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FINANCIAL MODEL FOR INFORMAL MSMES IN THE INDUSTRIAL AREA OF COLIMA

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Abstract: This research is about micro-enterprises (informal MSMEs) in Colima, starting from their global industrial context to the local one, emphasizing the agricultural activities that are the main ones in the State; since it is intended to propose a financial model with investment and financing options, in the first case that guarantee a competitive return and risk reduction with minimum investments and without obligatory terms; In the second case, reference is made to those companies in the industrial area with scarce liquidity and lack of credit capacity that are demanding resources and that for these the financing process is facilitated without a commitment of forced interest and without compromising the authority and administration of the company with outsiders. It is intended that the companies that offer and demand resources are regional, both identified in this research. It is transcendental for the society of Colima, since based on data from INEGI (2020) 99.8% of the companies are micro and small and more than 55.2% are informal INEGI (2023), which limits their access to financing that allows them to pay operating expenses to continue working.

Keywords: company, financial model, classification, size, industry.

PROBLEM STATEMENT

The problem is that there are no accessible local financing options for companies in the process of growth in the industrial area in the state of Colima.

THEORETICAL FRAMEWORK LITERATURE

REVIEW CONCEPT OF ENTERPRISE:

The Dictionary of the Royal Spanish Academy defines a company as an “organizational unit dedicated to industrial, mercantile or service-providing activities for profit”. (Spanish,

n.d.). The Marketing Dictionary of Cultura S.A., defines a company as an “economic unit of production, transformation or provision of services, whose *raison d'être* is to satisfy an existing need in society. (Management, n.d.).

CLASSIFICATION OF COMPANIES:

Types of companies:

The **criteria** for classifying the companies we are going to study are as follows: (Aurelio, 1994)

- Size.
- Ownership of capital.
- The cost of production.
- The geographic scope of the activity.
- The economic sector.
- The number of products or services that constitute its object.
- The level of delegation in decision making.

INFORMAL MSMEs IN MEXICO.

Generally, the size of an enterprise determines its classification, dividing it into micro, small and medium-sized enterprises. Informal MSMEs are businesses with potential that seek to make a profit, but operate on a small scale.

TYPES OF INFORMAL MSMEs.

The classification of informal MSMEs in Mexico is based on several criteria, such as the number of employees and the annual sales they generate. The classification can be summarized as follows:

Microenterprises in Mexico, Small Enterprises in Mexico, Medium Enterprises in Mexico (BBVA, 2023)

CONCEPT OF AGRIBUSINESS:

Agribusiness is the economic activity that comprises the production, industrialization and commercialization of agricultural, forestry and other natural resources products (Mexico, 2017).

SOURCES OF FINANCING:

Financing sources have become a great option for entrepreneurs, as most of them think that obtaining a bank loan is the only option available, when in fact there are other alternatives that may be easier and more accessible for entrepreneurs in Mexico (Mundi, 2022).

Throughout this article we will discuss a new source of financing for Mexican businesses, its characteristics, as well as its advantages and disadvantages.

JOINT VENTURE” AGREEMENT.

The joint venture is a temporary alliance between two or more persons in which the members of the association join efforts and resources in order to commercialize, develop, produce a product or offer a service. Some people decide to join their efforts and resources to increase their participation in the market to which they belong, or to increase the range of products and services they offer, among other purposes that the joint venture contract may have.

Participants can gather all the resources they wish, whether tangible or intangible, such as: sales strategies, labor forces, machinery, capital, technologies, market share and dominance, sales and distribution networks, products, among others. Participants are free to decide

The way in which profits or losses will be distributed regardless of the amount of resources contributed by each of them. It can be established that each of the partners is entitled to a fixed percentage of the profits or losses generated by this contract, or the way of distributing the profits or losses can be freely chosen. (Participation, 2023) p. 4.

