



The Potential of the Social Sector Economy and the Social and Solidarity Economy in Oaxaca. The Case of Mezcal Micro Enterprises in Santiago Matatlán, Oaxaca. (2020-2022)

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Abstract: The capitalist market system has exacerbated inequalities and hindered economic growth and social well-being, especially in less competitive regions like Mexico and Oaxaca. Over the last three years, this issue intensified due to the Covid-19 pandemic, global inflation linked to the Russia-Ukraine conflict, and the impact of the 3rd and 4th Technological Revolution, leading to increased unemployment. In response, society in Oaxaca has pursued alternative actions to address the core economic challenge of subsistence. Two significant actions include worker emigration and the development of the Popular Sector's economy. The Popular Sector comprises nano, micro, and small family businesses, whether informal or formal, in urban areas and economic organizations in rural communities adhering to uses and customs. Amid these efforts, the "Social and Solidarity Economy" (SSE) movement has gained traction, emphasizing the use of the popular sector's economy to foster organizations and social enterprises. These entities prioritize goods and services production based on principles like associativity, solidarity, participation, and the pursuit of social welfare over profit, aligning with economic and social objectives (Fonteneau, 2010). Despite the potential of the popular sector, the number of SSE companies remains limited, facing challenges such as resistance from traditional economic rationality, lack of awareness, and insufficient public policy support. Addressing these challenges is crucial for unlocking the full potential of the social and solidarity economy model.

Keywords: Social and solidarity economy, Entrepreneurship, Mezcal from Oaxaca.

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Introduction

In recent decades, the globalized economy of market capitalism has experienced constant economic crises. The latest and most impactful one was the one that occurred during the period 2020-2022, caused by the Covid-19 pandemic, economic inflation stemming from the conflict between Russia and Ukraine, as well as job displacement due to the increased use of modern information and communication technologies, artificial intelligence, and automation. This economic crisis led to a decrease in economic activity, business closures, increased unemployment, income loss, and a decrease in the overall well-being across Mexico and its entire territory. This impact was particularly felt by the most marginalized and competitively weaker populations, resulting in an increase in poverty and widening inequalities compared to the rest of the country's regions.

Given this grim economic outlook and in response to such a calamity, the economy of the popular sector has grown and gained strength. It aims to generate the employment and income necessary for subsistence through the organization of informal micro-family and community-based enterprises in both urban and rural areas. These enterprises focus on creating and selling immediately consumable food or manufactured products, as well as providing services related to food transportation or cleaning for the local population. This social economic force has the potential (if properly and efficiently organized) to drive sustained economic growth within a territory. So, the Social and Solidarity Economy movement has gained importance as a model for productive organizations seeking social well-being. These organizations can harness the potential offered by the economy of the popular sector as an alternative to the capitalist economic model. In this context, the present research "The potential of the economy within the popular sector and the social and solidarity economy in Oaxaca: The case of Santiago Matatlán, Oaxaca (2020-2022)" aims to contribute to the analysis of obstacles in leveraging the potential of Oaxaca's popular sector economy to propel the social and solidarity economy. This economic organizational model strives for greater efficiency, thereby contributing to economic growth and poverty alleviation.

Background

The crisis generated by the Covid-19 pandemic led all of humanity to reflect on various issues related to the importance of life, subsistence, health, education, environmental damage, and the deepening of socioeconomic inequalities worldwide. These reflections also sparked a rejection of capitalist neoliberalism due to the

economic crisis it caused, exacerbating marginalization, poverty, and inequalities in territories that are not competitive enough to attract investment. This is evident in the case of the state of Oaxaca, which has consistently ranked second to last in state competitiveness over the past decades (IMCO, 2022). The impacts of this economic crisis during the period from 2020 to 2022 were characterized by unemployment and underemployment, owing to the confinement and social distancing measures imposed by the government to contain the spread of the Covid-19 pandemic. Companies had to reduce their workforce or shut down, disproportionately affecting those who are less educated and earn lower incomes. These individuals lack job security and face greater difficulty in finding employment. As a consequence of this phenomenon, poverty rates increased, especially among those in more precarious economic conditions, due to job losses and the struggle to maintain family subsistence.

