they have separate from home in independent workshops. Other contact mechanisms are the state government CAEs and university facilities.

The MEs eligible for the program are those that are considered underprivileged or low value added, operating in the informal sector, whose sole owner performs many of the relevant activities in the business, predominantly employ family members, and have no separation between the resources of the business and home. These units can be considered as self-employment enterprises and originate from precarious macroeconomic conditions, recession and unemployment. Besides, they also originate because their owners lack of better working alternatives because they have a low level of education and training. While officially microenterprises in Mexico are those units no greater than 10 employees, typically micro social base have an average of 2 to 5 workers and where the family plays an important role. This definition takes practice using regulatory criteria for eligibility that are applied by students in their search. According to this view, MEs should have no official or institutional support by some other program, lack of formal registration before tax authority, lack of accounting or formal administrative system, and owners should have primary education, secondary, or high school at maximum. These criteria make easier to reach the most modest micro entrepreneurs and ensure the relevance of the work done by students, and realize the social profitability of the project.

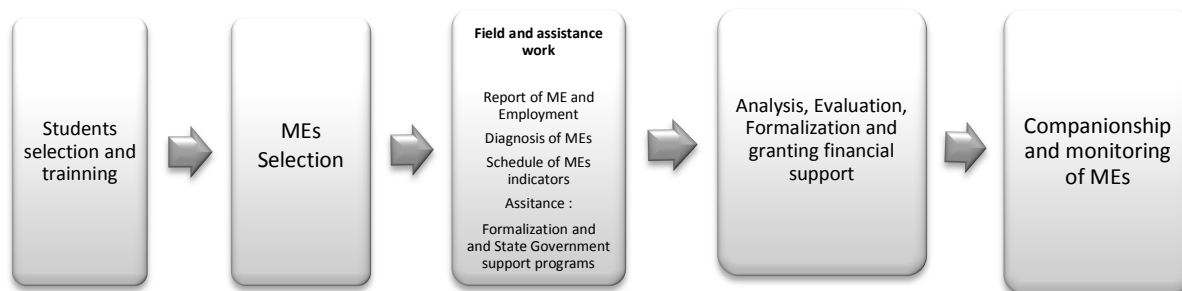
### **Assistance and training to micro individual and groups**

The work of supporting MEs requires several visits and interviews with the entrepreneur, some of which are carried out either as a group training in workshops. MEs are assisted during a period of three months in which students interact with employers. The exchanges between entrepreneurs and students stimulate students learning in two ways: from the students to the entrepreneurs and vice versa. Education provides an economic assistance, transfer of knowledge and skills to the entrepreneurs, which allow them to acquire some additional assets to improve their living from the operation of the MEs. The assistance phase is described in detail in chart 2, starting from the selection of the MEs to their formalization in the Regime of Small Taxpayers (REPECO), which transform the MEs to a formal tax payer with all the duties and benefits of such a condition.

The assistance phase requires the use of a set of instruments and tools to characterize the enterprise profile, systematize the data collection and report generation, construct statements and indicators to evaluate the productive units, and gather valuable information from the field work the students are doing. These tools are the Agreement, Diagnosis, Field Reports, Schedule of Indicators, and the Software for Microenterprise Assistance (SAM), listed and described on Chart 3.

## **CHART 2: PRATS-BC GOV- MODEL OF ASSISTANCE**





As the assistance goes on, the consultants register and collect data, and train the entrepreneurs perform these tasks as to introduce in the organization the use of information for the decision making, the control of operations, and the performance assessment of the enterprise. Unfortunately, most of the micro entrepreneurs at this level rarely know about the real figures of their businesses, as consequence they do not keep track of their costs, revenues and profits, as long as the activity provides for a living. Thus, a first impact in the entrepreneur is realizing on the enterprise real figures.