According to Article 252 of the General Law of Commercial Companies (LGSM) (...) it is a contract by which a person grants to others who provide goods or services, a share in the profits and losses of a commercial negotiation or one or more commercial operations. (Consultants, 2022)p.1

The purpose of the contract is to distribute the profits and, if applicable, the losses generated by the participant; it is of vital importance to highlight that the losses for the member cannot exceed the value of the goods or services provided, as established in Article 258 LGSM (Consultants, 2022) p.2.

The “Joint Venture”, today is very useful to participate in various business models; it allows the partner to finance itself either by obtaining goods, money or services, so that it can reach the purpose established in the contract in its own name, and allows the partner or partners to participate in the profits or losses of the business, limiting their investment risk and safeguarding their assets (Consultants, 2022) p.4.

EQUITY INVESTORS.

These investors, who operate in large capital models such as angel investors, can also use their practices to support informal businesses with small amounts to make them grow.

Its way of working consists of providing capital in operating businesses and offering its economic contribution in commercial operations to support regional micro-entrepreneurs.

The difference with venture capitalists is that they use their own funds and not those of third parties to make these investments. In addition, they normally reach the companies in which they invest through direct contacts as shown in the following diagram.

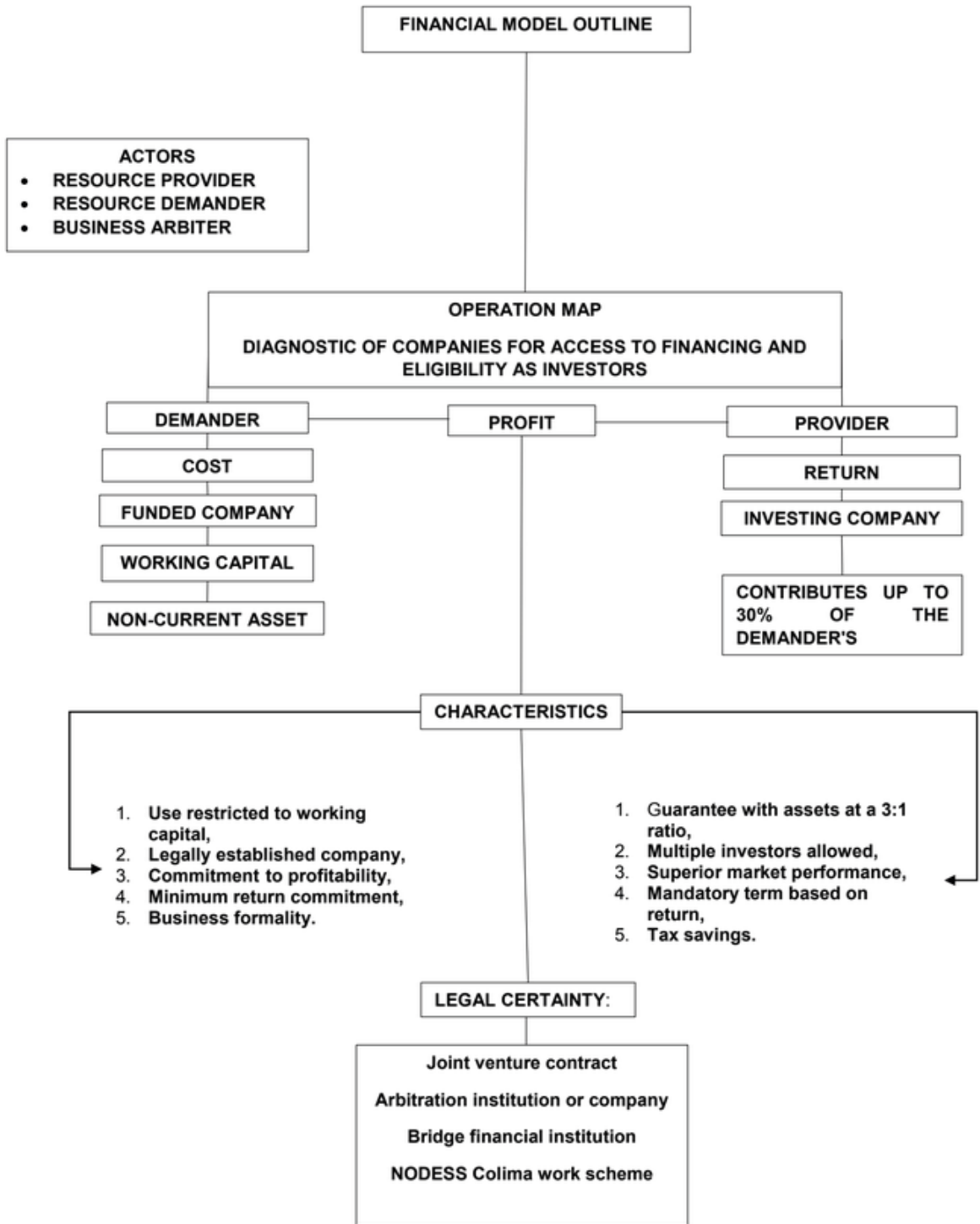


Figure 1. Financial Model for Informal MSMEs in the Industrial Area of Colima. Own elaboration ©.

DETAILED OPERATION OF THE PROPOSED FINANCIAL MODEL.

The alternative offered to all businesses that are experiencing financing problems is the financial model proposed for regional informal businesses in Colima. This model is aimed primarily at the social sector of the population, where there are a large number of informal businesses that do not have the resources or the necessary documents to be considered subject to financing, which in some way limits their ability to continue operating.

The central purpose of this model is to support the day-to-day operations of the business. Although it could be considered a long-term objective or a forward-looking financial strategy, in its inception, its primary motivation lies in facilitating the financing of the operational side of the business, which is reflected in working capital.

IMPLEMENTATION OF THE MODEL.

