

**THE "FUND FOR SOCIAL DEVELOPMENT"
(FONDESO)
OF THE MEXICO CITY GOVERNMENT
A CASE STUDY**

Prof. Celso Garrido

UAM Azcapotzalco/ Mexico

"Inter American Academic Dialogue at the OAS General Assembly"
sponsored by OAS Office of Education, Science and Technology
Florida International University, June 4th, Fort Lauderdale, Florida

CONTENTS

- I. ¿WHY FONDESO?
- II. CONTEXT ELEMENTS
- III. FONDESO: INSTITUTIONAL LOCATION,
CONCEPT, STRATEGY
- IV. FONDESO'S FINANCING PROGRAMS AND
FIRMS ACTIVITIES PROMOTION
- V. CONCLUSIONS AND RECOMMENDATIONS

I. ¿WHY FONDESO?

- THIS PRESENTATION RESUMES THE MAIN RESULTS OF A STUDY ABOUT THE FUND FOR SOCIAL DEVELOPMENT (FONDESO) OF THE MEXICO CITY GOVERNMENT, DONE FOR ECLAC
- FONDESO, CREATED IN 2002, REPRESENTS A NEW EXPERIENCE AS AN INSTITUTIONAL WAY OF PUBLIC DIRECT FINANCING THAT COMBINES FIGHT AGAINST POVERTY WITH THE SMALL AND MEDIUM SIZED BUSINESS FINANCING UNDER A SUSTAINABLE STRATEGY.

OBJECTIVE OF THE STUDY

- IN GENERAL, TO KNOW ABOUT THE CONTEXT, THE INSTITUTIONAL FEATURES, THE CONCEPT, THE STRATEGIES AND THE PROGRAMS OF FONDESO.

- IN PARTICULAR, TO UNDERSTAND FONDESO'S CONDITIONS, PRACTICES AND CHALLENGES, RELATED TO THE FINANCING AND PROMOTION OF SMALL AND MEDIUM SIZED BUSSINESS, FROM A LOCAL DEVELOPMENT PERSPECTIVE.

I. CONTEXT

A) SOCIO-ECONOMIC CONDITIONS.....

Comparative indicators of the main Latin America countries and Spain with Mexico City

Country	Population (Millions)	PIB Total (Mill. US\$)	PIB Per Cápita (US\$)
Mexico	98	498,000	\$5,080
Argentina	37	275,500	\$7,440
Brasil	170	606,800	\$3,570
Chile	15	69,900	\$4,600
Colombia	42	88,000	\$2,080
Venezuela	24	104,100	\$4,310
Total 6 countries	386	1,642,300	\$4,255
Mexico City	8.5	113,050	\$13,300
Spain	39	590,100	\$14,960

Source Sedeco- Fondeso May 2004

I. CONTEXT

A) SOCIO-ECONOMIC CONDITIONS.....

Population percentage by level of poverty

(assessed by the number of minimal salaries in their income)