The students not only practice the concepts reviewed in class, but live invaluable experiences in the real world from the entrepreneurs, whereas the entrepreneurs learn useful concepts and techniques to apply in their business. The students are required to collect data on production, costs, sales, working hours, assets, number of workers, prices and wages. In addition, they are also required to collect qualitative data such as the socioeconomic characteristics of the firms, the marketing strategies, markets, production processes, and other information that may be useful. Although most of the MEs in the program do not register their operations and have no historical data because they lack the entrepreneurial skills and expertise, collecting data for these enterprises is feasible though the use of the instrument Schedule of Indicators by the students, which is described next on Chart 3. This tool allows registering the daily operations of the enterprise, and managing data in reports and statements as desired. The information generated and processed in the context of PRATS is inedited; there is not other data source in Mexico at such a disaggregated level enterprise-by-enterprise.

Group training in the formalization stage consists of four courses and workshops in different areas: on the support program, regulatory and fiscal aspects and others on business development services, such as: Introduction to the Microenterprise Program, How to formalize my small business?, How, when and where to pay my taxes?, If I control of my revenues and costs, I will secure my income; I am Entrepreneur, and Marketing for my microbusiness. These courses are taught in university facilities and the State Government CAEs.

In these courses, small entrepreneurs learn the requirements, steps, and benefits of participating in the program; the municipal and federal regulations and paperwork on land use permits, feasibility, operation and advertisement, security, environmental regulation, Registration in the Tax authority, Tax offices, the small taxpayers regime, duties, and accounting, economic and financial concepts such as: Income Sales, Revenues, Type of Costs, Saving Culture, Investment, product and process innovation, advertising, competition analysis, customer service, among others.

**CHART 3: PRATS-BC GOV's INSTRUMENTS**

Instrument	Description
<b>Report of MEs and Employment</b>	It includes preliminary information on the entrepreneur and ME identification and location data, socioeconomic data, employment data, and aims to compile basic information of MEs and as a way of gathering data on the sector of MEs.
<b>Diagnosis</b>	It is a survey applied by the students at the beginning of the assistance phase. It includes preliminary information about the enterprise: identification data, socioeconomic information about the owner and his/her family, data on the enterprise operations (revenues, costs, capital availability, workers, human capital, and technical and institutional information). It is used for preliminary analysis on the enterprise.
<b>Schedule of Indicators</b>	It is a record of the enterprise's operations and indicators on a daily or weekly basis, such as sales, output, costs, usage of inputs, wages, among other variables, which is used to construct the enterprise and program data base for analysis and research. It is used by the students and the faculty, and it is included in the entrepreneurs' training. It captures the data in a by-enterprise basis.
<b>Software for Microenterprise Assistance (SAM)</b>	It is special Copy Righted software to manage data electronically from the schedule of indicators, and perform analysis in a fast and accurate way. The software presents the data in an organized manner and helps to obtain financial statements, and economic and financial evaluation indicators.

### **Analysis, evaluation, formalization, and granting financial support**

At the end of the assistance period in the enterprise, students analyze the data they collected in order to assess the enterprise formally for a written report. This stage is developed by the support of the Copy righted Software for Microenterprise Assistance (SAM) described on Chart 3. The software generates economic and financial reports such as Cost Analysis, Income Statement, Net Cash Flows, Proforma Income Statement, and Analysis of Financial Ratios and Break-Even Point.

The software not only allows registering and storing socioeconomic information of the micro entrepreneurs engaged in the program, such as personal data, education, experience, among others, but also storing relevant data on the MEs such as capital, assets, financial structure, strategies, revenues, costs and expenses; and generates financial and economic reports such as cost Analysis, Statements of Income, Net Cash Flows, Proforma Income Statements, Financial Ratios Analysis, Breakeven Analysis and the results of the Economic and financial Evaluation. Chart 4 illustrates some windows of software.

The software performs the economic and finance assessment of an investment to promote the enterprises growth and profits, under government microfinance. The indicators provided by SAM are Net Present Value, the Period of Investment Recoup, and the Profit to Cost Ratio, which determine whether the enterprise is able to repay the loans and be better off. The result is written on a report signed by the University which certifies that the enterprise was enrolled in the support program, and specifies an amount of microfinance the enterprise is able to handle without risk of getting worse off.

The economic and financial study is practiced not only to analyze the MEs and know their productive status, but also to provide them of financial support in the first stage of assistance. Financial support is

granted according to the economic and financial indicators not to exceeding \$10,000.00 pesos (About \$800 dollars), and after formal registration in the Tax Authority.

