



ASPEN NETWORK  
OF DEVELOPMENT  
ENTREPRENEURS

 aspen institute

Central America  
and Mexico Chapter

ENTREPRENEURIAL  
ECOSYSTEM SNAPSHOT

# Rural South and Southeast Mexico



August 2021

# About ANDE

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that propel entrepreneurship in developing economies. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs create jobs, stimulate long-term economic growth, and produce environmental and social benefits.

As the leading global voice of the SGB sector, ANDE believes that SGBs are a powerful, yet underleveraged tool in addressing social and environmental challenges. Since 2009, we have grown into a trusted network of nearly 300 collaborative members that operate in nearly every developing economy. ANDE grows the body of knowledge, mobilizes resources, and connects the institutions that support the small business entrepreneurs who build inclusive prosperity in the developing world. ANDE is part of the Aspen Institute, a global nonprofit organization committed to realizing a free, just, and equitable society.

ANDE's Central America and Mexico chapter, with offices in Mexico City and Guatemala City, launched in 2010 with the aim of creating a platform that supports all stakeholders in the local SGB ecosystem through training, knowledge sharing, facilitating introductions and fostering collaboration.

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### **About Philanthropy at Walmart**

Walmart Inc. provides affordable food and household products to hundreds of millions of people each week in over a dozen countries, employs more than 2.2 million associates and does business with thousands of suppliers who, in turn, employ millions of people. Walmart.org comprises the philanthropic efforts of Walmart Inc. and the Walmart Foundation. Our philanthropic strategies aim to accelerate progress on societal issues and contribute to lasting, systemic transformation in ways that complement and expand the societal impact of Walmart Inc. business initiatives.

Our priorities include advancing racial and gender equity; increasing economic opportunity for workers in retail and product supply chains; enhancing social and environmental sustainability of product supply chains; and strengthening the resilience of communities (including through hunger relief and disaster response). Our philanthropic efforts are organized into discrete portfolios such as Market Access for Smallholders and Entrepreneurs, Racial Equity, Retail Opportunity, Nature and Healthier Food for All, to name a few. Each portfolio has a strategy grounded in a theory of change and core learning questions developed with others including the people we seek to empower and support (e.g., smallholder farmers); grantees, who have deep experience, capabilities, and insights to contribute; and other experts. We activate our theories of change through strategic grants, convening, advocacy, development of communities of practice, in-kind donations, evaluation and learning from grantees and others. We encourage collaboration among grantees as well as other public and private sector stakeholders; we continuously refresh our portfolio strategies based on their experiences and insights. To learn more, visit [www.walmart.org](http://www.walmart.org) or connect on Twitter [@Walmartorg](https://twitter.com/Walmartorg).



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# About this Report

ANDE's Entrepreneurial Ecosystem Snapshots are designed to collect basic information about the support available for small and growing businesses in a specific city, region, or country. This information acts as a census of the local actors and represents a specific moment in time.

ANDE's Entrepreneurial Ecosystem Snapshot methodology is practitioner-focused. Research is primarily conducted by local teams who engage practitioners throughout the process.

For those who are interested in the South and Southeast Mexico entrepreneurial ecosystem, here are some ways you might use this snapshot:

- 1/ Understand what gaps exist in the support available to entrepreneurs in the ecosystem (noting that this is not an exhaustive list of actors in the ecosystem).**
- 2/ Create connections with other actors in the ecosystem that have similar goals/missions.**
- 3/ Use it as a tool to have conversations and collaborate with other players in the ecosystem.**

Although we have added context to the data, readers may be able to extract other insights using the data available on the snapshot website. We hope that this will act as both a marker of the ecosystem at this particular time as well as a starting point for ecosystem actors, facilitated by a common knowledge base.



# About Rural South and Southeast Mexico

Mexico is a burgeoning economy, ranking as the second largest economy in Latin America.<sup>1</sup> According to the OECD, there are at least four million SMEs in Mexico, most of which are microenterprises.<sup>2</sup> However, both culturally and politically, Mexico is making efforts toward encouraging more growth-oriented entrepreneurship, with Mexico City, Monterrey, and Guadalajara becoming known as entrepreneurial hubs. There is also a focus on entrepreneurship outside the major cities, with rural areas in Mexico increasing in employment opportunities and entrepreneurship rates. According to the OECD, as of 2011, roughly 30 percent of Mexican businesses were based in rural areas, and there is significant potential for additional contribution of these rural areas to national GDP.<sup>3</sup> However, South and Southeast Mexico still lag behind the northern and central areas of the country.

Other countries have taken note of Mexico's challenges and pledged their support; United States Vice President, Kamala Harris, announced in June 2021 a new U.S. initiative to attract investment to Southern Mexico by injecting \$20 million in infrastructure and housing projects.<sup>4</sup> This project, along with others from foreign government and donor agencies, mark a vote of confidence in the potential housed in Mexico's South and Southeast states. Much of this potential comes from the rich and diverse history, diverse indigenous cultures, and abundant natural resources in the region<sup>5</sup> that create fertile ground for industries like environmental entrepreneurship, tourism, and artisan work. However, there is still a long way to go as many rural towns and villages have fallen victim to rural-urban migration driven by those in the south moving north to seek better employment opportunities.<sup>6</sup>

There has been less research conducted specifically on entrepreneurship in South and Southeast Mexico, defined in this study as the states of Campeche, Chiapas, Guerrero, Oaxaca, Puebla, Quintana Roo, Tabasco, Veracruz, and Yucatán. A significantly greater proportion of the population in these southern states live in poverty compared to the rest of the country,<sup>7</sup> and thus, how entrepreneurship may contribute to local economic growth in these regions is of interest to the international development community. A first step to understanding the current support available to entrepreneurs is to identify the various actors in the entrepreneurial ecosystem.

This report focuses on areas considered to be rural, and therefore our sample and surveys include only people and organizations which reside or serve in:

- 1/** Villages, hamlets, or farms.
- 2/** Settlements/towns in which 50% or less of households have lighting, electricity, and piped water in their home.
- 3/** Settlements/towns that lack land communication routes (roads) or regular air or maritime service, primary level schools (6 grades), and mail service.

This scope was established by ANDE by taking into account the local definitions of Central American governments and the Economic Commission of Latin America and the Caribbean (ECLAC in its acronym in English), among other international sources.

1 [Mexico: Overview](#). *The World Bank*. Accessed 29 June 2021.

2 [Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard](#). Accessed June 29, 2021.

3 Bosworth, G. et al. (2015). [Rural enterprise in Mexico: a case study of necessity diversification](#). *Journal of Enterprising Communities People and Places in the Global Economy*.

4 (2021). [DFC Investment in Southern Mexico Supports Economic Growth and Empowers Women](#). U.S. International Development Finance Corporation.

5 [Mexico: Overview](#). *The World Bank*. Accessed 29 June 2021.