The necessary lockdown and social distancing measures to prevent the spread of the pandemic compelled humanity to extensively utilize information and communication technologies in all activities, particularly in economic endeavors. This led to the implementation of digitization, automation, and artificial intelligence in the processes of producing goods and services, resulting in a significant reduction in labor requirements and an increase in unemployment. This displacement affected companies and workers with less proficiency in the competencies demanded by these new technologies. In Oaxaca, according to the National Institute of Statistics, Geography, and Informatics and their National Occupation and Employment Survey, the unemployment rate was 1.28%, and the poverty rate stood at 41.9%. Within this context, 43.1% (approximately 1,762,800 individuals) were in a state of moderate poverty, while 23.3% were in extreme poverty (around 951,800 people). The poverty rate in Oaxaca is 24.4 percentage points higher than the national average. (INEGI-ENOE 2022)

Strategies for Subsistence

This situation prompted two traditional economic subsistence strategies among the population of Oaxaca. One was emigration to the United States of America (USA), and the other was family entrepreneurship in the form of micro enterprises, serving as an alternative to the lack of opportunities for dignified and well-paid employment. In 2020, 35,936 individuals emigrated abroad, and 93 out of every 100 went to the United States of America in search of work (INEGI, 2021). Another strategy was to strengthen the popular economy sector by initiating informal family

micro enterprises in fast food, transportation services, cleaning, crafts sales, etc., with the aim of generating income to meet basic family needs. Informal economic activities in Mexico and Oaxaca are highly significant, as they typically function as a support for low unemployment rates. According to INEGI, Oaxaca is one of the entities in the country with the highest rates (81.7%) of labor informality. (INEGI, 2022)

Alternative to the Capitalist Model

Another alternative to the labor marginalization generated by capitalism has been the worldwide model of Social and Solidarity Economy, which emerged in 1844 with the first cooperative of artisans working in cotton factories in the town of Rochdale in the USA (INAES 2021). The social and solidarity economy is an organizational model that, unlike capitalist enterprises primarily driven to maximize the owner's profits and economic capital accumulation, aims to maximize the well-being of its members and the community where it operates. It is built upon cooperation and solidarity, striving to promote social values of equity and sustainability. Unlike informal micro enterprises that develop in regions marked by high marginalization like Oaxaca, this model seeks to achieve greater economic efficiency and long-term sustainable growth through the collective strength of workers or producers. It focuses on social matters and environmental care, in contrast to informal micro enterprises that solely intend to address their individual or familial short-term economic subsistence challenges.

Potentials of Oaxaca

Taking into consideration that the model of social and solidarity economy is a viable strategy for inclusive and participatory development in Oaxaca, aiming to stimulate increased employment and social well-being among its population, we must also acknowledge that Oaxaca possesses many untapped and poorly managed potential resources for driving greater economic growth and improving the quality of life for its inhabitants. These resources include its natural assets, as well as the social organizational strength that originates from its indigenous heritage. We wish to emphasize this latter strength, arising from the capacity to propel economic development and social well-being. Two interwoven forces stand out: a) an important sector of the popular economy, represented by informal micro enterprises within various activities distributed throughout its territory, constituting 81.6% of its productive capacity. This

is a significant force to be considered within the realm of social and solidarity economy. These micro enterprises, when united in cooperatives or associations across different economic activities, can more efficiently contribute to job creation, local development, and the reduction of inequalities (INEGI, 2022). b) The high level of community participation among the population, considering the 417 municipalities (73.2%) governed by traditional indigenous customs out of a total of 570 municipalities in the region. However, we can assert that this high level of community participation, which characterizes the people of Oaxaca, has yet to be fully harnessed to generate employment and social well-being for its members. As a result, many communities turn to the strategy of migration in order to secure employment and better wages.

Problem Statement

Therefore, we believe it is necessary to harness the potentials that Oaxaca and localities like Santiago Matatlán possess in order to propel the social and solidarity economy model. However, the problem observed is that despite the virtues of the social and solidarity economy model for the development of Oaxaca and its localities, such as the case of Santiago Matatlán, it faces challenges that must be overcome to achieve greater progress. In this regard, we consider that the main challenges facing the social and solidarity economy model in Oaxaca in general, and in Santiago Matatlán in particular, are as follows:

In the external sphere: The dominance of capitalist enterprises in the market of goods, services, and inputs, which creates uneven competition in the markets; The lack of a more robust public policy for the dissemination, training, and financial, fiscal, and social support of this social and solidarity economy model.