#### **Accompaniment, ME assistance, and support and the Follow-Up.**

Once the MEs have taken on the challenge of being in a context of formality, and received financial support, a process that lasts three months from initial contact, the program continues to a stage accompaniment to enhance the ME position in the context of formality and the new obligations that the MEs have before the Tax Authority. In this stage, the assistance process continues on MEs organization and the entrepreneurs tax compliance; the data collection through SAM continues. Besides, the MEs training is intensified by two more workshops on Finance, and Marketing and Security issues in the Business. These workshops are intended for the entrepreneur to learn about to how to apply for a finance, finance requirements , Implications of the enterprise leverage, Funding Amount , Interest Rate, Period of Grace, the Concept of Risk, Opportunity Cost, Short and long term inventory investment or machinery and equipment, Sales, Income, Cost of Sales, Salary, Sales Strategies, Product Differentiation, Cross sales, Advertising, Competition Analysis , Customer Service, Hygiene in production, among other concepts. In general, the entrepreneurs learn through these the importance of microfinance, planning, financing, analyzing competition, and other concepts.

At this stage, the program linkage to State Government is very important because it provides funding for these MEs upon MEs training and formalization. The government created the Loan Fund for these MEs supported by the program with loans raging from \$10,000 to \$25,000 pesos (about \$800-\$2000 dollars), at 6% interest rate and a loan payment period of 18 months. This finance opportunity is given to those MEs which have been formalized and paying taxes for two taxing periods and have payment capacity according to the assessment made by SAM. This stage is reached after 7 or six months of engagement in the program.

#### **The Social Microentrepreneur Network (REMBAS)**

The application of PRATS- BC Government Microenterprise Assistance Program, the State Government in connection with the Autonomous University of Baja California, has trained more than 10,000 microentrepreneurs throughout the State; 7,483 of those have been formalized to the Tax Authority. With this volume of supported microenterprises, the challenge was to monitor them and provide a long run effort to continued support to strengthen their development, but in addition, a mechanism for the MEs to support themselves and to be represented as larger businesses are.

#### **CHART 4. SOFTWARE DE ASISTENCIA MICROEMPRESARIAL (SAM)**

| Inicio | Accesar | Descargas | Metodología | Noticias



**Universidad Autónoma de Baja California**



**SAM**  
Sistema de Asistencia Microempresarial

Centro de Investigación, Asistencia y Docencia de la Micro y Pequeña Empresa



**¿Qué es el SAM?**

El SAM es una herramienta informática registrada ante el Instituto Nacional del Derecho de Autor, que permite al extensionista microempresarial la captura, el procesamiento y la organización de la información recabada a través de los instrumentos de control de microempresas y empleo, el diagnóstico y las bitácoras, así como su análisis, a través de la generación de reportes...



**¿Quién lo ha hecho posible?**

El SAM ha sido el producto del esfuerzo en el diseño de un grupo de investigadores de la UABC, preocupados por el desarrollo microempresarial y convencidos de la gran contribución que las universidades pueden tener con la participación de jóvenes extensionistas universitarios y tecnologías informáticas apropiadas. En este esfuerzo, mención especial merecen por su apoyo moral, profesional y financiero en diversas etapas de la concepción y programación del software, la UABC y la UNIAM, el Gobierno Federal a través de la Secretaría de Economía y el Fondo PYME, y el Gobierno del Estado de Baja California. De mayor importancia han sido las experiencias de asistencia microempresarial de un sin número de estudiantes que como usuarios han brindado valiosas observaciones y recomendaciones, así como la confianza de un gran número de microempresarios que han abierto las puertas de sus talleres...