The first condition is that it must involve regional informal businesses, using funds originating in the state of Colima to finance the region's own enterprises, an initiative that can be replicated in any state of the Republic, city or institution. The primary objective is to boost the productivity of members, citizens and local businesses. In this way, the money that people sometimes keep under the mattress or in unprofitable savings accounts can be used in a way that fulfills a dual purpose.

The first objective is to guarantee a financial return that, as we will discuss below, proves to be highly competitive with any other investment scheme in the market. It will also support the region's economic development by providing support to informal businesses and those that do not qualify for traditional financing, giving them the backing they need to move forward.

MOST IMPORTANT PURPOSES.

As a consequence of this approach, we identify two fundamental actors: the resource provider, the capital holder, and the resource demander, represented by the informal business that requires financing. Our task is to establish a solid connection between the two actors, creating an operational scheme that ensures the success of the model and, in turn, benefits the businesses with access to financing at a reasonable cost that was previously inaccessible to them.

It is essential to emphasize that this cost-sharing should not be onerous, as it will be based on profit sharing, thus generating a partnership dynamic without formalizing a legal partnership. The premise here is that the return for the investor is derived from the profits of the business. Once this scheme is established, the initial cost is converted into a profit sharing under the modality of Joint Venture, a concept that will be detailed later on.

The function or role of the investor presents the option of maintaining its capital with the prospect of obtaining a return, which may vary, although, in most cases in which the model is implemented, it usually takes the form of a distribution of profits which, although not classified as dividends, are managed in a similar manner. This process makes it possible not only to recover the initial capital invested, but also, essentially, to recover the investment through a return commitment, which the investor can request whenever he/she deems it appropriate. This temporal and monetary flexibility is one of the fundamental virtues of this model, allowing the investor to choose the duration and the terms of the investment.

The amount of your investment in the business in a way that is adaptable to your needs and preferences.