6 Cohen, J., Rios, B.R. (2016). [Mexicans are migrating, just not across the US border](#). *The Conversation*.

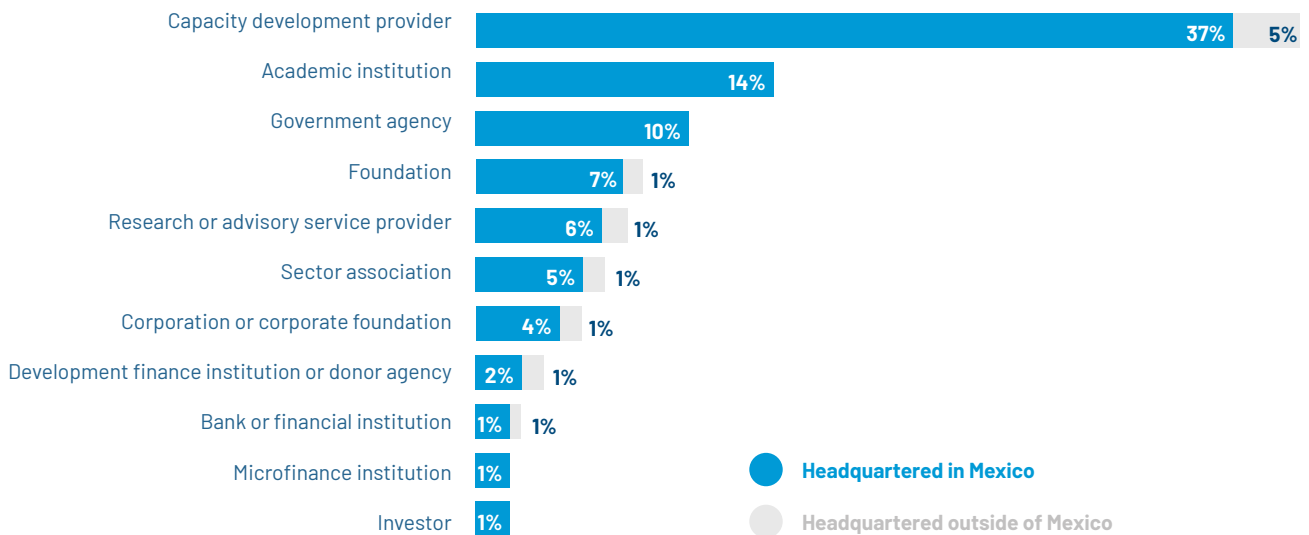
7 (2008). [A tale of two Mexicos: North and South](#). *The Economist*.

# Ecosystem Data

## Characterization of Support Organizations

Between March and April 2021, ANDE collected data on 145 organizations providing support to rural entrepreneurs in South and Southeast Mexico. The largest portion of the sample is made up of capacity development providers, followed by academic institutions and government agencies. Very few financial providers were identified in the study, with traditional financial institutions making up only 5% of the sample. Most organizations in this snapshot are headquartered in Mexico (though not necessarily South and Southeast Mexico or rural areas).

Figure 1: Organization type by headquarters location

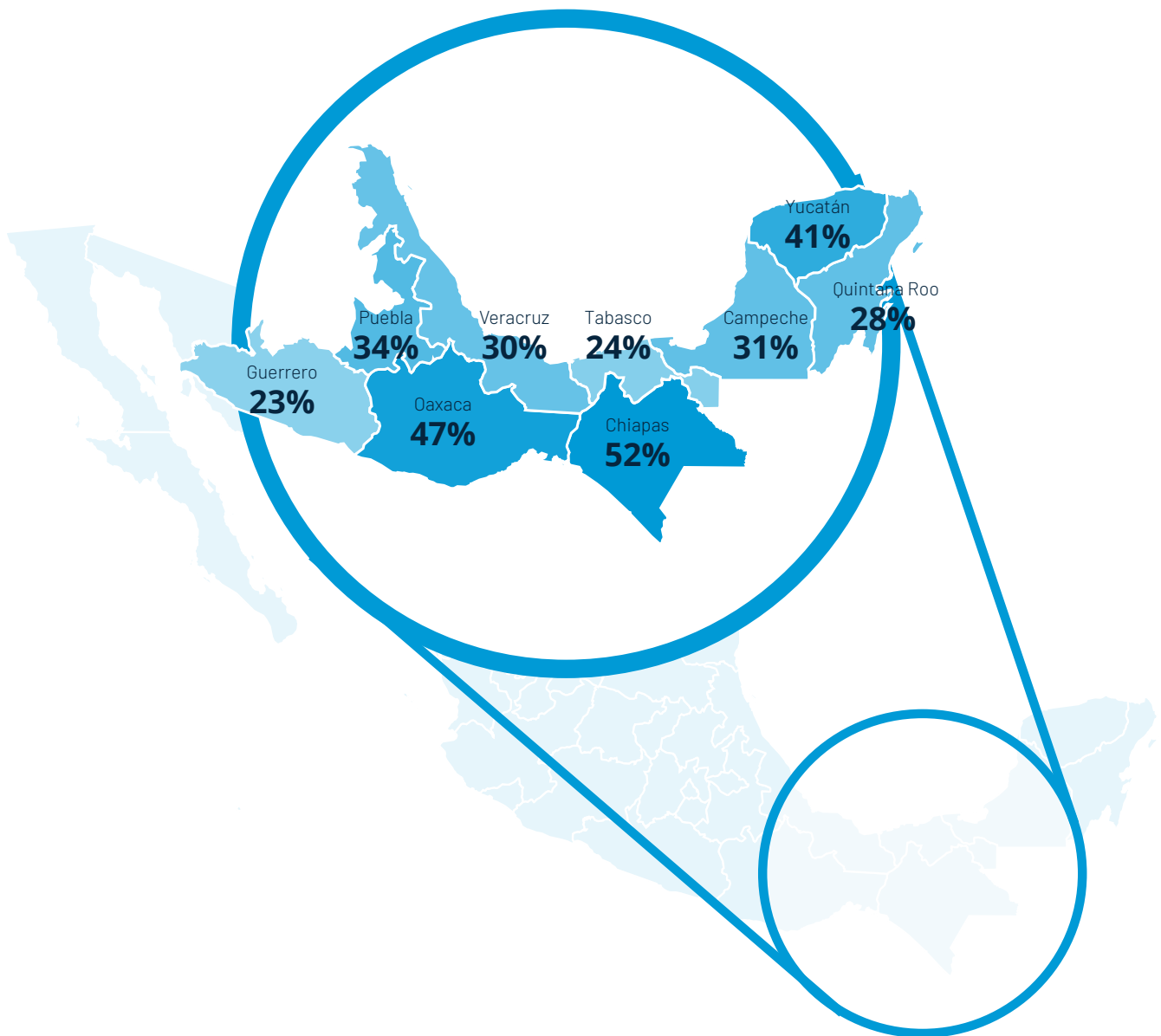


N=145

# Ecosystem Data

This snapshot captures the range of actors supporting entrepreneurs in the nine southern states of Mexico covered in this snapshot. Half of the organizations included in this snapshot only target one state, while 12% focus on the region broadly. The rest of the sample support between two to eight states. The majority of the organizations that focus on a single state are domestically headquartered capacity development providers. Chiapas, Oaxaca, and Yucatán receive support from the largest number of actors in this study.