**Acceso a SAM**

Usuario:

Contraseña:

FyRI | CIADMYPE Bienvenido: Dora Alicia Ochoa Vega | Inicio | Cambiar Contraseña | Salir Estado: Baja California Actualizar



**Universidad Autónoma de Baja California**



**SAM**  
Sistema de Asistencia Microempresarial

Asistencia Seguimiento Coordinación de Seguimiento Coord. Especializados Administración

**ANALISIS Y EVALUACION ECONOMICA Y FINANCIERA DE LA MICROEMPRESA** | Cerrar

---

Folio: 02004012339 Nombre del Microempresario: AVALOS DIAZ MARTHA KARINA Programa: APOYOS

1. Mostrar: Depreciación de Activos Fijos
2. Calcular: Proforma y Flujo Neto de Efectivo
3. Mostrar: Proforma y Flujo Neto de Efectivo
4. Mostrar: Analisis de Produccion y Costo
5. Mostrar: Estado de Resultados Historicos
6. Mostrar: Analisis de Razones Financieras y Punto de Equilibrio

**UNIVERSIDAD AUTONOMA DE BAJA CALIFORNIA**  
Sistema de Asistencia Microempresarial

**ANALISIS DE RAZONES FINANCIERAS Y PUNTO DE EQUILIBRIO**  
Programa: ANALISIS (SIMULACION)

Razones Financieras	Semana 1 23/09-29/09	Semana 2 30/09-06/10	Semana 3 07/10-13/10	Semana 4 14/10-20/10	Semana 5 03/03-09/03	Semana 6 10/03-16/03	Semana 7 17/03-23/03
<b>Rentabilidad</b>							
Margen de Utilidad Bruta	0.54	0.50	0.50	0.64	0.55	0.56	0.55
Margen de Utilidad de Operación	0.54	0.50	0.50	0.64	0.55	0.56	0.55
Margen de Utilidad Neta	0.42	0.36	0.40	0.53	0.48	0.50	0.49
<b>Crecimiento</b>							
Crecimiento Ventas	100.00	84.62	123.08	107.69	176.15	223.08	238.46
Crecimiento Utilidad Neta	100.00	72.43	118.38	136.76	202.93	269.09	281.96
<b>Eficiencia</b>							
Indice de Rotacion de Activos Totales	0.01	0.01	0.01	0.02	0.02	0.03	0.03
Razon de Rendimiento de los Activos Totales	0.01	0.01	0.01	0.01	0.02	0.03	0.03
Razon de Liquidez	2.17	2.00	2.00	2.80	2.22	2.27	2.20
Punto Equilibrio	108.57	116.92	116.92	90.94	106.25	104.65	107.23

This led the coordination of different entrepreneurs to create the Social Microentrepreneur Network (REMBAS), a formal organization established in 2010 to represent the thousands of low value added microenterprises and to generate benefits to their members leading their development. Since it

establishment in 2010, REMBAS has linked to government, higher education institutions and other organization to benefit its members. The objective of REMBAS has been to promote the development of the low value added entrepreneurs by providing representation to other government and non-government organization, promote the interests of entrepreneurs and look for ways to facilitate access to training, technical assistance, entrepreneurship training and linkages with funding.

As an effort to follow the organization interests, REMBAS signed an agreement with the State Government to encourage the development of its members which have been formalized by the PRATS-BC GOV assistance program. This program included funds and a training program covering several useful topics such as:

1. The successful entrepreneur
2. The 4 Ds of Success: Desire, Decision, Determination, Discipline
3. Closing Sales
4. The 4 steps of management
5. Logo design, slogan and market analysis.
6. Customer Service
7. Computing and education
8. Leadership
9. State Government Financing Programs
10. Crisis according to Albert Einstein

By achieving this training program, the training program provided by PRATS BC GOV was complemented. In 2011, these workshops were given 129 times in different location of the state, covering 2,711 microentrepreneurs and linking to finance to 224 MEs with funds of the State Government. In 2012, training was provided to 1,996 micro-enterprises with 53 training workshops, linking 296 MEs to Government Finance.

## **RESULTS**

### **Formalization Stage**

The PRATS-BC GOV project results have been published internationally. Using information collected by the program, the researches engaged in the program have shown different impacts on MEs development. Some have to do with the acquisition of human capital through learning and training, services and other human capital resources, such as counseling and technical assistance, which have improved the skills of microentrepreneurs in running their businesses. This has also led to other less tangible benefits such as the perception of social marginalization of these challenged MEs and entrepreneurs which have reduced because they feel they are part of a public policy.