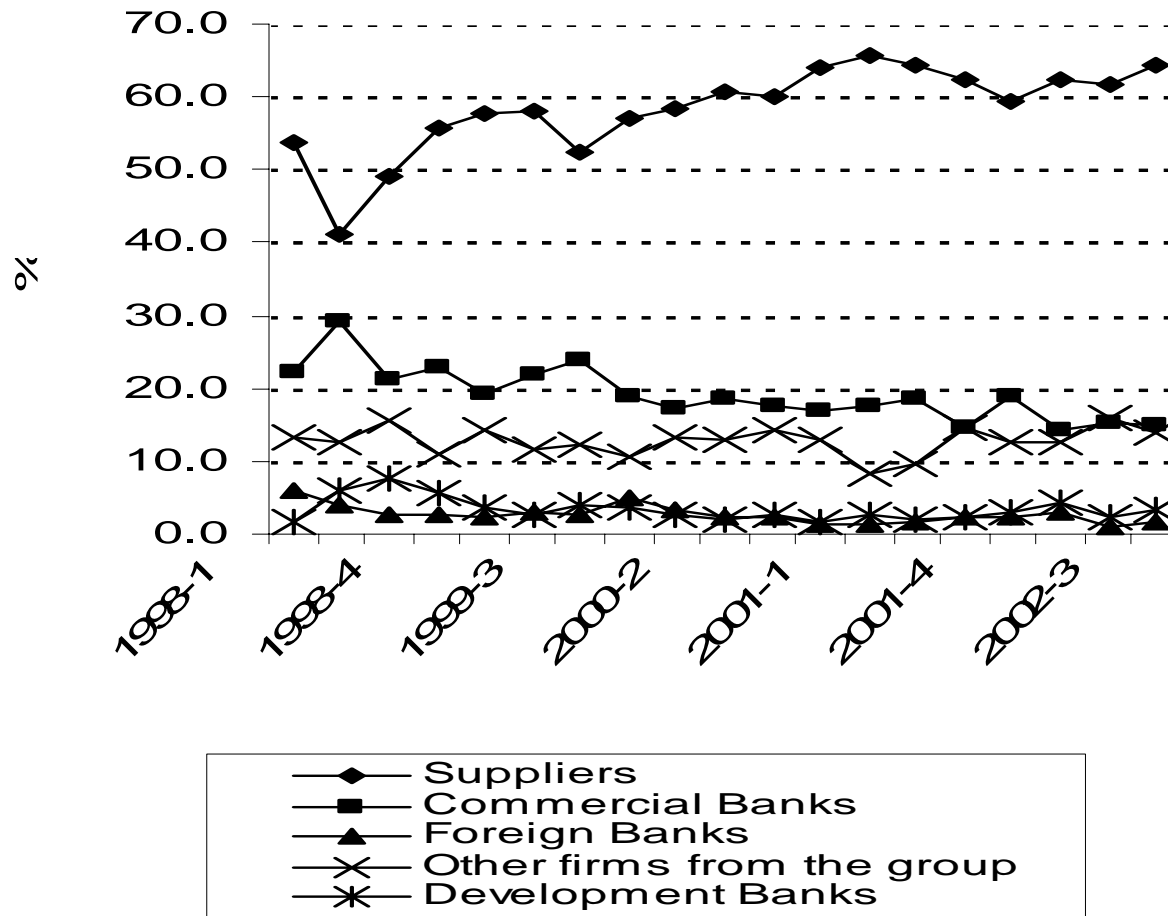
VERY HIGH		HIGH		MEDIUM		LOW		VERY LOW		TOTAL	
Population		Population		Population		Population		Population		Population	
Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
1,237,157	14.6	1,921,995	22.5	2,632,039	31	1,110,697	13	1,611,059	18.9	8,512,948	100
Source: Sedeco May 2004											

68% OF THE POPULATION (MORE THAN 6 MILLIONS) ARE CLASIFIED FROM MEDIUM TO VERY HIGH POVERTY LEVELS (LESS THAN THREE MINIMAL SALARY)

I. CONTEXT

A) SOCIO-ECONOMIC CONDITIONS.....

Financing alternatives for small business 1998-2002



I. CONTEXT

B) NATIONAL POLICIES FOR SMALL AND MEDIUM SIZE BUSSINESS AND ITS FINANCING

- THE GOVERNMENT HAS SEVERAL PROGRAMS TO SUPPORT, PROMOTE AND FINANCE SMALL AND MEDIUM SIZE BUSSINESS IN THE COUNTRY,

- THE BASIC MODEL IS THE MICRO-FINANCE PRIVATE INSTITUTION AS AN ***"EFFICIENT OPERATOR"*** OF PUBLIC FUNDS , IN CONTRAST WITH FONDESO'S MODEL

- RESULTS ARE INSUFICIENT, ACCORDING TO A PERSISTENT WORSENING IN PEOPLE'S LIFE QUALITY AND IN THE SMALL AND MEDIUM SIZE FIRMS ACTIVITY.