In the internal sphere: Insufficient resources and access to financing for social organization entrepreneurs; Resistance to the transition from traditional economic rationality to modern and competitive economic, social, and sustainable rationality; Lack of training and understanding of the social and solidarity economy model and its legal and institutional framework among the Oaxacan population.

General Objective

To formulate strategies for harnessing the potentials for the development of Oaxaca and overcoming the current challenges faced by the social and solidarity economy model in Oaxaca. This will be achieved through the specific analysis of the case of micro enterprises producing mezcal in Santiago Matatlán, Oaxaca. (2020-2022)

Theoretical Framework

The Mixed Economic System

Currently, in human society, there is no single economic system that addresses the fundamental economic problem of human subsistence. Generally, countries have mixed economies with one dominant system. According to José Luis Coraggio, in his book “Las tres corrientes del pensamiento de la Economía Social y Solidaria” he points out that “every economy can be analyzed as composed of three sectors or forms of organizing economic processes”: (a) the private enterprise sector, (b) the state or public sector, (c) the popular economy sector. (Coraggio, 2012)

(a) **The Private Enterprise Sector.** This sector consists of a population subgroup organized as a more or less articulated subsystem of capital-based enterprises. The purpose of this sector is to accumulate capital, earn limitless profits, and to achieve this, it competes and wins by applying instrumental rationality. According to the hegemonic economic ideology, every economic form must adopt these criteria to survive in the market system.

(b) **The State or Public Economy Sector.** This sector encompasses administrative units within state organizations: central government bodies, presidency, ministries, states, municipalities, public enterprises, and organizations that provide public services (such as schools or hospitals). To function, they require economic resources sourced from the tax system and the output of their enterprises or credit. The purpose of this sector is not always uniform across different political parties or segments of the subsystem. In general, its purposes may include: stimulating and directing investment and the national growth process, ensuring system governance, accumulating power, and ultimately achieving the common good.

(c) **The Popular Economy Sector.** This sector is organized around domestic units, primarily households, their extensions (various types of economic organizations), and communities. Unlike being a well-articulated sector, it is more like a fluid magma that changes forms. It can shift from a significant reliance on labor market engagement to dependence on migration, market dependency, and so on. If accumulation occurs, it is at basic levels, like immediate investment in enterprises or housing and its facilities. This accumulation isn't of capital but of forms of wealth for use. Its organization is driven by market relations (often highly competitive) as well as by redistributive and reciprocal relationships linked to various forms of affinity. The intersections among the three sectors reflect mixed forms, such as a “mixed” enterprise (private-state) or a public service enterprise involving user participation. Exchange of goods and

services occurs among the three sectors, along with unilateral monetary or non-monetary transfers (subsidies, taxes, donations, public goods, remittances, etc.). The evolution, structure, and trends of these exchanges and transfers need to be studied in each specific case. (Coraggio, 2012).

Neoliberal Capitalism and the Global Economic Crisis

The ideological and economic neoliberal capitalism, assumed as a singular economic model and mindset, and propelled and promoted by globalization in recent decades, has deepened economic and social asymmetries on a global scale. It has sought to restore the profit rate of capitalists, primarily from the financial sector, through regressive economic policies. According to Coraggio, the neoliberalism that gained momentum in the 1980s has led to “massive exclusion from employment, erosion of wages and social rights, extended concentration of wealth, the release of a fiercely globalized market punishing those who cannot compete, and the expansion of a so-called informal sector that cannibalizes itself through cutthroat competition for survival”. (Coraggio, 2011)

Currently, we are experiencing one of the periodic and multi-dimensional crises of this hypercapitalist world. The most evident is the ongoing economic crisis stemming from the Covid-19 pandemic and inflation caused by the conflict between Russia and Ukraine. However, the concept of capitalist crisis doesn't solely refer to economic dimensions; it also encompasses fundamental dimensions such as ecological, social, and political aspects. Diego Raus (2020) notes that “In the contemporary phase of the capitalist order - globalization and neoliberalism - we witness situations of displacement, forced migration, and expulsion of those marginalized by the formal order. It's a phase where inequality is not an adverse outcome to be rebalanced, but rather a fact and a consequence. Blatant, resounding, cruel inequality is the social form of this historical stage of the capitalist economy.” This author identifies four inequalities generated by this capitalist system:

- **Economic Inequality:** Raus points out that this type of inequality isn't solely limited to economically poor countries; it exists even in countries with wealth production within their societies.
- **Social Inequality:** Defined by the subjective perception of one's place in the class-based society.
- **Political Inequality:** Manifested in a politics that is no longer legitimized by reducing inequality (Welfare State model), but rather by managing and administrating the existing inequality.