Other results in different dimensions indicate that businesses supported by the program have benefited from different perspectives. Estimation of the program impact suggest that entrepreneurs have exhibited learning as measured by the learning curve: 49% of MEs benefited in technical terms, that is, shown lower average costs during the period of assistance (Taxis et al. , 2010); 35% exhibited learning in term od profits, which means that they increased profits during the period of assistance; and also, 39% exhibited learning in terms of revenues ( Mungaray et . al. , 2008). The last two dimensions suggest that these MEs increased their revenues and profits during the support period respectively.

However, other results have been achieved. During 2009-2012, the program provided support to 7,483 microenterprises in urban and rural areas across the state. This amount of MEs were assisted, trained and supported with financial resources averaging \$4,000 pesos per ME (Chart 5). They were, in fact,

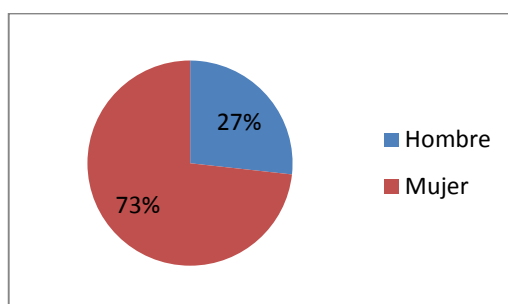
incorporated into the formal world, by promoting registration before the tax authority under the small taxpayer regime. In sum, these enterprise received training and were formalized and received non-repayable financial support for more than 28 million pesos (2.2 million dollars approximately). The program also incorporated 651 students who worked as consultant and helped the entrepreneurs to reach formality in addition to training.

It is important to note that the program has benefited women entrepreneurs, since 73% of the supported entrepreneurs had this gender, while 27% were men (Chart 6). This indicates that the program has been employment and development vehicle for many women who have combined their roles as home wives with performing income-generating activities such as their microenterprises (Mungaray and Ramirez-Urquidy, 2011).

**CHART 5: SUPPORTED MICROENTERPRISE AND SUPPORTED MES AND STUDENTS IN THE FORMALIZATION STAGE**

	CONCEPT	2009	2010	2011	2012	2009-2012
FORMALIZATION	Supported Mes	1,488	1,949	2,122	1,924	7,483
	Amount of Resources	\$ 6,836,600.00	\$ 8,030,000.00	\$ 7,301,400.00	\$ 6,155,000.00	\$ 28,323,000.00
	Participating Students	225	250	121	55	651
	Scholarships Provided	\$ 900,000.00	\$ 830,600.00	\$ 578,000.00	\$ 275,000.00	\$ 2,583,600.00

**CHART 6 SUPPORTED MICROENTERPRISE BY GENDER**



### Follow-up Stage

In the follow-up including assistance, support and additional training for micro-enterprises that have been formalized, trained, assisted and supported with resources in the first stage. The stage is directed to micro entrepreneurs who have shown the greatest development potential and interest. At this stage the MEs are linked to low-cost financing to strengthen business development. This program was implemented form 2011, and to date it has promoted 526 MEs to receive microfinances for a total amount of funding of \$ 9.2 million pesos and student participation of 63 (Chart 7).

**CHART 7: FINANCED MICROENTERPRISE AND PARTICIPATING STUDENTS IN THE FOLLOW-UP STAGE**

	CONCEPT	2011	2012	2011-2012
FOLLOW-UP	Financed Mes	298	228	526
	Amount of Credit	\$ 5,236,650.00	\$ 3,984,233.94	\$ 9,220,883.94
	Participating Students	53	10	63
	Amount of Scholarship Provided	220,500	\$ 50,600.00	\$ 271,100.00

The follow-up stage is a space for microenterprise development, after a process of training to work in the formal world and be recognized as a business by the tax authority. This result by itself is very important because it requires much training for entrepreneurs. This process, as in any business, is very important as a foundation for the future development of MEs. From the follow up stage, the entrepreneurs strengthen skills and attitudes toward entrepreneurship in addition to finance. With this, the program attempts to promote the microenterprise development by expanding the business.

