

TOWARDS THE FORMULATION OF AN INTEGRAL-LOCAL DEVELOPMENT POLICY OF “INFRA-MICROENTERPRISES”. CASE STUDY: “LAS AMAPOLAS”, HERMOSILLO, MEXICO.

Germán Palafox-Moyers
University of Sonora, Mexico
economia@guaymas.uson.mx

Benjamín Burgos-Flores
University of Sonora, Mexico
bburgos@guaymas.uson.mx

Joel Espejel-Blanco
University of Sonora, Mexico
jespejel@pitic.uson.mx

ABSTRACT

There is a wide range of Micro, Small and Medium Enterprises (MSME'S), which are increasingly important in economic growth, job creation, innovation and productivity in almost all economies in the world. While there is progress in understanding the problems of much of this sector, there is a subgroup that is very numerous in the less developed countries, but is virtually unknown, which is known as the “infra-microenterprises”. The purpose of this research paper is to analyzed two aims: (1) to investigate the “infra-microenterprises” sector based on a pilot project implemented in “Las Amapolas” neighborhood (Hermosillo, Mexico), and (2) to design a public policy to support economic and social development in this particular sector. These kinds of units could establish as a set of informal businesses, or outside the market, or the law. In addition, the “infra-microenterprises” do not use any modern technology. In fact, not only base their decisions on the minimum principles of management and accounting, but not even making decisions on cost, revenue and profit. All of the above, has a large social impact that needs to be discussed, which are developed especially in marginalized urban localities and rural areas near the city, as is the case in question.

INTRODUCTION

For the economies of different countries around the world is undeniable importance of a vast sector of **Micro, Small and Medium Enterprises (MSMEs)**. Mainly in terms of generating jobs and income for subsistence, although there are some questions to its performance, especially in terms of productive efficiency.

Given the economic and social importance of **MSMEs** is relevant to ask: what are the approaches that have been developed and needs to study? It is therefore important to develop a classification of microenterprises as its unit of analysis.

The purpose of this research paper is to analyzed two aims: (1) to investigate the “infra-microenterprises” sector based on a pilot project implemented in “Las Amapolas” neighborhood (Hermosillo, Mexico), and (2) to design a public policy to support economic and social development in this particular sector.

With this aim in mind, this research is structured as follows. First, it examines the various approaches that have been used in the study of microenterprises in Latin America.

The second develops a typology to characterize microenterprises. The third part analyzes the case of “infra-microenterprises” in “Las Amapolas” neighborhood. Fourthly, there is the effort of implementing a public local policy to support economic and social development. Finally, we present the main conclusions of study.

MICROENTERPRISES APPROACHES

The interest in addressing the study of microenterprises like object of research begins to run on various approaches. According to Neira (2006) include the following approaches: (1) International **Labour Organization (ILO)**¹, (2) legality, (3) market rationality, (4) family strategies, (5) social and cultural reproduction, and (6) gender and development.

The **ILO** approach suggests that microenterprises consist of those activities characterized by logic different from our own production and the capitalist economy. This approach focuses on the labor market study and includes a heterogeneous set of productive

¹ Web site: <http://www.ilo.org/global/lang-en/index.htm>

activities. It should be pointed out that the main element is the common approach of employing a number of people who could not engage in the modern sector, and therefore should underemployed access to complementary factors of production work.

The second approach highlights the legal and institutional conditions of economy. Therefore, it is called the law approach. According to this approach is that really defines microenterprises are illegal (Tokman, 1992). For Pollack y Jusidman (1997) formal and informal microenterprises operate according to rational identical and differ only by their legal or illegal character respectively. This difference leads to access or not to productive resources and formal and informal markets.

The third approach is the result of OLI and law approaches. This approach is known as the market rationality. This approach assumes that the micro-enterprise activities are typically capitalist employees overtly or covertly. In fact, these activities are part of modern economy and are not a unique feature of developing countries.

The fourth approach is based on the idea that family strategies and mechanisms solve the problem of economic crisis. Theoretical and methodological analysis stands on the notion of strategies developed by Torrado (1981). This author suggests that the advantages of concept have to do with their theoretical relevance. It also states that as a theoretical model is applicable to global societies. Also, the economic and social structure must adapt theoretical because of possibility for a whole to analyze economic behavior, social and demographic factors.