Figure 2: States where services are offered



N=145

# Ecosystem Data

## Services Offered

Most commonly, organizations in this sample support entrepreneurs through technical assistance and capacity building, not surprising given the makeup of the sample. Technical assistance for rural entrepreneurs is especially important when businesses are transitioning from a small local service/produce provider to expanding beyond the rural market. Many entrepreneurs lack the administrative and strategic expertise needed to become more formal and integrate into larger markets.<sup>8</sup> For farmers specifically, the development of technological and entrepreneurial skills is a key success factor for building economically and socially sustainable businesses.<sup>9</sup>

**Figure 3: Percent of organizations that offer service**



Despite the low number of financial institutions in the study, a wide range of other organizations provide direct financial support to entrepreneurs – particularly capacity development providers and government agencies. According to key actors in the ecosystem, private sector investors seem to have very limited appetites to work with cooperatives, individual farmers, and small producers.<sup>10</sup> Investors tend to require very formal structures (legally constituted, transparent and auditable accounting, clear ownership of assets) and with guarantees that limit risks. The whole “ejido”<sup>11</sup> or communal ownership creates legal uncertainty and discomfort for this kind of financing. Moreover, it is not uncommon that private investors buy ejido land at bargain prices but exclude local communities from this process rather than partnering with them.<sup>12</sup>

8 Conversations with key stakeholders, ANDE Stakeholder Meeting, April 2021.

9 Bosworth, G., McElwee, G., Smith, R. (2015). [Rural enterprise in Mexico: a case of necessity diversification](#). Journal of Enterprising Communities: People and Places in the Global Economy.

10 Conversations with key stakeholders, ANDE Stakeholder Meeting, April 2021.

11 Ejido land, in Mexico, is defined as village lands communally held in the traditional indigenous system of land tenure that combines communal ownership with individual use, passed down from Aztec culture. The ejido consists of cultivated land, pastureland, other uncultivated lands, and the fundo legal (townsite). In most cases the cultivated land is divided into separate family holdings, which cannot be sold although they can be handed down to heirs. (Source: [Britannica Encyclopedia](#))

12 Conversations with key stakeholders, ANDE Stakeholder Meeting, April 2021.

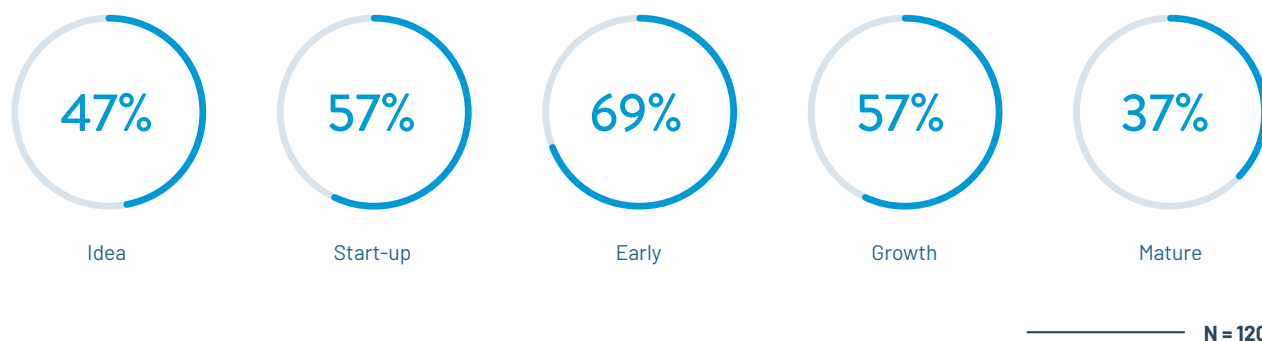


# Ecosystem Data

## Stages of Focus

Support organizations working with rural entrepreneurs in South and Southeast Mexico focus most commonly on start-up, early, and growth-stage ventures. However, there is also a considerable amount of support for idea-stage and mature ventures, suggesting that most of the support providers are fairly stage agnostic.

Figure 4: Percent of organizations by target stage



A large portion of support providers in rural South and Southeast Mexico direct their support to entrepreneurs in the culture sector, which includes tourism, media, and entertainment (67%), and the artisanal sector (49%). The southern states of Mexico are home to a large population of indigenous people, Oaxaca having one of the highest of these populations.<sup>13</sup> Culture and artisan goods are significant parts not only of these communities but their livelihood as well. There is a large market for handicrafts (artesanías); however, the artisans, the majority of whom are women, are not getting their fair share.<sup>14</sup> Through unfavorable financing and even more unfavorable terms with resellers, this sector is an important one for support organizations to focus on in order for these small businesses to be sustainable and profitable. The practices of weaving and crafting have been passed on for generations, but due to difficult business conditions, many women are abandoning these activities for more lucrative job opportunities.<sup>15</sup> Additionally, and not surprisingly given the location of these entrepreneurs, agriculture and the environment are common sectors of focus as well. A review of the 2018-2019 impact investment landscape in Latin America by ANDE found that agriculture (25% of deals) and biodiversity (21%) were the most common sectors of focus for impact investing deals in Mexico (though this study was not limited to rural regions).<sup>16</sup> It is estimated that more than half of the rural population is involved in the agriculture sector (which includes forestry, fishing, hunting, livestock, and crop cultivation).<sup>17</sup> This involvement appears to be more subsistence-based as opposed to the opportunity-based farming seen among the large agricultural producers also competing in the Mexican and international markets.

13 [The Power of Micro Financing in Rural Oaxaca](#). Where Sidewalks End.

14 *Ibid.*

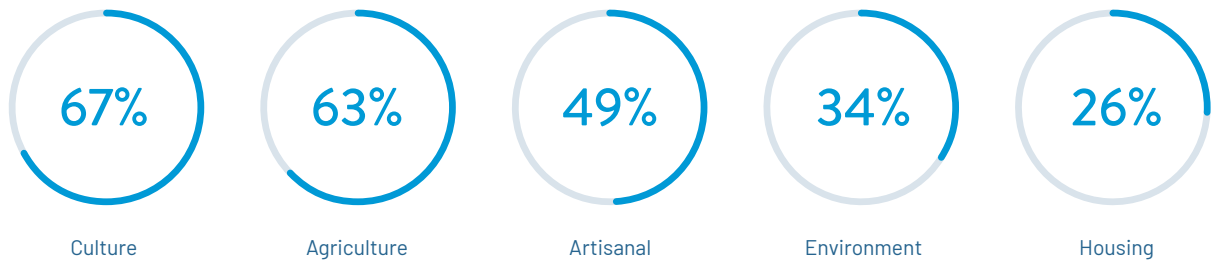
15 *Ibid.*

16 Hume, V., Davidson, A., Guttentag, M. (2020). [Impact Investing in Latin America 2018-2019](#). Aspen Network of Development Entrepreneurs.

17 Bajpai, P. (2015). [Emerging Markets: Analyzing Mexico's GDP](#). Investopedia.

# Ecosystem Data

Figure 5: Top five sectors of focus

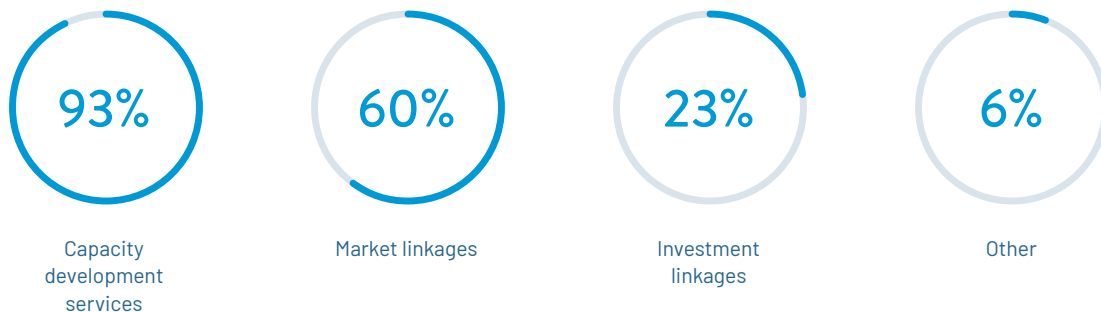


N = 144

## Nonfinancial Support Services

Of the 124 respondents that provide nonfinancial services, 93% provide capacity development, and 60% facilitate access to markets. Only 23% focus on linkages to investment opportunities, which reflects the lack of financial providers supporting rural entrepreneurs in this region.