Inequality as a World Form: Inequality permeates all aspects of life, from individual experiences to daily life. It manifests notably in self-perception, with an emphasis on individuality rather than collectivity, resulting in feelings of shame and humiliation. This inequality reaction can manifest as anger and hatred (Diego Raus, 2020).

Technological Revolutions in Capitalism and Employment

Technological revolutions have contributed to revitalizing capitalism and have had a significant impact on its development and employment throughout history. Each technological revolution has brought about changes in the economy and the way work is conducted. The impact of the technological revolution is directly related to a change in the way humans live, in culture, customs, and more. A direct outcome of technological revolutions is the development of millennials, a generation strongly marked by the era of knowledge. Technological revolutions have driven economic growth by enhancing efficiency and productivity across various sectors. This has enabled companies to generate higher revenues and expand their operations, which, in turn, has fostered capital accumulation and wealth concentration among specific groups.

However, these technological advancements have also posed challenges in terms of employment. Automation and the implementation of advanced technologies have led to the elimination of certain jobs, particularly those that are routine and repetitive. This has raised concerns about job loss and worker displacement. Technological unemployment is the phenomenon that occurs when advances in production and service technologies replace workers with machines. Both companies and governments have the responsibility to minimize its actual impact. (Castillo, 2022) On the other hand, technological revolutions have also created new jobs and opportunities in emerging sectors. Technology has generated the need for specialized professionals in fields such as programming, artificial intelligence, data analysis, and cybersecurity, among others. The net impact of technological revolutions on employment depends on various factors, such as the speed of implementing new technologies, the adaptability of workers, and the government policies put in place to address changes in the labor market. Overall, technological revolutions have been a driving force for economic progress, but they have also presented significant challenges in terms of employment and wealth distribution. The future will depend on how society and companies address these changes and work to ensure that the benefits of technology are distributed equitably. (Castillo, 2022)

The Need for an Alternative Paradigm to Capitalism

The paradigm of orthodox capitalism has repeatedly exhibited crises due to its generating an uneven distribution of economic growth, with this growth being concentrated in a few countries in general and in a few individuals in particular. This leads to an unequal distribution of societal well-being across the majority of the population. There is no doubt, therefore, that under the economic tenets of neoliberalism, the social aspect holds no importance. Hence, justice or social equity cannot be discussed within this economic paradigm, which has kept social, political, and environmental matters subordinate to its interests, thus demonstrating that it is not the path toward achieving comprehensive development for humanity. As a result, various lines of thought on societal development, independent of the economic approach, have emerged since the last century. Among the most prominent are Sustainable Development, proposed by the United Nations (Brundtland, 1987), and Social and Solidarity Economy, practically advanced by workers' organizations and rural communities as a response to the lack of opportunities presented by the economic rationale of capitalism. In this case, we will emphasize the role of Social and Solidarity Economy.

Social and Solidarity Economy as an Alternative to Capitalism

This model of social enterprise has its origins in the workers' association movement of the 19th century, when workers organized themselves and the first cooperatives and mutual aid societies of the modern era emerged in response to the deteriorating living conditions and unemployment generated by the industrial revolution. The first group organized under this framework consisted of 28 artisans working in cotton factories in the town of Rochdale in 1844. These pioneers decided it was time to treat consumers honestly, with transparency and respect. They believed that consumers should benefit according to their contributions and should have the democratic right to participate in business decisions. In 1862, in Germany, Friedrich Wilhelm Raiffeisen and Franz Hermann Schultz-Delitsch developed another cooperative model and established the first credit cooperatives. Since then, the model has grown, expanded to other sectors, and inspired the development of financial cooperatives worldwide. As evident, this movement emerged in response to the poverty and unemployment generated by industrial capitalism.

According to the National Institute of Social Economy (INAES), "Social and Solidarity Economy is a set of socio-economic and cultural initiatives based

on a paradigm shift that emphasizes collaborative work and collective ownership of goods.” Social and Solidarity Economy aims to foster solidarity and trust relationships, community spirit, and participation in society. It strengthens processes of productive integration, consumption, distribution, and savings and loans to meet the needs of its members and the communities where they operate. (INAES, 2021). One of the most important characteristics of this model is collective ownership (everyone is an owner). In other words, members focus on collaborative work, seeking a balance between economic outcomes and social objectives. Management is autonomous and transparent among all members and is not directly linked to the capital or contributions of each member but rather to the collective well-being. (INAES, 2021).