II. FONDESO: OBJECTIVE, CONCEPT AND STRATEGIES

Objective

- FONDESO IS SEDECO'S FINANCIAL ARM, AND ITS MAIN OBJECTIVE IS:

* TO SUPPLY CREDIT AND ADVISE TO THE EXCLUDED AND POOR PEOPLE, SO THEY CAN DEVELOPE PRODUCTIVE PROJECTS TO INCREASE THEIR LIFE'S QUALITY

* TO OFFER SUCH SERVICES TO THE PEOPLE IN THE WHOLE CITY THROUGH OUT ITS 16 MUNICIPALITIES

B) FONDESO: OBJECTIVES, CONCEPT AND STRATEGIES

Concept and strategies

The operational mood

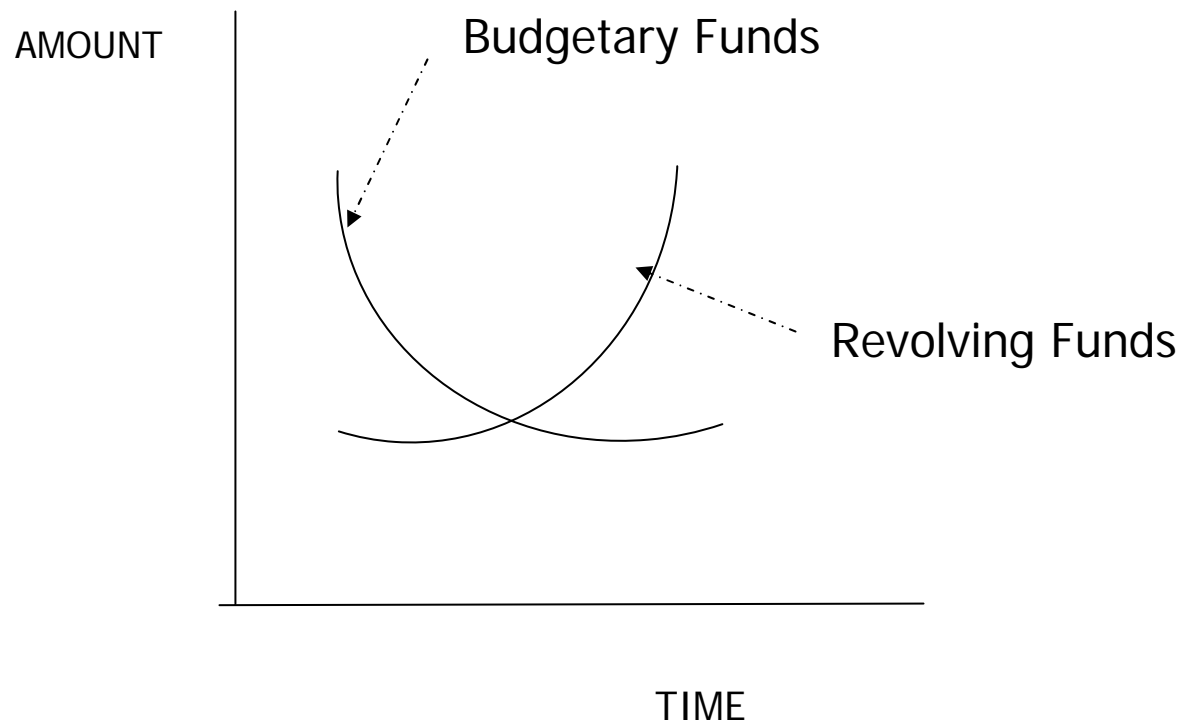
FONDESO IS CONCEIVED AS A "SOCIAL BANK" THAT OPERATES BUDGETARY PUBLIC FUNDS TO LEND FOR SELF-EMPLOYMENT AND TO SMB'S

