

Municipal Efforts to Combat Poverty

The Toluca Municipal Small Enterprise Development Fund¹

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The modern municipality in Mexico is a diverse mosaic of socioeconomic contexts within urban and rural environments. Municipalities are characterized by both density and distance. They are also busy hubs of production containing heterogeneous cultures. Unfortunately, one of the phenomena shared by a considerable number of Mexico's municipalities is that of poverty, affecting the population's economy, health and nutrition and even recreation.

The phenomenon of poverty in Mexico has undergone a natural transformation from that of a rural issue to the country's urban developments. Rather than dare to contemplate whether urban issues are more or less important than rural issues, suffice to say that the number of urban Mexicans living in poverty is on the rise. In other words, the phenomenon of poverty has migrated from rural to urban areas, and not only in Mexico³ (this does not necessarily imply a forced displacement of people from one place to another: the urbanization of rural areas is also a factor).

Mexico's poverty is widespread and its impact is intensified in the nation's municipalities, urban and rural. Local government, with its proximity to the people, has greater insight into local problems such as poverty, but it is also the smallest link in the chain and remains heavily dependent on federal funds, fighting for attention from federal social programs.

In the last two decades, the municipality of Toluca – capital of the State of Mexico – has flourished into an important economic center. Automotive and pharmaceutical companies have found viable

¹ All of the information from the Toluca Municipal Small Enterprise Development Fund (FONTOL) was obtained from the 2010 edition of the Local Governance and Administration Prize (PGyGL) evaluation report, produced by Ana Elena Fierro and Isela Orihuela, researchers for the Center for Economic Education and Research (CIDE) and members of the PGyGL technical evaluation committee.

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³ BAKER, Judy L., *Urban poverty: a global view*. Urban papers of The World Bank Group, 2008. Available online at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/03/24/000333037_20080324021722/Rendered/PDF/430280NWPOGlob10Box327344B01PUBLIC1.pdf

spaces to develop their operations in the city's industrial parks. The service and communications industries in Toluca also fuel economic growth. Furthermore, Toluca's infrastructure (transportation system, highway access and an airport facilitate travel to and from the municipality) and its proximity to Mexico City have propelled the city into the role of an urban and economic center that plays a fundamental role in the livelihood of its 800,000 inhabitants⁴. Toluca is also a key hub of productivity for the entire Valley of Mexico and a major contributor to the country's GNP.

The program presented here within was awarded with a CIDE-Walmart Foundation Special Recognition as part of the 2010 Local Government and Administration Awards. The goal of awarding such recognition is to encourage local governmental action to address urban poverty and food security issues.

The municipal government intends to use FONTOL to open doors for small entrepreneurs seeking to improve their livelihoods through the production and commercialization of goods and by starting their own businesses.

What is FONTOL?

FONTOL is a small enterprise development program in the municipality of Toluca. The program's beneficiaries are low-income residents who have difficulty obtaining credit from banks. The program seeks to promote income-generation projects that will generate employment, allowing people to stay in their community. It is a revolving fund, meaning that when loans are repaid, incoming funds from those payments are used to disburse new loans to more beneficiaries.

FONTOL's vision is to guarantee permanent access to microfinance for the purpose of enterprise development through the support of income-generation projects that contribute to an improved quality of life for the low-income population.

The program's objectives include:

⁴ INEGI. 2010 Population and Housing Census.

- Create clusters or supply chains to reduce costs and consumption within the community where it is being promoted, as well as self-financing.
- Promote self-employment through micro-finance. Up until now, beneficiaries' projects generate an average of three to four jobs per project.
- Train the target population in basic business management (see annexes for training course materials)
- Network with other institutions that can support specific beneficiary needs, such as entrance into the formal market via trademarking, official registration of businesses wishing to enter the Pymes program, applying for permits and licenses.

The program supports income-generation projects such as service providers, commerce, agri-business, handcrafts, mining and industry. Some specific examples include saddle-making, general stores, work with resin, silver embossing, greenhouses, artisan shoemaking and patriotic craft workshop.

The Fund only supports autonomous income-generation projects, meaning that no project that depends on an outside business to function, catalog sales, for example, is permitted. This restriction supports the goal of building or improving families' self-sufficiency.