Figure 6: Percent of organizations by nonfinancial support service type

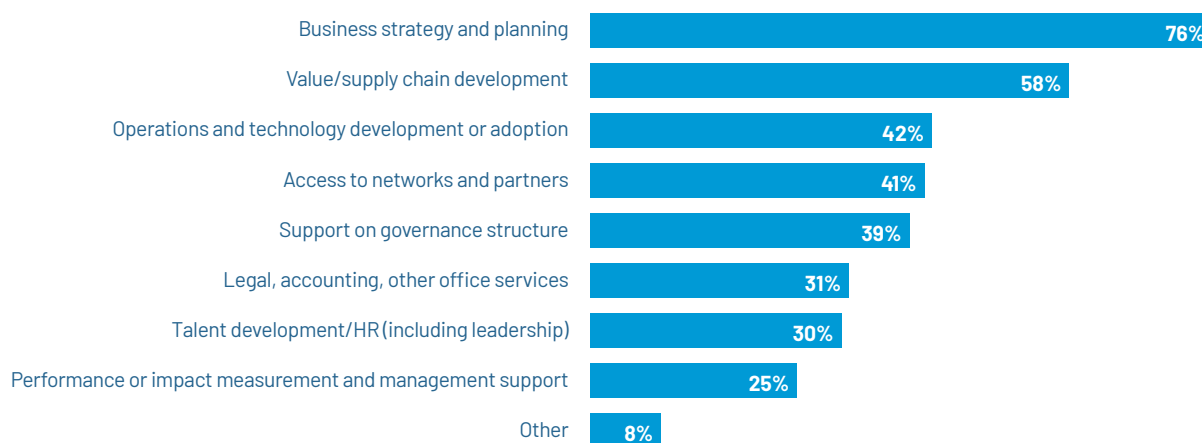


N = 124

## Capacity Development Services

Business strategy and value chain development are the most common areas of support available to rural entrepreneurs; these services are integral to finding opportunities beyond the rural market where these businesses operate. Value chain integration can be an extremely effective strategy in “building prosperous, dynamic, and sustainable economies across rural communities in developing countries”<sup>18</sup> and has been linked to the longevity of many of these businesses.<sup>19</sup>

Figure 7: Percent of organizations by capacity development services offered



N = 115

## Market Linkage Services

One of the inherent challenges rural businesses face is limited local markets since rural communities tend to be smaller than cities and insular due to a lack of infrastructure connecting to more popular areas. Of the 74 organizations that provide market linkage services, most focus on facilitating access to new markets and customers. Less commonly offered are the more specific services like meeting product standards and access to materials, infrastructure, and travel. Yet these services are crucial for small businesses’ ability to expand to larger markets. Most of the 1.5 million people who don’t have access to electricity in the country live in rural areas<sup>20</sup>, a challenge that is only compounded by the lack of physical infrastructure. In acknowledgment of these shortcomings, in 2019, the National Development Plan announced a program to develop rural roads as part of a US \$586 billion infrastructure project.<sup>21</sup>

18 Kumilachew, M. (2017). *Assessment of Rural Entrepreneurs Integration Strategies in Value Chain Activities: With Emphasis to Rural Micro and Small Enterprises Found in Arsi Zone*. *Research Journal of Finance and Accounting*.

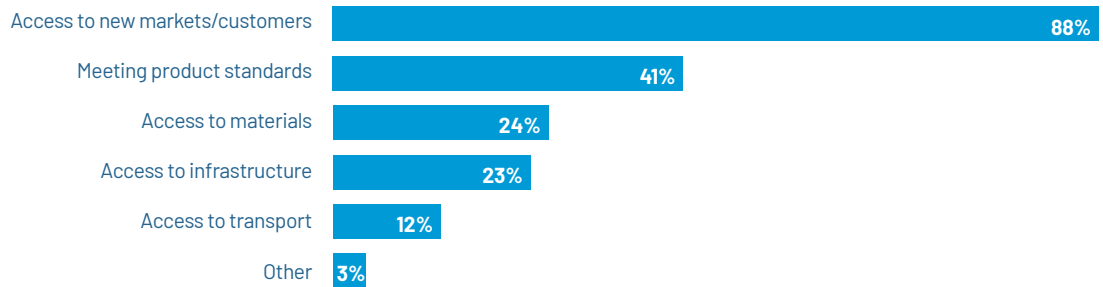
19 Kumilachew, M. (2017). *Assessment of Rural Entrepreneurs Integration Strategies in Value Chain Activities: With Emphasis to Rural Micro and Small Enterprises Found in Arsi Zone*. *Research Journal of Finance and Accounting*.

20 Quezada Medina, J. (2019). *Infrastructure, sustainability and unevenness : exploring marginalization in Mexico*. MIT Library.

21 (2020). *Transportation Infrastructure Equipment and Services*. U.S. International Trade Administration.

# Ecosystem Data

Figure 8: Percent of organizations by market linkage service offered

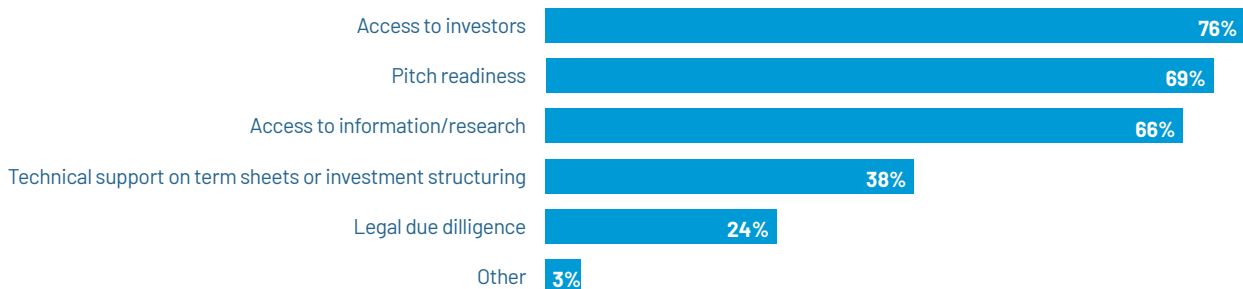


N = 74

## Investment Linkage Services

Rural entrepreneurs face significant challenges in accessing financing and investment. Major banks often do not have offices/representation in rural areas, making accessing these resources more burdensome for entrepreneurs outside of major metropolitan areas. Only a small number of organizations (20%) provide investment linkage services to rural entrepreneurs in South and Southeast Mexico. These services mainly aim at creating access to investors, preparing entrepreneurs' investment pitches, and offering investment information. With the small pool of financiers specifically targeting rural entrepreneurs in the region, it seems likely that entrepreneurs will not only have to travel outside rural regions to find investment but also compete with non-rural entrepreneurs in the investment market.