A fifth approach to the study of microenterprises is that as a factor for social and cultural reproduction. For Alba and Dirk (1995) small company makes goods and services but also produces messages, signs and symbols that are consumed socially. The authors argue that one of the most important cultural components that operate through small-scale production units is the reproduction of ideology. They note that such property is crossed by a series of speeches from various sources: (1) officers who are issued by state or by international organizations, (2) business, which is promoted by business all sizes, and (3) defendants by the very small producers and the unions.

These types of analysis have a great importance. In fact, this exposition contributes explanatory elements that allow identifying not alone socioeconomic terms, but also the sociocultural fabrics of the micro-businessmen and their activities.

The sixth approach is the so-called gender and development. This approach emerges as a quest to better understand the position of women in the development of economic activities. Their analytical framework integrates both productive and reproductive sphere. Moreover, it gives space to overcome the limitations of other approaches.

In the 90's the gender and development approach was of great importance as a result of policy of promoting microenterprise promoted by the **Inter-American Development Bank (IDB)**². In fact, this approach considered the participation of women as a determinant of success of these activities.

Microenterprise programs have been based on gender and development studies have focused attention on: (1) strengthen the economic position of women, (2) increase their ability to contribute to family income, and (3) improve participation in important household decisions.

MICROENTERPRISES TYPOLOGY'S

Once exposed to different approaches we focus on the kind of micro-enterprises. In addition, we emphasize the analysis of "infra-microenterprises".

Micro, Small and Medium Enterprises (MSMEs) are undoubtedly the engine of growth in many regions of the world economies. Some come for vocations innovative products that are increasingly improving their production processes and organization. In fact, there are micro manage the leap and become world-class company. Other micro processes have thereby achieving technological innovation incorporated into global production chains. Moreover, there is a vast sector of companies that operate in local and regional economies. Proof of this is that they are important in generating employment and income for an important sector of the population. Also, **MSMEs** have positive effects on social entrepreneurship, although there are several criticisms of their

² Web site: <http://www.iadb.org/en/inter-american-development-bank,2837.html>

performance, particularly in terms of productive efficiency.

In recent years emerging in rural and marginalized urban cities a lot of companies called “infra-microenterprises”. Such companies are outside the formal logic of market and main feature is that its production process is done inside their home or backyard. In fact, production activity is performed for family subsistence. Thus, we can make a classification of microenterprises depending on their interaction with global markets, national, regional or outside it, as well as productivity (see Table 1).

Table 1.
Diversity of companies and their productivity

	1	2	3
Global Enterprise	High	High	Global
Regional Enterprise	High	High	Regional
Micro Enterprise	Low	Low	Local
Infra Micro	Null	Null	Sub Local
Note: 1 = Productivity, 2 = Competitiveness, 3 = Market.			

Source: Own elaboration based on literature review, 2011.

In the first block of Table 1 are some of companies that emerged in the last century and were able to train, deploy and innovatively to strengthen its human and financial capital (Nonaka and Takeuchi, 1995).

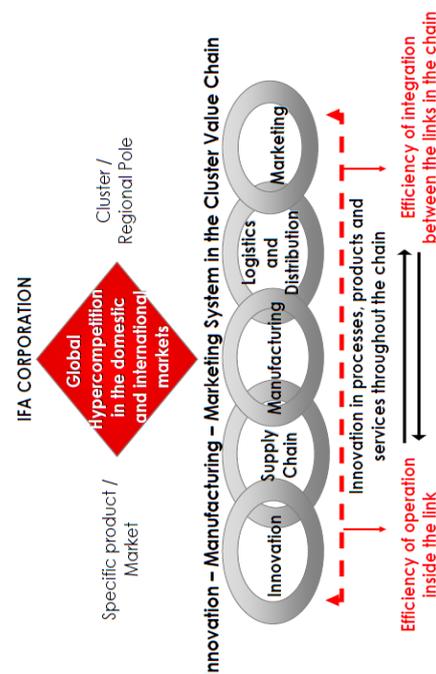
The company's intellectual capital is extended when those who lead productive and competitive perform actions to increase its endowment of intangible capital (e.g. knowledge, procedures, etc.), especially those that are part of its human capital. **Human capital** is the set of human talent for the production. Talent is only applicable to the creation of value when translated into skills or body of knowledge and skills. Also, these skills allow the experience to live productively in the terms of economic value from scarce resources.

Financial capital is one that consists of intangible assets and means of payment that can be incorporated to finance their production and marketing to the complexities of contemporary economy. In the new economy the strategic factor of competitive advantage is intellectual capital, intangible element clearly not purchase if not cultivated.