Origins and Development Timeline

The program was created as a response to the need to support vulnerable groups of people in Toluca, such as single mothers, people with disabilities and senior citizens. It is targeted towards low-income residents that already have a small business or are interested in starting one. These people do not know how to apply for financing or request counseling nor do they have the necessary credit history to access investment capital.

The program began in 1998 in order to fill in the credit gaps previously mentioned and was funded with federal contributions from FONAES (National Business Solidarity Support Fund) and municipalities. Each party contributed 50% of the initial 1,000,000 pesos.

During 2009 and 2010, 1,018 loans were disbursed. The commitment and discipline of the beneficiaries has helped grow the fund to \$3.9 million pesos. In addition, the total value of the fund's outstanding debt is low at less than 2%.

Worth highlighting is that fact that 70% of FONTOL's current projects are being managed by women, mostly single mothers, without the program being specifically geared towards women. Single mothers stand out not only among direct beneficiaries but also among indirect beneficiaries, as 4 out of every 10 heads of household in Toluca is a woman.

Design, resources and operations

The fund supports people that meet the following requirements: belongs to a support group of 5-20 people; carries out some income-generating activity; is at least 18 years-old; lives in the municipality of Toluca and is of a low socioeconomic status.

The program consists of four required, sequential phases. Moving from phase to phase depends on the timeliness of payments and ultimately on the complete liquidation of the loan. Each support group designates a representative responsible for collecting and delivering group members' payments to the municipal treasury. A one-week grace period is permitted once the loan is disbursed and any outstanding debts are charged 2% interest. The phases are as follows:

First. An initial loan is disbursed in the amount of 3,000 pesos to be repaid in four months with weekly payments of 194 pesos. Financing is contingent upon the group's participation in a training course entitled "Build Your Small Business".

Second. A loan of 5,000 pesos is disbursed to be repaid in six months with weekly payments of 222 pesos per person. The training course during this phase is called "Long Live Small Business!"

Third. The loan amount grows to 7,000 pesos to be repaid in 8 months with payments of 242 pesos. Participants must design a business plan after participating in a training course that prepares them to do so.

Fourth. This is the final step and a special loan is offered ranging from 5,000 to 20,000 pesos, but now with individual access. SWOT (strengths, weaknesses, opportunities and threats) analyses are conducted and assessments are done to provide advice and make recommendations for the business projects. Beneficiaries and FONTOL members redefine the work plan.

FONTOL's internal process for delivering financing includes the following:

1. Publicity campaign. Field staff visit communities in the 24 districts and 323 sub-districts of the municipality of Toluca to promote the program and motivate people to form support groups.
2. Formation of a support group. The group may consist of family members, neighbors, friends or acquaintances that participate in some income-generating activity. Those that desire to start a business and/or seek business counseling may participate as well. Once the group is formed, the group representative calls the office to schedule a visit.
3. Research. Program staff visits the community, registers group members and records the type of business they will manage. All group members must present a birth certificate, voter identification, proof of residence and a map indicating where their homes are located.
4. Formal group registration. A constitutional act for the group is signed, the request for financing is completed and a socioeconomic assessment is conducted. Every group has a president, secretary and treasurer.
5. Subcommittee revision. This is a group of people charged with reviewing all of the documentation and assuring it is complete.
6. Technical committee approval. This committee checks the validity of all of the documentation received and reviewed by the subcommittee. Committee members include the Mayor, the Legal Advisor, the Director of Economic Development and representatives from FONAES, the Mexican Employers' Association (COPARMEX) and the Mexican Chamber of Commerce (CANACO).
7. Check delivery. The municipal treasury emits the checks and the Mayor personally delivers them to the beneficiaries during a public ceremony. Each group member receives a check and a payment schedule.

8. Participation in training courses depending on the phase.
9. Weekly payments delivered.
10. FONTOL provides follow-up to the projects.
11. End of lending cycle and possible transition to next phase.

The technical subcommittee meets once a month to review applications and provide follow-up to disbursed loans. Subsequently, the technical committee meets to validate documentation and/or approve financing.

Stakeholders, institutions, levels of government participation and distribution of responsibilities

Various stakeholders participate at the federal and municipal level. FONAES is the federal representative and provides half of the funding. The municipality provides the other half. Federal participation is limited to funding, whereas program design, management and operations are carried out at the municipal level.

FONTOL appears as a separate department in city hall's organizational chart and is responsible for managing the program at the municipal level. The program operates under the Office of Economic Development and Commercial Regulation which is divided in two sub-offices: municipal enterprises and industry and commerce promotion. The former has four departments, one of which is FONTOL.