Figure 9: Percent of organizations by investment linkage services offered



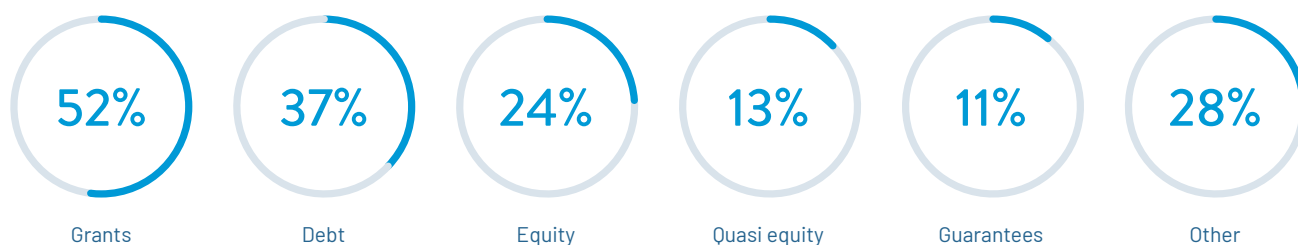
N = 29

# Ecosystem Data

## Financial Services

Accessing adequate financing is a significant challenge for rural entrepreneurs. Financial support is most commonly provided in the form of grants, likely because the majority of those providing financing are government agencies and capacity development providers rather than traditional financiers. The financing that has traditionally been available for rural entrepreneurs in South and Southeast Mexico includes government subsidies (dominant), intermediary merchants (paying below fair prices), bank loans (traditionally for larger producers), microloans (often at incredibly high rates), and philanthropy.<sup>22</sup> In 2018, the average interest rate on loans for large companies was approximately 11.78%; for SMEs, the average was 17.70%.<sup>23</sup> This discrepancy between loan rates is one example of how unfriendly the financing market is for entrepreneurs, and being a rural entrepreneur only compounds these challenges. While there is a developing venture capital market, it's still relatively nascent<sup>24</sup> and these funds are not reaching rural entrepreneurs based on their lack of investor representation in the sample.

Figure 10: Percent of organizations by financial instruments used



22 Conversations with key stakeholders, ANDE stakeholder meeting, April 2021.

23 [Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard](#). Accessed June 29, 2021.

24 *Ibid.*

# Ecosystem Data

## Impact

Nearly 70% of respondents measure the impact of their entrepreneurial support services. Additionally, nearly all align their work with the United Nations' Sustainable Development Goals (SDGs), with the most common goals of focus being SDG 8: Decent Work and Economic Growth and SDG 1: No Poverty. Poverty is a significant issue in rural areas of South and Southeast Mexico, with Chiapas, Guerrero, Oaxaca, Veracruz, Puebla, Tabasco, and Morelos all reporting poverty rates of at least 50% and up to 76%.<sup>25</sup> Very few support organizations focus on climate and environmental goals. One literature review found that there is an important opportunity around green infrastructure projects in rural areas, which are broadly defined as "Natural or semi-natural networks of green (soil covered or vegetated) and blue (water covered) spaces and corridors that maintain and enhance ecosystem services."<sup>26</sup> There is a particular opportunity for this in rural Mexico in terms of it being a rich landscape of natural resources to be preserved and used sustainably and in terms of the many potential benefits to rural communities it can generate.<sup>27</sup> Whilst there is already discussion among many stakeholders about the best way to finance and implement these projects, this is still a developing opportunity.<sup>28</sup>

Figure 11: Percent of organizations that align with the UN Sustainable Development Goals



N = 93

25 Shvili, J. (2021). *The Poorest States in Mexico*. World Atlas.

26 Silva Rodríguez de San Miguel, J.A. (2019). *Green Infrastructure in Rural Communities of Mexico*. Cuadernos de Desarrollo Rural.

27 *Ibid.*

28 *Ibid.*

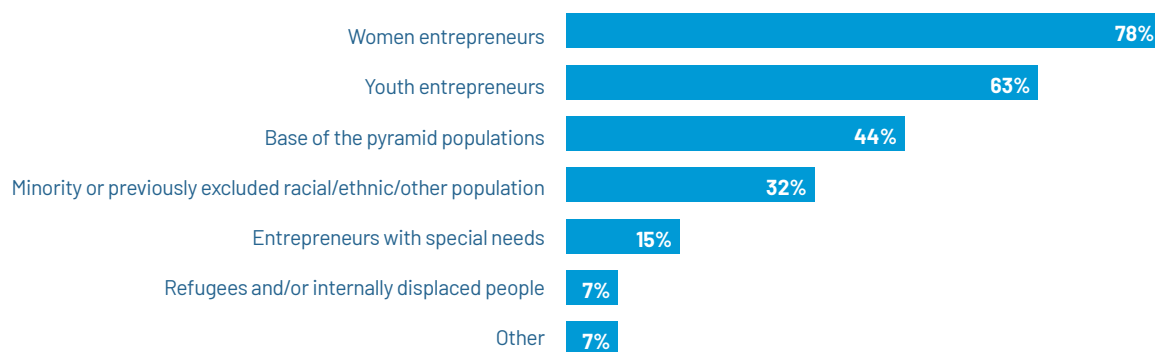
# Ecosystem Data

## Target Population

Over half of the support organizations surveyed specifically target women and youth through their services. In 2019, just over half the population was under the age of 30<sup>29</sup>, making the young population a huge source of human capital. Women entrepreneurs are of interest due to the important role they play in rural communities; studies have shown that women living in poor or marginalized areas are more likely to direct household resources to the welfare of their families when given the opportunity.<sup>30</sup> While the women-to-men entrepreneurship rate is high in Mexico (90%) compared to the regional average for Latin America<sup>31</sup>, many of these women entrepreneurs are driven by necessity rather than opportunity. A 2011 study found that women in Mexico are more likely to become entrepreneurs out of necessity as an alternative to being formally employed, while the opposite is true for men.<sup>32</sup>

There are significant cultural and technical barriers that prevent women from succeeding as entrepreneurs. There is still a cultural expectation for women to take on domestic tasks while men work outside the home and provide financially.<sup>33</sup> This is further exacerbated by the fact that many rural women have not received many years of formal education<sup>34</sup> and are not encouraged to become entrepreneurs.<sup>35</sup> However, women are finding innovative ways to start businesses in rural areas. One such way is through the creation of microbusiness cooperatives in the Yucatan Peninsula, where Mayan women have grouped their efforts and work together to create a sustainable business model that generates additional income for their families.<sup>36</sup>

Figure 12: Percent of organizations that support underrepresented or marginalized populations



N = 115

29 Mexico: [Demographic Trends](#). Britannica. Accessed June 29, 2021.

30 Osorio Vázquez, M.C. (2018). [Investing in women's entrepreneurship creates educational opportunities for girls in Mexico](#). Brookings Institute.