In the second block of Table 1 companies thrive in an environment of globalization, where competition in the domestic market starts and ends with the players and international rules. The new economy and trade and financial openness have led even the name of game: global hyper-competition in the global market and the local market. This phenomenon is mainly in trade and supply. Proof of this is that large companies (e.g. Wal-Mart and Carrefour) are involved in the local markets with sales management systems and highly efficient. In addition, these companies compete with imports of food products at low cost, allowing them to be competitive in prices, domestic producers face a hyper.

The game of global hyper-competition calls for new players, such as the **Competitive Enterprise IFA**, which must meet three fundamental aspects: (1) Intelligent Organization, (2) Flexible Production, and (3) Agile in Marketing (Villarreal and Villarreal, 2003). In addition, IFA business model should be capable and responsiveness to move and acquire productive knowledge and thus able to apply to the business faster than competitors (see Diagram 1).

Diagram 1.
Functionally Integrated Cluster and the Global Value Chain Model



Source: Villarreal (2008).

According to Villarreal (2008) a **Functionally Integrated Cluster** is defined as a physical cluster made out of businesses, specialized

suppliers, services providers and associated organizations (local governments, universities, research centers, etc.) that compete and cooperate among each other, in a delimited area, with the aim of creating sustainable development agglomeration economies. Their main characteristics are: (1) **Operative efficiency** in each link of the global value chain, and (2) **High integration efficiency** between the global value chain links.

Therefore, in the second block have a set of micro domestic; have to face the global hyper-competition in local markets where they compete on price, quality, quantity and service.

The third block of Table 1 characterizes the micro suffer basically: (1) problems in the areas of financing, (2) technology (3) human resources (4), good marketing and product differentiation, and (5) business cooperation. With regard to financing should be noted the lack of own resources, difficult access to credit lines for medium-and long-term weakness in bargaining power, as elements limiting the activity of microenterprises. Access to credit is more difficult to cope with higher interest rates and shorter repayment terms. To this is added the difficulty of providing traditional property warranties required by the financial system, which eventually set up a table clearly adverse to such companies.

There are other factors that are detrimental to micro compared to large companies, such as: (1) incorporated the few technological developments in production processes, (2) the difficulties of assimilation of available expertise, and (3) the small business management skills and technology. It is worth pointing out that large companies have more resources and opportunities to access these services for business development.

In this regard, note is the low-skilled human resources that prevent the use of technological and organizational advantages. In addition, little or no research to development and a shortage of technological services that exacerbates the problems of small businesses. These factors impact adversely on levels of production efficiency and competitiveness of micro versus large companies.

Despite living an unfriendly environment, microeconomic behavior often show a dynamic and an important capability in terms of job creation. These aspects can be explained by their adaptability or flexibility to the

incessant changes in demand due to their low fixed costs, proximity to the consumer, lower labor costs and reduced labor unrest.

Low levels of competitiveness of microenterprises are not only related to its financial difficulties. In addition, these businesses are characterized by: (1) low quality of products, (2) small business management skills and technology, (3) poor marketing of product / service, and (4) the limited practice of business cooperation.

In the last block is located below the so-called "infra-microenterprises" or production activities beyond market logic. A lot of these businesses do not have access to any support from government programs-federal, state and municipal management, even the chambers of commerce, research institutions, universities and financial centers. By the nature of process of production figures are below the number of microenterprises that exist both nationally and in the states. This type of company is located in a large proportion in marginalized urban and rural areas near town. In most cases the production process is done inside your home or on the edge closest to it.

CASE STUDY: THE "INFRA-MICROENTERPRISES" IN "LAS AMAPOLAS" NEIGHBORHOOD.

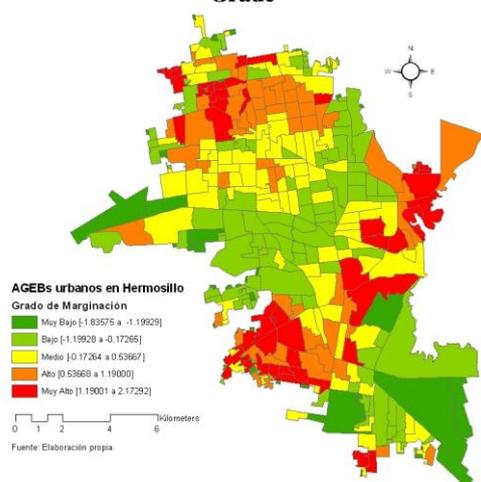
Once exposed approaches and typologies of microenterprises. In this section presents the methodology and results of pilot project implemented in "Las Amapolas" neighborhood (Hermosillo city, state capital of Sonora in northwest Mexico). In addition, since it proposes a policy to support economic and social development of sector. Such units could establish as a set of informal businesses, or outside the market, or the law. Also, infra-microenterprises feature: (1) not use any modern technology, (2) not based on the minimum principles of management and accounting, (3) do not make decisions based on costs, revenues and profits, and (4) have a large social impact that needs to be discussed.