Traditional and Modern Economic Rationality

Rationality is the ability to make decisions and take actions based on logic, reason, and objective evaluation of available information. It involves making choices that are considered the most appropriate or reasonable to achieve a specific goal or satisfy a need. In the realm of economics, economic rationality is based on the idea that individuals and organizations seek to solve the economic problem of “what, how, and for whom to produce” by making decisions in a context of limited resources. It’s important to note that rationality can vary among individuals and situations, as people are influenced by their beliefs, values, emotions, and limitations of information. Rational decision-making doesn’t always imply optimal or perfect choices but is based on the process of logical thinking and considering relevant factors in a given situation.

In this context, capitalist economic rationality is based on the principle of utility or profit maximization, where economic agents strive to make decisions that allow them to achieve their objectives efficiently. In simple terms, an economic agent is considered rational when they choose the option that, in their opinion, will provide them with the greatest benefit or utility given their set of preferences and constraints. However, it’s important to note that economic rationality doesn’t always imply that people make perfectly informed or optimal decisions. Individuals can be subject to cognitive biases, limited information, or emotional influences that affect their choices. Furthermore, economic rationality also applies at the macroeconomic level, where governments and economic policies are designed with the aim of maximizing the overall well-being of society. However, in this case, decisions can be more complex and subject to various political, social, and cultural factors. Rationality in a capitalist economy encompasses the following characteristics: a) Pursuit of profit maximization;

b) Competition and free market; c) Private property; d) Individual incentives; e) Innovation and entrepreneurship; f) Division of labor and specialization. It's important to note that rationality in a capitalist economy is guided by the logic of the market and the interaction between supply and demand. This can lead to efficient functioning of the economic system but can also result in inequalities and negative externalities that need to be addressed through appropriate policies and regulations.

A traditional economic rationality: this behavior has its origins in ancient times with customs and traditions for addressing the fundamental economic problem of subsistence, and it is characterized by certain specific patterns and characteristics. Some of the main ones are: a) based on customs and traditions; b) communal ownership; c) methods of production, distribution, and consumption follow established patterns over time; d) production is generally for self-consumption; e) limited use of technology; f) community-centered economy; g) division of labor based on tradition and specialization by gender and age. Certain tasks and roles are assigned according to cultural customs and experience. i) Low social and labor mobility: Opportunities for social and labor mobility are limited. Traditional economies have largely been replaced by market and planned economies in the modern world. However, in certain rural areas or specific cultures, such as those in Oaxaca, traces of traditional economies can still be found coexisting with more advanced economic systems. (Forex, 2020)

In summary, economic rationality is a central concept in economic theory that seeks to understand and explain how individuals and organizations make decisions to optimize their well-being and achieve their goals in a context of limited resources.

Methodological Characteristics

This research is based on the deductive method, which starts from general premises to explain specific cases. To achieve this, we follow the steps of observing the social issues that economic crises in capitalism have generated and proposing an explanation of this phenomenon and deducing the most outstanding consequences from the explanation itself.

Types of Research

Given that the issue is inherently social and very complex due to the inherently dialectical factors involved, we also rely on qualitative research, as it prioritizes discovering and refining research questions through observation, i.e., with data without numerical measurement. In this case, it pertains to the challenges of

adopting the social and solidarity economy in Oaxaca as an alternative to the capitalist development model. Therefore, in this research, rather than referring to quantitative and statistical procedures, we propose analyzing the qualities of the study variables, both the dependent variable, such as the decrease in employment and social well-being of the population due to economic crises in capitalism, and the independent variables, such as the challenge of the popular sector's economy to utilize the social and solidarity economy as an alternative model to capitalism. Likewise, we can state that this research is characterized as applied, descriptive, explanatory, strategic, and propositional. (Bernal, 2010).

Scope and Limitations

The object of study “*ceteris paribus*” is the challenges from the external and internal environment of micro mezcal producers, which have been proposed as hypotheses, previously, as obstacles to the development of the social and solidarity economy model in Oaxaca in general, and specifically in the locality of Santiago Matatlán, Oaxaca. The study, following the inductive method, starts with the specific analysis of Santiago Matatlán, Oaxaca, to draw general conclusions for the state of Oaxaca. The temporal limits of this analysis mainly cover the period from 2020 to 2022, as real-world events change more rapidly than theoretical analysis.