31 Data from the [Global Entrepreneurship Monitor](#): Female/Male TEA accounts for the "percentage of female 18-64 population who are either a nascent entrepreneur or owner-manager of a new business, divided by the equivalent percentage for their male counterparts." For the years 2018-2020 the regional average is 83%, based on available data that includes the following countries: Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Panama, Peru, and Uruguay.

32 Carranza, E., Dhakal, C., and Love, I. (2018). [Female Entrepreneurs: How and Why Are They Different?](#). World Bank Group.

33 Hanifen, K. (2019). [Female Entrepreneurship in Mexico](#). The Borgen Project.

34 Osorio Vázquez, M.C. (2018). [Investing in women's entrepreneurship creates educational opportunities for girls in Mexico](#). Brookings Institute.

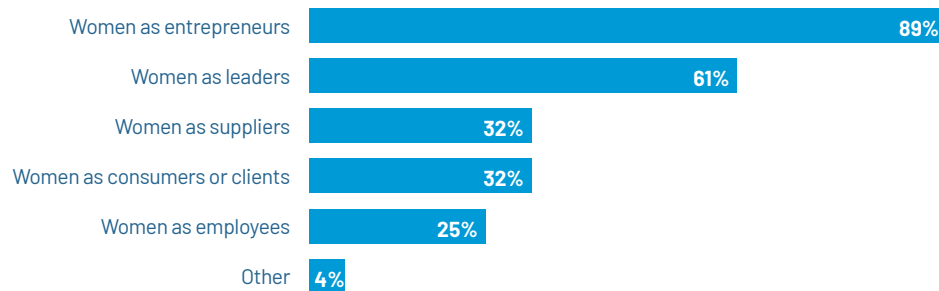
35 Hanifen, K. (2019). [Female Entrepreneurship in Mexico](#). The Borgen Project.

36 Osorio Vázquez, M.C. (2018). [Investing in women's entrepreneurship creates educational opportunities for girls in Mexico](#). Brookings Institute.

# Ecosystem Data

78% of organizations target women through their programming, most commonly focusing on supporting women entrepreneurs and women as leaders within enterprises. Some strategies that have been identified to better support rural women entrepreneurs specifically, beyond the support that benefits entrepreneurs generally, such as increased access to financing, are building up social capital and implementing follow-up activities once support has been delivered.<sup>37</sup> Ecosystem actors have cited social capital, in particular the support of a woman's family and social network, as a critical factor that can either bolster or hinder the support they provide to women entrepreneurs.<sup>38</sup>

**Figure 13: Percent of organizations by target focus for women**



<sup>37</sup> Osorio Vázquez, M.C. (2018). [Investing in women's entrepreneurship creates educational opportunities for girls in Mexico](#). Brookings Institute.

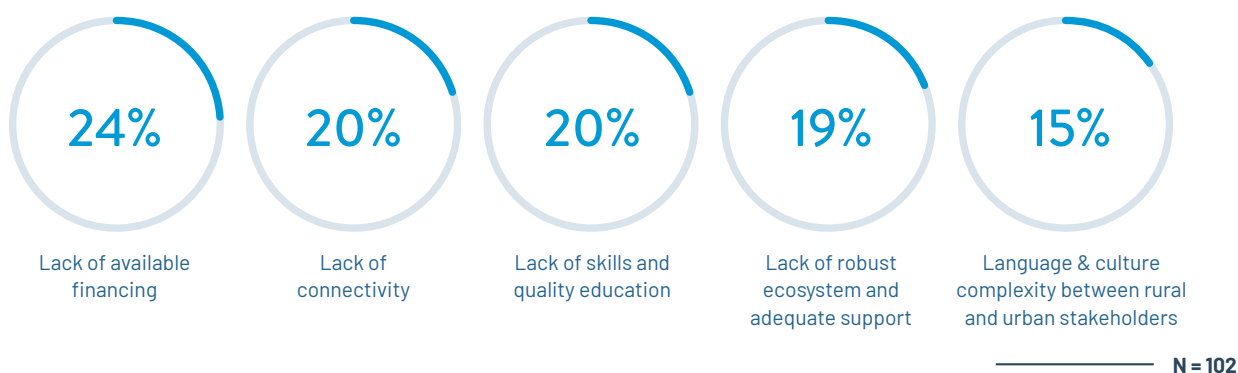
<sup>38</sup> Conversations with key stakeholders, ANDE stakeholder meeting, April 2021.



## Challenges faced by rural entrepreneurs in South and Southeast Mexico

In 2020, only 19% of the Mexican population lived in rural areas.<sup>39</sup> The ecosystem covered in this snapshot accounts for over 500,000 square kilometers with only 145 actors identified that work in the rural entrepreneurial ecosystem, compared to the 117 actors identified by ANDE covering just 108,890 square kilometers in Guatemala. Those working in the ecosystem have cited that the support landscape is still underdeveloped and lacks coverage of the full range of services that entrepreneurs need to address the challenges of starting and growing a business.

Figure 14: Top challenges faced by entrepreneurs in rural South and Southeast Mexico



As previously noted in this report, the lack of available financing is a significant challenge for rural entrepreneurs in the region. This is consistent with the broader finding that Mexico is a laggard in terms of financial inclusion compared to countries at similar development levels.<sup>40</sup> Evidence of this is the fact that a mere 11% of MSMEs in the country have used bank credit as of 2021<sup>41</sup>, a percentage that is even lower when looking at only rural businesses. The credit gap between urban and rural areas is one of the widest in Latin America, with only 7% of rural adults borrowing from a financial institution in 2017 compared to 90% in urban areas.<sup>42</sup> The gap is widest in the poor, southern states of Mexico.

39 Rural population (% of total population) - Mexico. World Bank Data. Accessed July 2021.

40 Belmont, J. (2019). *Expanding Financial Access for Mexico's Poor and Supporting Economic Sustainability*. The World Bank.

41 *Ibid.*

42 *Ibid.*

# Ecosystem Data

While financial access and inclusion is a significant challenge throughout Mexico, beyond just rural communities, the government has acted in recent years in an attempt to improve the financial landscape. In 2016, the Expanding Rural Finance Project galvanized 192 financial intermediaries to provide small loans to 140,000 rural producers and businesses in Mexico.<sup>43</sup> Further efforts include the expansion of banking agents to more rural areas and increased adoption of mobile banking.<sup>44</sup> While there is still progress to be made, these policies are a promising step.

Lack of connectivity is a common challenge for rural communities in Latin America<sup>45</sup>, and South and Southeast Mexico is no exception. Only 39% of rural Mexicans have access to the internet<sup>46</sup>, which for students and entrepreneurs can be a critical impediment to success. Studies indicate that in Southeast Mexico, accessing the internet decreased the likelihood that individuals would live in poverty by 22%.<sup>47</sup> These types of figures only further highlight the importance of creating access to these resources.