Methodology

This article derives from a social service program implemented in the Economics Department, University of Sonora called **Community-Based Social Service in Support of Micro, Small and Medium Enterprises (PROCOSAM)**. This social project created with the aim of analyzing the economic and financial performance of

microenterprises in major cities in the state of Sonora. Also aims to develop policies for sales, production and financing to increase levels of employment and create more competitiveness in the region. This index was calculated by urban marginalization of **Basic Geostatistical Areas (BGAs)** focused on the Hermosillo city. In developing the **Urban Marginalization Index (UMI)** considered four structural dimensions of exclusion: (1) education, (2) housing, (3) income from work, and (4) population distribution. In developing the index is the method of **Principal Components Analysis (PCA)** was obtained with a component capable of bringing together all aspects of each of variables on one factor: Urban Marginalization Index. Once the index is identified neighborhoods with the highest level of marginalization for the Hermosillo city (see Map 1. AGEB, 2010).

Map 1.
Hermosillo: Urban Marginalization Index and Grade



Source: Own elaboration with AGEB Data, 2010.

In addition, based on the **Urban Marginalization Index (UMI)** was selected as “*Las Amapolas*” neighborhood. Another important element protruding from the other areas was the presence of a community development center that brought together an important part of social fabric of community. Also, through the community center was held that: (1) identify the productive potential of families, and (2) develop an assistance scheme by sweeping and selection of “infra-microenterprises”.

Results

For the results was a collection of information by means of diagnostics and logs a sample of

10% of total population. Below are the preliminary results of study:

- **Owner Profile.** Most owners are women and over forty years. The level of study is primary and secondary. Skills for productive development were acquired via self-learning and some through training.
- **Company Operation.** The amount of initial capital was provided by family loans and small savings of households. The business moved into the orphanage and sacrificed space for the production process.
- **Market issues.** The products produced by this sample of microenterprises are: (1) white bread and sweet bread (2) “piñatas” - Mexican crafts: Clay pot filled with candy for children's parties-, (3) selling “carne asada” tacos –roast beef-, (4) flour tortillas –circular, flat cake made with wheat flour-. In addition, yielded a value of monthly sales of between \$ 1250 and \$ 1500 Mexican pesos –US\$100 and US\$120-. Customers in most cases are neighbors or relatives. The sale of products is carried out by children who are responsible for this phase. The number of hours they devote to sale is between three and eight hours depending on product. Market strategies they use to sell their products focus on price later in quality, customer relations and delivery on time. In recent weeks have increased the credit, especially to repeat customers. The reference price is market but it must be under to make the sale.
- **Suppliers.** The relationship with suppliers is good because it takes them the raw material at a reasonable price. Sometimes the suppliers are planned retail purchases, mostly weekly, storing the basics for production of next week. In all cases no one knows the number and percentage of sales revenue is used to acquire raw materials and cover business expenses. Most entrepreneurs suggest that there is a good market for products but have trouble buying larger quantities of raw material.
- **Cost Issues.** All the producers do not have a cost structure with regard to

wages, raw materials and indirect inputs.

- **Production and Technology Issues.** Most producers do not have machinery, tools and specialized instruments. The processes of organization of production are most rudimentary. In no case has increased production by maintaining the same process. Nor has a computer.
- **Human Resources Issues.** The average age of employees is between 13 and 17 years. In fact, as they are not employed and not receiving a wage. Some work on weekends and other every day between three and eight hours. These workers have a level of education among middle and high school.
- **Expectation.** The expectation of all producers is to get the necessary funding to improve the production and sale. All income received is intended for household consumption and debt repayment. *“If there is no production or sales no food for today or tomorrow”*.

In this first approach we were able to capture a frayed social fabric in terms of: (1) public insecurity, (2) lack of adequate cultural and recreational spaces for children and youth, (3) lack of public policies health (4) lack of programs for streets and street lighting, (5) there is no training programs for people with skills for the development of artistic, cultural and sporting activities, and (6) have not been improvements implemented housing programs. This situation is exacerbated by the increasing violence, drugs and unemployment which affect the family stability.