The range of investments can range from one hundred pesos to one million pesos, depending on the financial capacity of the

offeror. There is a mandatory period during which the business receiving the financing has the opportunity to start operations and return the capital with the profits generated. To ensure the proper functioning of this process, a reputable institution or company will be hired to act as an arbitrator in the model. This entity will be in charge of verifying that the candidates, both bidders and applicants, comply with the requirements of the model. In addition, it will verify that the accounts presented by the claimant genuinely reflect the generation of profits, in accordance with the country's financial and accounting information standards. This measure will ensure that the remainder received by the investor is appropriate and complies with the terms stipulated in the model.

It is essential to bear in mind that this scheme will entail certain tax considerations in accordance with the provisions of the income tax law, which will be considered as savings. In turn, this model will be characterized by ensuring that the vast majority of informal businesses will have access to financing, as long as they meet the requirements to participate in the model, which implies formalizing their business structure.

As a result, the transition of companies from informality to formality will be boosted, which will contribute significantly to the economic development of the regions. This process, in turn, will generate improved sources of employment, offering workers opportunities that are aligned with Mexican laws.

Crucially, this whole scheme is supported by NODESS, a nationwide research program that seeks to support people in the social sector in collaboration with universities and the government as a public sector entity. These three sectors, together, make up NODESS, whose purpose is to support communities and facilitate their transition to formality. This model will be directed through the programs determined

by NODESS. We will take this opportunity to ensure that this proposal also has the backing of various institutions that support the social and solidarity economy, providing particular support in the sustainability of enterprises, as is the case of the *cajas populares*.

It is worth mentioning that this model also supports the 2030 Sustainable Development Goals (SDGs). Of the United Nations.

METHODOLOGY

THE METHODOLOGY APPLIED IN THIS RESEARCH IS APPLIED.

In this study, applied research was chosen for the specific purpose of addressing the challenge of financing for informal enterprises in the Colima region. Mexico. The applied research is oriented to propose improvements for those enterprises that, in spite of having a profitable business, are facing liquidity difficulties. The proposed financial model will be fed by resources provided by local investors, who will support the regional economy and obtain a competitive return.

The research methodology focused on the implementation of trial and error exercises, with the objective of perfecting the process and turning it into an efficient financial model capable of addressing the challenges of the social and solidarity economy. Applied research emerges as the optimal tool, as it specifically addresses a problem that affects both individuals and society as a whole. It is expected that the proposed solutions will generate a significant impact on business formality, economic development and social welfare, thus contributing to improve the quality of life of the inhabitants of the State of Colima. Mexico.

ANALYSIS AND INTERPRETATION OF RESULTS

The high participation of informal MSMEs in Colima's economy makes it necessary to reconsider their strategic role in economic development. In this sense, the actions of businessmen should be aimed at achieving the conditions and generating opportunities for informal MSMEs to improve their productivity, as well as facilitating access to financing in order to strengthen them. The task is to contribute to the development of informal MSMEs with efficient, competitive and equitable schemes.

Difficult access to financing due to high interest rates and strong restrictions on the part of suppliers has resulted in very few informal MSMEs having access to credit from Mexican financial system sources. On the other hand, informal MSMEs are affected by the deficiency of development programs, together with the almost null linkage with the academic sector and the lack of adequate and timely training.

It is important to mention that the financial model is an innovative option as a source

of resources and investment option that will significantly support the development of informal MSMEs as self-managers of their resources, obtaining higher returns and lower risks as a provider; as a plaintiff, they will easily obtain operating resources at a lower cost.

CONCLUSIONS

This research allowed us to identify the informal MSMEs of the industrial sector in the State of Colima as participants in the financial model in the role of suppliers and demanders of resources. Informal MSMEs in Colima in relation to the industrial sector are mainly from the agricultural and food sector, which is why they require high liquidity that allows them to cover the working capital to remain in operation, in the same way we can identify that informal MSMEs can be providers of resources by obtaining higher returns and lower risks with the security of having promoted the economic development of other informal MSMEs and the model itself allowing them to be actors in both schemes (Financing and Investment).

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