Finally, some cultural and language differences exist between the rural indigenous populations and the urban populations where many support service providers are based. Mexico has a rich history of indigenous cultures; the government officially recognizes 68 unique languages beyond Spanish (which is only a fraction of the 130 languages and associated cultures that have existed in the country, many of which have been lost).<sup>48</sup> It is extremely important to preserve these indigenous cultures; at a United Nations forum, María Fernanda Espinosa (Ecuador), General Assembly President, emphasized the value indigenous cultures hold in the form of knowledge in areas such as medicine, meteorology, agriculture, culture, and much more.<sup>49</sup> However, with such a wide array of local languages and cultures, this can present challenges for rural entrepreneurs working with urban support organizations, which can slow the process of working together, sometimes to a halt. This is not limited to the entrepreneurial sector; the medical, education and policing fields have been greatly affected by a lack of integration of native languages into their processes, which have resulted in grave and sometimes tragic mistakes.<sup>50</sup> For support organizations that aim to support rural entrepreneurs, a greater understanding and respect for local culture are essential. Some organizations may need to alter the way their services are offered, such as translating content into local languages. An example of a program with an innovative approach to working with indigenous populations in Mexico are the Yomol A'tel cooperatives, configured as social enterprises in Chiapas that seek to maximize the social benefit through sustainability and profitability of coffee value chains.<sup>51</sup> There are many cooperative approaches in rural areas; what makes Yomol A'tel unique is their approach to creating added value through investment in technology, capacity development services, and strategy of building trust between cooperative members and those in the larger value chain.<sup>52</sup>

43 Belmont, J. (2019). [Expanding Financial Access for Mexico's Poor and Supporting Economic Sustainability](#). The World Bank.

44 (2019). [Mexico: An Opportunity for Financial Inclusion](#) IMF Managing Director Christine Lagarde Mexico City. International Monetary Fund.

45 (2021.) Central America Entrepreneurial Ecosystem Snapshots: El Salvador, Guatemala, Honduras. Aspen Network of Development Entrepreneurs.

46 Wayt, T. (2021). [Internet access makes big difference in impoverished regions](#). The Academic Times.

47 *Ibid.*

48 [Mexican Languages](#). Don Quijote Spanish Language Learning.

49 (2019). [Indigenous People's Traditional Knowledge Must Be Preserved, Valued Globally, Speakers Stress as Permanent Forum Opens Annual Session](#). United Nations.

50 Raff, J. (2015). [Mexican Indigenous Immigrants' Dire Need for Medical Interpreters](#). KQED.

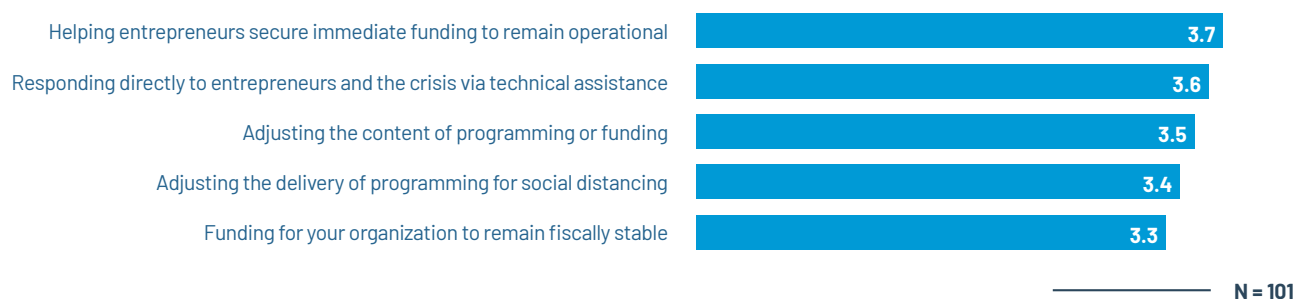
51 Rösing, M., Irezabal, A. & Travieso, E. (2016). [The Potential of the Social and Solidarity Economy for Social Innovation](#). XL Encontro da ANPAD. Transformadora: The Case of Yomol A'tel

52 *Ibid.*

## The Impacts of COVID-19

Every economy in the world was impacted by the COVID-19 pandemic, and many continue to struggle. The Mexican economy shrank 8% in 2020 as a result of the pandemic.<sup>53</sup> For support organizations working with entrepreneurs in Mexico, the most urgent need is finding additional financing for the entrepreneurs they already support who are struggling to find financing or who have lost financing due to the pandemic. As the initial shocks of the pandemic reverberated across countries, investors were quick to de-risk their portfolios in an attempt to avoid inevitable losses associated with the pandemic and the economic contraction that followed.<sup>54</sup> While this increase in risk aversion was not as dramatic as experts expected, there is still a significant need for more investment focused on helping rural enterprises in South and Southeast Mexico survive the pandemic.

**Figure 15: Urgent needs of support organizations in response to COVID-19 (Level of urgency out of 5, 5 being the most urgent)**



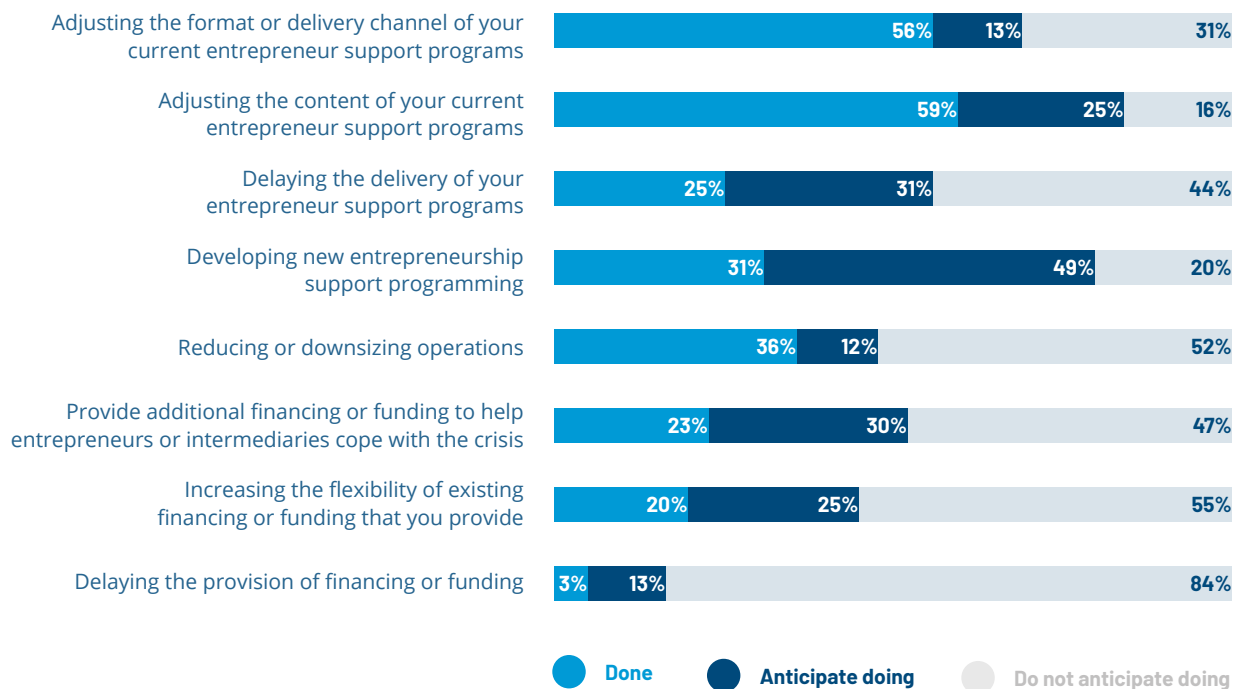
Other high priority needs for support organizations include responding directly to the needs of entrepreneurs still dealing with the pandemic and its repercussions through tailored technical assistance and adjusting the content of their existing programming or funding to remain relevant to current challenges. Despite over a third of organizations having to downsize or reduce operations as a result of the pandemic, respondents listed their financial sustainability as the lowest priority need. This is a positive sign for rural entrepreneurs who need support to recover from the pandemic's challenges.