Population and Sample

The object of study in this research is the employed personnel in the informal sector economy of the state of Oaxaca in general, and specifically the 108 micro mezcal producers from Santiago Matatlán, as identified in the particular field research. In qualitative research, the decision on how to obtain the data and from whom to obtain it will be made in the field, as the study participants are initially unknown to us, and it is the information obtained that guides the sampling process. (Crespo, 2007) The type of sample used will be non-probabilistic, specifically a deliberate sample of 57 micro mezcal producers. Additionally, it is purposive in nature, as the selection will be based on the research purpose. In other words, it's an intentional sample with interviewees who fulfill the research's purpose. (Muguirra, 2017).

Documentary and Field Research

For the documentary research, books, journal articles, state and municipal plans, and news articles addressing the challenges faced by micro mezcal-producing businesses

were consulted. The field research was based on the collection of information conducted directly with the micro entrepreneurs of Santiago Matatlán, using interview guides for qualified informants, interview guides and workshops with owners of family businesses or micro enterprises, and with communal authorities. Additionally, guides for recording the captured documentary information were used.

Research Design

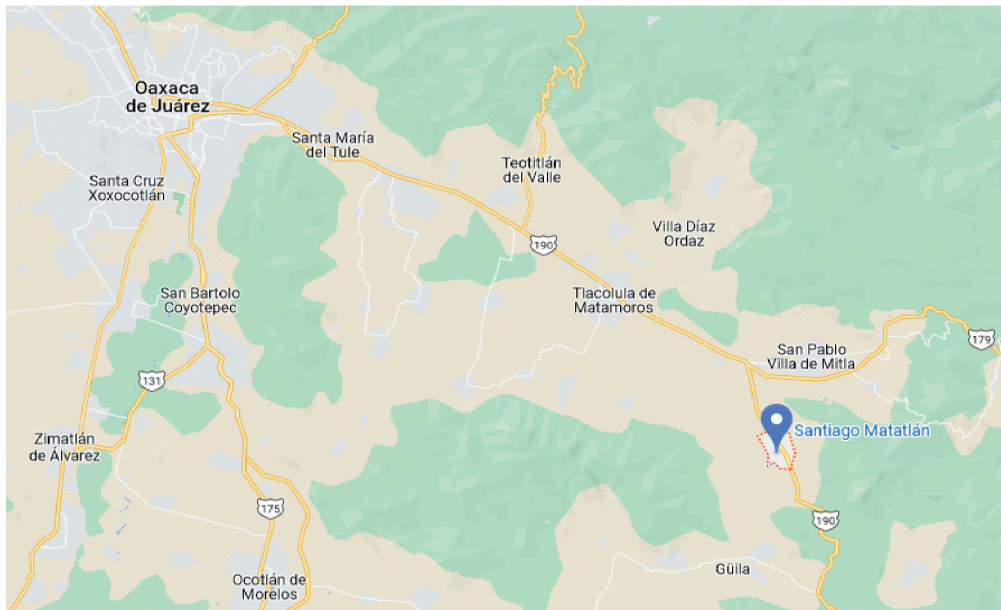
The research design is based on the strategic planning model proposed by Fred David. However, the implementation and evaluation phases of the model require more time and resources, so this research is limited to the planning phase. Considering that the overall objective of the research is to formulate strategies to overcome the challenges of social and solidarity economy in Oaxaca, the methodological design of the research is grounded in the strategic analysis model, which is based on:

- (1) The elaboration of a diagnosis (strategic analysis), in which the external environment is evaluated by identifying the threats and opportunities faced by the social and solidarity economy model, as well as the internal environment (Oaxaca) and the identification of the strengths and weaknesses of the social and solidarity economy for its development. Once the main factors of these environments have been identified, the next step will be to use this information.
- (2) To develop a Strengths, Opportunities, Weaknesses, and Threats (SWOT) matrix of strategic position. This allows understanding the situation in which the social and solidarity economy model is located in the state of Oaxaca.
- (3) To define short-term (1 year), medium-term (2 years), and long-term (3 years) objectives and strategies to implement. (David, 2013)