THE FUND OPERATES WITH LOWER BUT POSITIVE RATES OF INTERESTS THAN THE PRIVATE CREDITS,

IT HAS POWER TO APPLY COORDINATED FINANCIAL AND NO FINANCIAL STRATEGIES IN A LOCAL DEVELOPMENT APPROACH

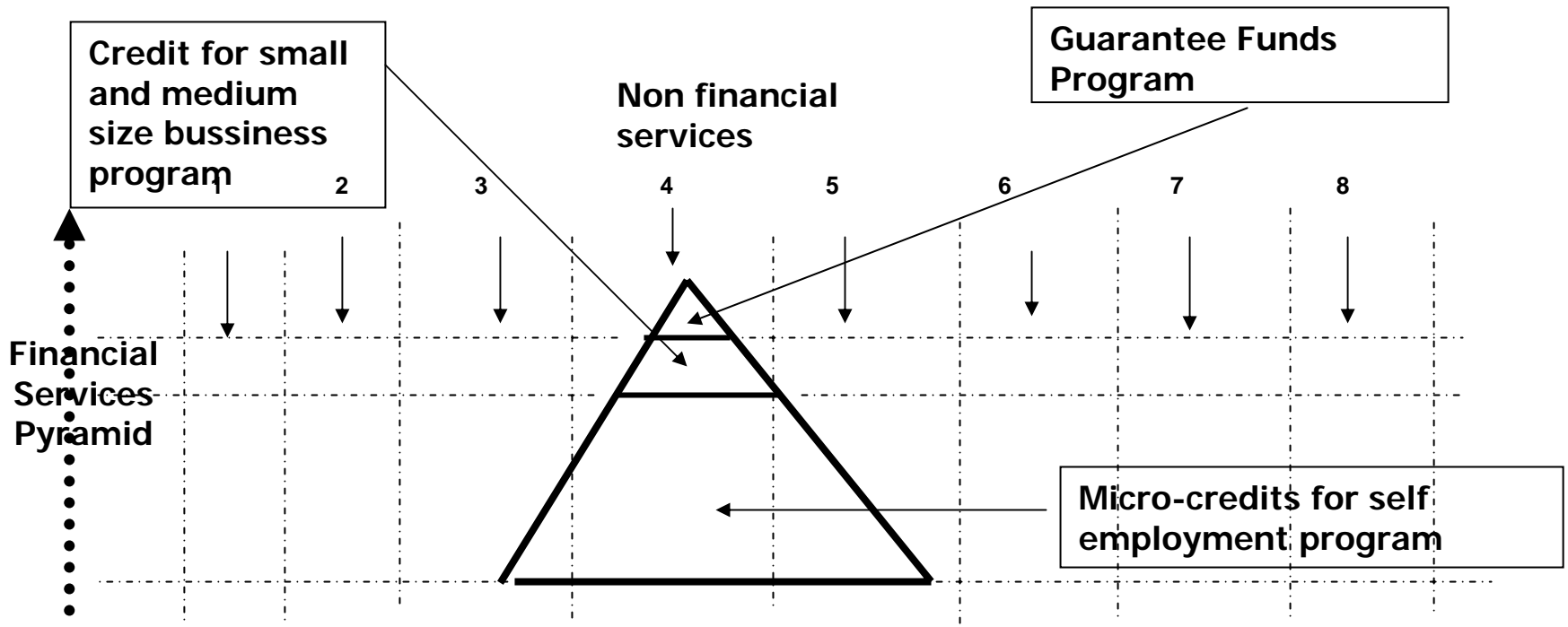
B) FONDESO: OBJECTIVE, CONCEPT AND STRATEGIES

Financial sustainability approach



FONDESO manage its funds to become a self sustainable program

Financial and non financial services matrix



Non financial services list

1: Qualification (training) 2: Young Entrepreneurs Program related with bussiness incubators at universities 3: Productive Linkage and Suppliers development program 4:Information System (Siege) 5: Bussiness Advisory Centers 6:Industrial Parks Program 7 : Connection with Chambers and other asociations 8: Fairs.