FONTOL's staff consists of five people: a program analyst, two field staff, a secretary and the director. The analyst monitors payments, manages statistical data, files incoming documentation and receives individual requests from beneficiaries. The field staff carry out activities in the communities. The secretary provides administrative support and the director is the chief officer responsible for the program.

Relevance to the local agenda

The program forms part of the municipality's economic and social development policy. Economic issues are addressed by supporting income-generating activity and self-employment in communities. The program contributes to social development by targeting populations living in poverty, among them vulnerable groups such as single mothers, disabled people, indigenous people and senior citizens.

The program trended naturally towards women entrepreneurs at the beginning. As the fund has matured, plans are being developed to work with youth by organizing university events and participating at job fairs to offer FONTOL microfinance opportunities.

Evidence of program impact

Operational effectiveness assessment

The program functions in an orderly manner. All responsible parties are clearly aware of their duties. Data is up-to-date and readily available with details about every single loan, past and present, the percentage of outstanding debt (which is very low) and personal information about every participant. All paperwork is completed using standardized forms, resulting in an very organized process.

Visitors to the office know exactly who to consult and the necessary steps to take. Every new support group is made aware of their responsibilities, including the required training courses (there is a different course for each phase of the program) intended to provide borrowers with orientation about credit. The goal of the Phase 1 training course is to train borrowers in budget design and revenue, expense and profit monitoring.

Achievements and impact assessment

The program is considered a success because it has been operating since 1998 despite changes in the local government. The program's budget has also increased over the years with increased federal and municipal funding. This may be a result of funding being used for its stated objective

and the fact that the program continues to form an integral part of the municipal agenda and its focus on vulnerable populations.

The number of beneficiaries is also on the rise. According to FONTOL data, 348 loans were disbursed between 1998 and 2003. However, the current administration has delivered 1,018 loans in 2009-2010 alone. It seems that people are well informed about the program, are interested in participating and are receiving the necessary attention with respect to their doubts or specific needs.

Another example of the program's effectiveness is the significant growth of the initial budget. The fund boasts a total growth of 53% as of September 2010 with a total capital of \$2,449,422.01 pesos. This is credited to the timely fulfillment of obligations on the part of the beneficiaries. As a result, incoming funds from repaid loans can quickly be loaned out again. According to the fund, every loan disbursed creates one to four jobs.

Conclusions

The FONTOL program is an innovative and interesting case study not only because it is unique, but also because of two characteristics highlighted in this brief look at its operations: sustainability and replicability in other municipalities.

In the case of revolving loans, sustainability is achieved every time funds are re-used to disburse more loans in each of the program's phases. Beneficiaries have the means to invest in their businesses and are motivated to undertake income-generating activities that improve their livelihood and provide for their basic needs, such as food, clothing and education. Furthermore, the program produces fast results with relatively little investment. When beneficiaries are given clear, concise information reinforced by personalized and motivational counseling, short-term results are achieved that favor this marginalized sector of the population.

The fund shows great prospect for replication in other municipalities as the initial investment is low and the results are produced quickly. Case in point, the Metepec government requested assistance and advice from Toluca and is implementing the same program in its municipality.

A potential threat to the success of this type of program is the varying level of involvement or interest of different administrations. Only 348 loans were disbursed from 1998 to 2003, while the current administration's number of loans surpasses 1,000. This type of program's impact depends heavily on the support of the Mayor at any given time and on the priority given to the program on his or her policy agenda.

In closing, the Toluca Municipal Small Enterprise Development Fund is an innovative program that seeks to empower vulnerable populations through self-sufficiency and self-determination. The program is highly institutionalized with regulations and statistics. It has grown considerably in recent years, increasing in both the number of beneficiaries and in the fund's capital, demonstrating the program's potential and the social impact it can have in the mid-term.

Since this is a program that aims to promote income-generation projects, financing and basic training are provided so that people can take full advantage of the resources, learn to manage their revenues and reinvest their profits. This also represents a long-term investment, as moving from one phase to the next is a motivator for participants and makes the possibility of owning a business more and more self-sustainable. Finally, the program breaks from the traditional welfare and hand-out approaches in which food staples or cash are given directly to individuals or groups. FONTOL is a long-term municipal stimulus because it combats poverty on one of the most critical fronts: employment.