Strategic Analysis

General Characteristics Of Santiago Matatlán, Oaxaca

Santiago Matatlán is a Zapotec community located in the Central Valleys of Oaxaca. It is situated 45 kilometers away from the city of Oaxaca. Nearby Matatlán, there are other emblematic places in Oaxaca, such as Mitla and Tlacolula. In the following photograph, its location is marked with a blue dot:



Due to its agricultural features and ancestral customs in agave cultivation and mezcal production, Santiago Matatlán has, over the years, become known as the “World Capital of Mezcal.” Nowadays, mezcal is a highly demanded beverage in both the national and international markets. Regions with a Denomination of Origin for mezcal production in Mexico, like Santiago Matatlán, have dedicated themselves to keeping the tradition of mezcal production alive. As a result, this community is economically reliant on the cultivation and production of maguey. According to INEGI, in 2020, this locality had 3,687 inhabitants, of which 92.24% were indigenous. Among all the towns in the municipality, it ranks second in terms of population. Santiago Matatlán is situated at an altitude of 1,725 meters. In Santiago Matatlán, the illiterate population stands at 5.70%, 19% of the individuals have completed secondary education, and 16% of households have a personal computer, laptop, or tablet. (INEGI, 2021)

Despite the growing prominence of mezcal in the national and international markets, its inhabitants, mainly dedicated to the production of this beverage and agriculture, experience high levels of marginalization and poverty. Logically, we can consider that the income generated by the mezcal industry in Santiago Matatlán does not yield significant benefits, which explains the high levels of marginalization, in addition to the phenomenon of migration. In 2020, the municipality reached a high degree of marginalization and a medium degree of social lag. (CONAPO,

2020) The population in extreme poverty was 30.5% in 2020, and the population in moderate poverty was 58.3%. (CONEVAL, 2020)

The External Context

The external environment consists of a multitude of factors of an economic, political, social, cultural, technological, and environmental nature that have a significant impact on the economic activities of the population and are beyond their control, therefore, cannot be manipulated by businesses. In the case of the micro mezcal producers in Santiago Matatlán, and according to interviews with the 57 informants, including public officials and mezcal producers from the community, the following external factors were identified that have both negative and positive effects on their economic activities and the possibilities of promoting social and solidarity economy organizations.

Threats

Inflation's Impact on Mezcal Producers: Inflation, marked by a 7.55% rise in the first two months of 2022, poses challenges in accessing essential goods, exacerbating economic vulnerability (INEGI 2022). Mezcal production witnesses increased costs for inputs like labor, agave, and fuel, escalating prices for both bulk and bottled mezcal. This strains producers' income and family well-being, fostering uncertainty that may impede investment and spending.

Challenges faced by Mezcal Producers:

- (a) **Capitalist Dominance:** Over 70% of 57 producers note the growing dominance of capitalist mezcal companies, equipped with trademarks, modern technology, and marketing strategies. This marginalizes micro producers due to their limited competitiveness
- (b) **Financial Struggles:** Mezcal producers lack government and private financial support, hindering liquidity needs coverage. Informal status and insufficient collateral prevent access to private banking, potentially leading to staff reductions, closures, and increased unemployment and poverty
- (c) **Weak Government Support:** Despite government policies to promote the social and solidarity economy, 85% of micro mezcal business owners are unaware of the model and INAES support. Limited resources, bureaucratic complexity, and leadership changes contribute to this lack of awareness

- (d) **Climate Change Impact:** Droughts and storm-induced crop damage in 2022, exacerbated by rising temperatures in 2023, reduce water availability, affecting irrigation and agave production. The industry faces challenges from climate-related events impacting land and crops.

Opportunities

Opportunities for Small Mezcal Producers Despite Challenges:

- (a) **Growing Market:** Despite environmental threats, the expanding national and international mezcal market provides a significant opportunity. Micro producers can capitalize on this trend by increasing production and improving marketing efforts
- (b) **Support Programs:** Weak as they may be, both public and private initiatives offer support to mezcal producers. With a strategic approach, these programs can provide access to financial funds, tax benefits, social security, and training, facilitated by organizations like INAES, contingent on meeting specific business formalization requirements
- (c) **Government Loans:** Financial institutions, including Nacional Financiera S.A., extend credit to producers, enabling investment in technology, production, and marketing systems for micro mezcal producers involved in agricultural and agro-industrial production
- (d) **Technological Advancements:** Mezcal production benefits from ongoing technological advancements in machinery, production equipment, and information and communication technologies. These improvements enhance productivity, providing a valuable opportunity for producers to leverage
- (e) **Guidance for Sustainability:** Various public and private organizations offer guidance and training to micro mezcal producers, not only to improve production and marketing practices but also to enhance organizational structuring. INAES, for instance, provides training for establishing Social and Solidarity Economy organizations, including cooperatives.