Source: Self made based on FONDES0 documents.

III. FONDESO'S FINANCING PROGRAMS AND BUSINESS ACTIVITIES PROMOTION

THE FONDESO PROJECT HAS FOUR MAIN LIMITS

1. ITS SHORT HISTORY AND LIMITED SCALE PRESENT IT JUST AS A DEMONSTRATIVE PROJECT
2. ITS DEPENDENCE OF PUBLIC BUDGET IMPLY LIMITS TO ITS DEVELOPMENT
3. LIMITED TECHNICAL AND ADMINISTRATIVE RESOURCES
4. ADVERSE NATIONAL ECONOMIC SITUATION SINCE 2002, (STRONG CONTRACTION, INCREASING UNEMPLOYMENT AND BUDGETARY CONSTRAINTS)

General data about Fondeso financing programs

2001- June 2004

	Programs	Total	Structure	Average amount for each credit (dlrs)
Granted credits	Microcredits	88,193	97.57%	\$300
	SME´s	2,038	2.25%	\$5,500
	Guarantee Funds	157	0.17%	\$28,000
	TOTAL	90,388	100.00%	
Delivered Funds (millions of dollars)	Microcredits	\$32	66.79%	
	SMB	\$11	24.03%	
	Guarantee Funds	\$5	9.17%	
	TOTAL	\$47	100.00%	
Source : Fondeso				

A) SELF EMPLOYMENT MICROCREDIT PROGRAM

Operations 2001- 2006

	2001	2002	2003	2004	2005	2006
Granted Credits	32,354	33,733	18,943	30,000	20,000	16,000
Delivered Funds	\$10	\$12	\$8	\$15	\$10	\$9
Direct Jobs	44,001	45,876	25,575			
Favoured population	161,770	168,665	94,715			
Estimated						
Source : Fondeso						

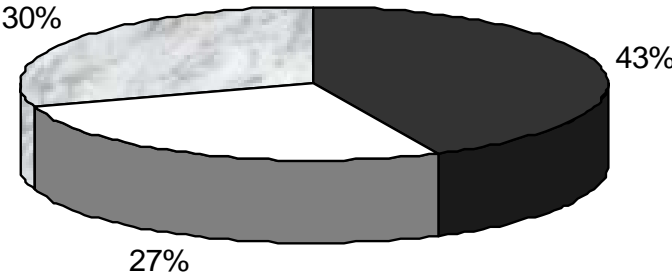
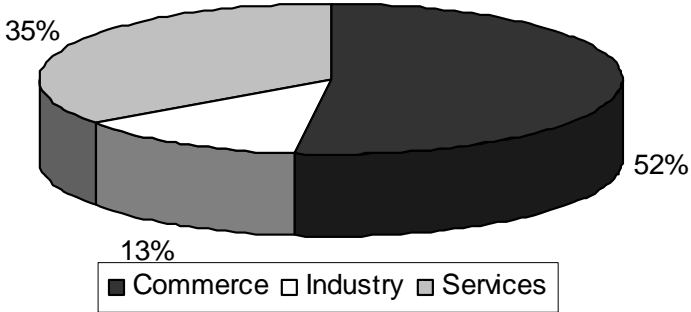
B) PROGRAM OF CREDITS FOR SMALL AND MEDIUM SIZE FIRMS

Operational rules

Credit Type	Finance	Fixed Capital
Destiny	Investments in merchandise	Equipment and machines
	raw material, etc.	adquisition
Settlement period	24 months	36 months
Credit amount	500 to 3000 dollars	
Interest rate	12 to 18% annual	
Guarantee	1 on 1 value in goods or real state owned	
	by the one who requests or the supportive's	