Analysis from SAM was performed using the indicators generated by the SAM, in order to assess the extent to which the program has impacted MEs growth in MEs which has transited from the stage of Formalization to the Follow-up stage. Thus, the sale and profit growth ratio, which compares the change in sales and profits as compared to a base year, was estimated. The used formulas are as follows:

$$\text{Sales growth (SG)} = \frac{\text{Ventas Actuales}}{\text{Ventas del Periodo Base}}$$

$$\text{Profits Growth (PG)} = \frac{\text{Utilidad Neta Actual}}{\text{Utilidad Neta del Periodo Base}}$$

The indexes are obtained per week, with an average of 12 observations per ME, divided into 2 periods: the formalization stage and the follow-up stage. The week average rates calculated by the SAM during each stage were estimated, which are presented in next chart. This allows us to understand and document the evolution of the MEs during the period in which they were supported by the program.

Chart 8 illustrates that in general for BC, the sales growth rate on average is 99.55 in the follow up stage and compare to 110.12 on the follow-up stage, indicating an increase of 10.6% in one stage to the other. As for profits, the index is has an average of 101.15 at the formalization stage and increase to 114.68 in the follow up stage, which mean that profits have grown 13.53%.

**CHART 8: GROWTH INDEXES OF MES IN THE FOLLOW-UP STAGE**

	SG			PG		
	Formalization Stage	Follow-up Stage	Change %	Formalization Stage	Follow-up Stage	Change %
Baja California	99.55	110.12	10.6	101.15	114.68	13.4

These results demonstrate that the program has contributed with an improvement in economic conditions of these individual entrepreneurs, as illustrated in the behavior of their growth rates in sales and profits.

## REMBAS

From 2011, the REMBAS began a registration process to increase membership in order to build an organization that represents their interests and foster the growth and development of associates. Additionally, REMBAS committed to providing human capital services to its members in fiscal, administrative, finance and marketing issues.

During 2011, 5,558 micro entrepreneurs became members of REMBAS, whereas in 2012 7,889, which sum up a total in 2011-2012 of 13,447 entrepreneurs who are members of this organization. The next table illustrates REMBAS membership by location.

**CHART 9: REMBAS MEMBERSHIP 2011-2012**

Location	2011	%	2012	%	TOTAL	%
Mexicali	478	8.60%	2266	28.69%	2744	20.39%
Guadalupe Victoria	114	2.05%	214	2.71%	328	2.44%
San Felipe	227	4.08%	352	4.46%	579	4.30%
<b>Subtotal</b>	<b>819</b>	<b>14.74%</b>	<b>2832</b>	<b>35.85%</b>	<b>3651</b>	<b>27.13%</b>
Ensenada	395	7.11%	1123	14.22%	1518	11.28%
San Quintín	34	0.61%	579	7.33%	613	4.56%
<b>Subtotal</b>	<b>429</b>	<b>7.72%</b>	<b>1702</b>	<b>21.55%</b>	<b>2131</b>	<b>15.84%</b>
Tecate	236	4.25%	595	7.53%	831	6.18%
Tijuana	3989	71.77%	2566	32.49%	6555	48.71%
Playas de Rosarito	85	1.53%	204	2.58%	289	2.15%
<b>Total</b>	<b>5558</b>	<b>100.00%</b>	<b>7899</b>	<b>100%</b>	<b>13457</b>	<b>100.00%</b>

Fuente: REMBAS, Informe Técnico, 2012.

## CONCLUDING REMARKS

Under a context characterized by recession and low growth of the economies, people carry entrepreneurial activities for making a living by establishing MEs, taking advantage of some skills learned in previous jobs or in family. As larger firms, these enterprises require a package of services to succeed in the market, particularly the provision of human-capital-related services. Education can be considered a public good because of its large external effects, thus its provision has been, either totally or partially subsidized, or also provided by markets. Agents require an investment to acquire education and training for their livelihoods, most of it taking the form of opportunity cost. Poor people is not able to cover this investment and have to rely on basic education, in-job training, own experience, and some skills learned in their lives. A great deal of the most general skills, knowledge, and information required to succeed in markets are simply absent in these people's assets, making their provision a basic right and component of human development. Schemes should be developed in order to provide basic BDS off the market in order to get many MEs in the market. PRATS-BC GOV has played a role in this discussion by delivering economically BDS to this segment of MEs, constituting a model of what a public policy can do when government, higher education institution and society work together in a public policy.