Also, “infra-microenterprises” intertwined social fabric worn in society. Therefore, it requires the design a local public policy focused on areas to analyze this specific zone from multiple dimensions (e.g. social, environmental, cultural, economic and public safety). This multidimensional analysis will be able to design a strategy that allows us to improve the living conditions of the population.

Given the complexity of the phenomenon were invited to participate at different institutions to design a comprehensive policy, such as **Secretariat of Social Development (SEDESOL)**³, **State Secretariat of**

Economy⁴, **State Secretariat of Public Safety**⁵ and **University of Sonora**⁶. Below is a series of coordinated agreements:

- In the first phase of the strategy is agreed that each institution must submit a diagnosis that allows us to analyze each of phenomenon dimensions. While progress has been made to keep the meetings no progress in working together. This phase is characterized by articulate and coordinate the multiplicity of actors around a regional development strategy.
- The second phase consists of applying a survey containing the most important data of the different social dimensions. This in order to obtain a more accurate diagnosis of phenomenon as a whole.
- The third phase will develop social indicators of short, medium and long term. These parameters will be leading the way on outcome/performance of strategy. That is, if the strategy adopted is correct or if you have to make changes.
- Finally, apply the financial resources obtained by the participating institutions and will remain an ongoing evaluation of social indicators.

CONCLUSIONS

In particular, slight is known both nationally and locally, as has been evolving these businesses. In addition, we must demonstrate that this activity is of great importance. Therefore, public universities should be involved in the investigation of this kind of social studies.

The “infra-microenterprises” of “*Las Amapolas*” neighborhood are immersed in the most disadvantaged social fabric of society. In fact, the common denominator is poverty, marginalization, unemployment, job insecurity, lack of opportunities in education, training, credit facilities and technological innovation.

The cause is not only due to the costs of taxation and regulation of the formal economy.

³ Web site: <http://www.sedesol.gob.mx/>

⁴ Web site: <http://www.leconomiasonora.gob.mx/>

⁵ Web site: <http://www.sespsonora.gob.mx/>

⁶ Web site: <http://www.uson.mx/>

Today, public policies are to attract and create microenterprises without considering the social dimensions that are hurting the small businessman. Thus, government must devise a policy to reduce costs to establish and operate local businesses.

Finally, it is essential to design a local public policy focused, especially in cases like that of a neighborhood marginalized in the Hermosillo city. In this regard, this policy should be implemented from different dimensions in order to present a strategy to improve the living conditions of the community.

REFERENCES

1. ALBA VEGA, CARLOS Y KRUYT Y DIRK (1995). “La utilidad de lo minúsculo. Informalidad y microempresa en México, Centro América y los países Andinos”, México: *Colegio de México, Centro de Estudios Internacionales*.
2. NEIRA, FERNANDO (2006). “Caracterización sociodemográfica de la migración internacional de los países del Pacto Andino”, en *América Latina: las caras de la diversidad*, México, CCyDEL–UNAM, (Serie Coloquios, 3), pp. 181–206.
3. NONAKA, I.; TAKEUCHI, H. (1995). *The Knowledge Creating Company: How Japanese Companies Create the Dynamics of Innovation*, Oxford University Press, New York.
4. POLLACK, MOLLY Y CLARA LUSIDMAN (1997). “*El sector informal urbano desde la perspectiva del género. El caso de México*”, Santiago de Chile, CEPAL (Serie Mujer y Desarrollo). Unidad Mujer y Desarrollo.
5. TORRADO, SUSANA (1981). “Sobre los conceptos de estrategias familiares de vida y procesos de reproducción de la fuerza de trabajo. Notas teóricas y metodológicas”, *Revista Demografía y Economía*, Vol. XV, Núm. 2, México.
6. TOKMAN, VICTOR (1992). “The Informal Sector in Latin America: From Underground to Legal”, en TOKMAN, VICTOR (ED.) *Beyond Regulations: The Informal Economy in Latin America*, PREALC, Lynne Rienner, Boulder, Colorado.
7. Villarreal, René (2008). Intellectual Capital and Innovation Cluster: Building an International Knowledge City. The Case of Monterrey. Ensayo presentado en el *International Forum on Knowledge Asset Dynamics IFKAD 2008*, Matera, Italia.
8. VILLARREAL, RENÉ Y VILLARREAL, TANIA (2003). *La Empresa Competitiva Sustentable en la era del Capital Intelectual: IFA (Inteligente en la organización, Flexible en la producción y Ágil en la comercialización)*, México: Editorial McGraw Hill.