B) PROGRAM OF CREDITS FOR THE SMALL AND MEDIUM SIZE FIRMS

Credits distribution to small and medium size business by sector and destiny group



Source : Fondeso

■ Women □ Men □ Vulnerable Groups

C) GUARANTEE FUND PROGRAM

Operational Rules

FIRM TYPE	CONCEPT	GUARANTEE	PERIOD	AMOUNT
OPERATING FIRMS	WORKING CAPITAL	Supportive	Up to	
			18 months	4,500
			to	
	1 on 1 value			
OPERATING FIRMS	FIX ASSETS	Acquired good	Up to	70,000
		and	36 months	dollars
	Supportive			
	1 on 1 value			
NEW FIRMS	WORKING CAPITAL	Supportive	Up to	
			18 months	4,500
			to	
	1 on 1 value			
NEW FIRMS	FIX ASSETS	Acquired good	Up to	35,000
		and	36 months	dollars
	Supportive	(with 4 months		
	1 on 1 value	tolerance)		
Opening cost: 1.5 %				

C) GUARANTEE FUND PROGRAM

Program Operation

	2003
Granted Credits	157
Delivered Funds (millions of dollars)	4.5
Source: Fondeso	

D) CREDIT TO SMALL AND MEDIUM SIZED BUSSINESS SUCCESSFUL CASES

From the possible business developments' point of view, the interviews do not show too much perspectives

The possibilities from the Young Entrepreneurs Project are better

- Credits to 100 business incubators being developed at "Instituto Politecnico Nacional".

- Amounts from 500 to 30,000 dollars

For example: The firm "Bioteclin", produces substances for diagnosis in vitro for clinic analysis. They are planning to operate in the national market and to export to the Netherlands.

CONCLUSIONS AND RECOMMENDATIONS

1. THE FONDESO CONCEPT IS AN ALTERNATIVE APPROACH, POSSIBLE TO APPLY IN MEXICO
2. FINANCE AND NON FINANCE SERVICES ARTICULATION STRATEGY APPLIED BY FONDESO, IS A FAVORABLE TOOL TO ESTIMULETE LOCAL BUSSINESS GROWTH.
3. NEVERTHELESS, MEXICO CITY'S NUMBER OF PROBLEMS AND FONDESO'S LIMITED BUDGET, MAKE THAT FONDESO GET LOW IMPACT RESULTS.

CONCLUSIONS AND RECOMMENDATIONS....

4. TO INCREASE OF FONDESO IMPACT, ITS NECESSARY A RECOVERY OF MEXICO'S ECONOMY GROW PATH AND THAT FONDESO RECEIVE MORE OPERATIONAL FUNDS.
5. FONDESO'S FINANCIAL SUSTAINABILITY IS VIABLE BUT LIMITED. LEGAL CHANGES ARE REQUIERED IN ORDER TO GAIN ACCESS TO MORE FINANCING SOURCES, EVEN INCLUDING TO BECOME A REAL "SOCIAL BANK" INCLUDING DEPOSITARY ACTIVITIES.

CONCLUSIONS AND RECOMMENDATIONS

6. THE EFFECTS OF THE FUNDS DISTRIBUTED BY THE PYRAMID OF PROGRAMS, CAN BE IMPROVED WITH A SELECTIVE SUPPLY POLICY FOCUSED ON WELL PLANNED SMALL BUSSINESS PROJECTS SUPPORTED ON KNOWLEDGE NETWORKS (BUSSINESS INCUBATORS, PRODUCTIVE LINKAGES, GOVERMENT SUPPLIERS)
7. BUSSINESS MANAGEMENT OF FONDESO SHOULD IMPROVE, F.I : TO ENSURE TRANSPARENT STRUCTURAL AND OPERATING INDICATORS, THAT MAKES POSSIBLE TO EVALUATE RESULTS AND ESTIMATE FORECAST.