The results of the application of this policy for microenterprise development, suggest the possibility to provide effective training, assistance for formalization and business development services from a methodology and the participation of students. It has also shown that collaborative schemes, in this case,



government, universities and microenterprises, can result in effective public policies supported by various actors, for the support the the small scale of these MEs requires. The evaluation of the policy has illustrated that not only that more than 7,000 microenterprises were formalized and trained, but also, it has shown the possibility that a selection of these businesses can aspire to higher levels of development derived from deepening in training, differentiated support and access to microfinance. The results suggest that the supported micro-enterprises not only transited to operate under a formal context and rules, but those who have transited successfully trough higher stages of business training under the program, has achieved better growth levels in sales and profits. This is a cornerstone in improving microenterprise prospects and welfare.

This experience of public policy for microenterprise development illustrates what is possible to achieve socially by the collaboration between microentrepreneurs, universities and government. This collaboration has resulted in significant social benefits to individuals running MEs and effectiveness of institutions. This experience may be useful to other regions of the country.

## REFERENCES

- Banco Interamericano de Desarrollo (2005) "El grupo BID y la microempresa (1990-2004): Resultados de 15 años de trabajo.
- Carney, D. Ed. (1998). Sustainable Rural Livelihoods, what contribution can we make?, London, DFID.
- Goldmark, L. (1996). 'Business Development Services: A Frame Work for Analysis'. Working Paper No. MIC-101. Washington, D.C. December.
- Harper, M. (2001) 'Business Development Services for Micro-Enterprises', Enterprise Development Impact Assessment Information Service (EDIAIS), Application Guidance Notes.
- Inter-Amecian Development Bank (1997), Microenterprise Development Strategy.
- Johnson, S., & Rogaly, B. (1997). Microfinance and Poverty Reduction. Oxford: Oxfam.
- Mungaray, Alejandro, and Juan M. Ocegueda (2000). 'Community Social Service and Higher Education in Mexico,' Statistical Abstract of Latin America, 36: 1011-1022.
- Mungaray A, M. Ramirez-Urquidy, M. Taxis, J.D Ledezma, and N. Ramirez (2007) "Promoting learning in small entrepreneurus and higher education students through service learning programs" International Journal of Business Research, Volume VII (3): 10-28.
- Mungaray, Alejandro (2002). 'Re-engineering Mexican Higher Education toward economic development and quality: The XXI century challenge,' Higher Education Policy, 15 (4): 391-399.
- Mungaray, A, Ramirez Urquidy M, Taxis Michlle, Ledezma David, Ramirez Natanael, 2008, "Learning Economics by Servicing: A Mexican Experience of Service Learning in Microenterprises" International Review of Economics Education, Volume 7, Issue 2.
- Mungaray, A., 2011, "La política Industrial en Baja California", en Osuna Millán, J. G. (Coor.) Baja California ante la crisis, experiencia en la construcción de una recuperación, Gobierno del Estado de Baja California y Universidad Autónoma de Baja California, pp. 229-255.
- Mungaray A, y Ramirez-Urquidy M. (2011) "Full and Part-time Entrepreneurship and the Supply of Entrepreneurial Effort: Evidence from Mexican Microenterprises" Journal of Developmental Entrepreneurship Vol. 16, No. 4: 1-18.

Schreiner, M (1999). 'Lessons for Microenterprise Programs from a Fresh Look at the Unemployment Insurance Self-Employment Demonstration'. *Evaluation Review*. 23 (5): 503-526.

Taxis, M., Mungaray A, Ramírez Urquid y Ramírez N (2011), "Aprendizaje en microempresas de Baja California", *Estudios Fronterizos, nueva época*, vol. 12 número 23, enero.