<sup>53</sup> [Mexico: Overview](#). The World Bank. Accessed 29 June 2021.

<sup>54</sup> (2021). [Has Covid-19 made investors more risk-averse?](#). Spears WMS.

# Ecosystem Data

Figure 16: Actions taken by support organizations in response to COVID-19



N = 101

Other actions that many organizations have taken in response to the pandemic include adjusting the delivery and/or content of their existing programming, which has been done by over half the organizations in the sample and another 13 to 25% anticipate doing in the near future.

An estimated 12,000 small businesses in Mexico were forced to permanently close their doors at the start of the pandemic, and in May 2020, it was estimated that 600,000 more were at a high risk of following suit.<sup>55</sup> While it is unclear what proportion of that prediction was realized, there were some businesses that were able to survive through digitalization.<sup>56</sup> Through the adoption of digital payment methods, businesses were actually able to increase their revenue.<sup>57</sup> However, since this requires access to the internet and mobile devices, it is likely that most rural businesses are excluded from this opportunity.

55 (2020). *Coronavirus (COVID-19): SME policy responses*. OECD.

56 (2021). *Unlocking the Benefits of Digital Payments for Micro & Small Businesses: Insights from Mexico*. VISA.

57 *Ibid.*

# Insights and Implications

## Challenges

**Access to adequate financing:** Access to finance is consistently listed as a top challenge for entrepreneurs in developing economies, as traditional financial providers are not always well-equipped to provide financing that is compatible with small business needs, and vice versa, many entrepreneurs are not aware of or prepared to meet investor requirements. This gap in understanding is even wider for rural entrepreneurs who typically lack physical access to local financial institutions (as they're mostly located in urban centers) and digital access to information about financing. While other organizations have stepped in to fill this role in the ecosystem, such as governments and capacity development providers offering grants, there is no strong source of equity growth capital available for rural entrepreneurs in South and Southeast Mexico.

**Lack of physical and digital infrastructure:** Inherent to rural communities in developing economies, infrastructure presents a significant challenge for entrepreneurs who are interested in growing their businesses. Small businesses have significant potential to contribute to economic growth and employment, but without reliable access to information and physical infrastructure to reach new markets, they are unable to fully join the digital economy and realize their full potential.

**Lack of formalization:** Support organizations highlighted the need for rural businesses to take a more formalized and professional approach to expand beyond the bounds of rural communities. This speaks largely to the lack of cultural synergies between the indigenous business owners and the urban organizations attempting to work together. The cultures can oftentimes be as different as the languages, and this lack of understanding or knowledge can cause friction that prevents further collaboration.

**Undeveloped entrepreneurial ecosystem:** Support organizations also pointed to the lack of knowledge about the rural entrepreneurial ecosystem. There is no formalized network or organizing body to coordinate support efforts or even make other players aware of what other organizations are doing to support rural entrepreneurs. This has resulted in a loss of value due to duplicative efforts, inability to access shared knowledge, and a lack of cooperation. Not only is it negatively affecting the support organizations that could be putting their collective resources to better use, but the entrepreneurs also suffer from a disjointed approach.

# Insights and Implications

## Opportunities

**Supporting women entrepreneurs:** Rural women entrepreneurs are already finding ways to overcome the significant challenges they face by forming cooperatives and continuing to practice the indigenous traditions of creating handicrafts and other goods. Additionally, when rural women are able to join the workforce, they create generational benefits by reinvesting the money they make into their families' wellbeing. However, they are still mostly choosing entrepreneurship out of necessity rather than opportunity. Working with women entrepreneurs through technical assistance, building their social capital, and supporting them in earning fair compensation for their work in larger markets will create more success. This success can, in turn, support the perception that entrepreneurship is a good opportunity rather than a necessary alternative to other work options, as well as create better opportunities for the next generation of rural men and women.

**Supply chain integration:** Despite agriculture playing such a large role in the rural ecosystem, the majority of smallholder farmers are not included in larger supply chains. These are mostly dominated by businesses that are near urban centers as they have better access to information and financial resources. If rural agriculture suppliers are given similar access to these resources, they can also take advantage of these opportunities. One significant priority for support organizations should be providing technical assistance to formalize rural agriculture businesses and advising such that the contracts are beneficial to both suppliers and the larger supply chain.

**Promoting local entrepreneurial successes:** Much of the rural entrepreneurial ecosystem is subsistence-based. While the women's entrepreneurship participation rate is high, it is often chosen out of necessity which does not foster a growth mindset. By celebrating entrepreneurial success stories and connecting new or prospective entrepreneurs with high performing founders from the region, entrepreneurial culture can grow and boost the perception that growth-oriented entrepreneurship is a promising career path.

**Empowering local indigenous leaders:** One of Mexico's greatest assets is its rich and diverse population of indigenous cultures and communities. With historical knowledge and unique cultural and business practices, this aspect of Mexico's culture has significant entrepreneurial potential. However, there is a disconnect between the urban and rural/indigenous ways of doing business that has prevented the realization of this potential. There is an opportunity for support organizations and government to empower local leadership in rural communities to act as advocates for the indigenous members of their community and work to create synergies with urban counterparts, rather than friction.



# Recommendations

**More inclusive support practices:** The South and Southeast of Mexico is one of the most ethnically diverse regions of the world, with dozens of indigenous cultures represented. This has presented a challenge for both service providers and entrepreneurs seeking support. Organizations targeting the rural areas of the region should work to understand which indigenous communities they will interact with based on where they provide services and make the appropriate adjustments to be inclusive in their practices. This may include adjusting timeline expectations and accounting for language barriers by hiring a translator, incorporating long term intervention perspectives, empowering local leaders, or connecting with some local organizations that could bridge the gap.

**Partnerships for sustainable infrastructure projects:** Research has shown that South and Southeast Mexico has a landscape that is ripe for green and sustainable infrastructure projects. As part of creating more access to the internet and physical infrastructure, the government and other relevant stakeholders should consider partnering with experts in the areas of green infrastructure to preserve the many natural resources that benefit the region and its population.

**Creating accessible financing:** The current financial landscape for rural entrepreneurs in the region lacks the specificity and tailoring that is needed for these small businesses to even see the opportunity for growth. If banking organizations are interested in creating access to the financing they have available, not only should they support the creation of infrastructure, digital or physical, needed to allow entrepreneurs to access their services, but they should also consider the current unfairness in their lending practices. An assessment of the financial landscape for rural versus urban entrepreneurs will likely shed light on the inequality and gaps that exist, and banks that are interested in creating more inclusion should consider creating tools specifically designed to address the challenges rural entrepreneurs face in attempting to secure financing.

**Ecosystem collaboration efforts:** There is a clear desire expressed by support organizations in this snapshot for a more collaborative effort in supporting entrepreneurs working in rural South and Southeast Mexico. This snapshot mapping the current support landscape is a starting point for what should be a continued effort to better understand not only what gaps exist in the ecosystem but which organization can best address them and how. Further efforts to unify the support ecosystem can come through a formalized network or consortium, additional research, and networking opportunities for support organizations to connect directly.



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