Micro mezcal-producing businesses in Santiago Matatlán, Oaxaca, possess diverse opportunities for development. Their success hinges on adapting to market demands, fostering innovation, improving product quality, and effectively accessing available governmental and financial support.

Internal Context of Micro Mezcal Producers Weaknesses

In examining the challenges faced by surveyed micro-entrepreneurs, it becomes evident that several weaknesses impact their endeavors. These weaknesses, ranging from traditional economic approaches to informal entrepreneurship practices, obstruct their economic resilience and potential for growth. Understanding and addressing these limitations is crucial for formulating effective strategies to support and enhance the overall development of micro-enterprises in Santiago Matatlán, Oaxaca:

- (a) **Traditional Economic Approaches:** Micro mezcal producers face a significant challenge due to their adherence to traditional practices in a rapidly modernizing world. Out of the 57 producers interviewed, 88% primarily produce for personal use, 78% prefer traditional technologies, and 90% sell through intermediaries in regional markets, leading to low competitiveness and selling prices often below total costs.
- (b) **Informal Entrepreneurship:** Informal businesses, prevalent not only in Santiago Matatlán but across Oaxaca, operate outside legal frameworks, posing challenges to economic activities and social well-being. This informal status prevents them from accessing state-provided support and benefits, such as healthcare, impacting both economic and social aspects.
- (c) **Commercial Intermediation:** In mezcal production, 55% of producers in Santiago Matatlán rely on intermediaries who exploit their direct dealings by purchasing products at lower prices and selling them at higher prices elsewhere. Although this ensures quick income without the effort of retail sales, it undermines producers' income and family well-being.
- (d) **Limited Understanding of Social Economy:** 85% of mezcal producers lack familiarity with organizing businesses within the social and solidarity economy model. This lack of understanding poses significant obstacles, including ignorance of opportunities, organizational challenges, limited resources, cultural barriers, sustainability issues, and reduced negotiation power.
- (e) **Absence of Social Security:** 87% of micro mezcal producers lack social health services, impacting both employers and employees. Negative effects include health risks, reduced productivity, turnover, financial burdens, talent retention challenges, harm to the company's reputation, and growth limitations.

- (f) **Environmental Impact:** Most micro enterprises contribute to environmental damage, involving deforestation, loss of biodiversity due to agave cultivation, excessive water use, generation of waste contaminating soils and water, and greenhouse gas emissions from fossil fuel use.

Strengths

Strengths of Santiago Matatlán's Micro Mezcal Enterprises:

- (a) **Abundant Potential:** Santiago Matatlán houses 108 micro mezcal enterprises, presenting a robust opportunity for the development of social and solidarity economy organizations. These individual and informal businesses, characterized by economic vulnerability, stand to benefit from collaboration, forming associations to strengthen their economic position and improve social well-being
- (b) **Human and Natural Resources:** The locality possesses untapped strength in its human and natural resources, particularly the knowledge and expertise of micro entrepreneurs in agave cultivation and mezcal production. This expertise contributes to the region's distinct and authentic mezcal quality. Abundant agricultural raw materials and natural resources further ensure access to fresh, high-quality inputs
- (c) **Collaboration Culture:** Rooted in the philosophy of traditional communities, collaboration and mutual support are inherent strengths of Santiago Matatlán. Micro mezcal businesses can cultivate this mindset, collaborating with other enterprises for collective initiatives
- (d) **Community Social Participation:** Strong bonds between mezcal producers and the local community present untapped potential. Establishing close relationships with customers and suppliers, micro entrepreneurs can leverage local identity and culture to add value, attracting consumers seeking authentic experiences and historically rooted products
- (e) **Network and Association Potential:** Establishing relationships with local and regional companies, community organizations, and cooperatives can enable micro mezcal producers to create networks and associations. This collaboration supports the development of new social and solidarity economy enterprises
- (f) **Market Access and Marketing Opportunities:** Micro mezcal enterprises possess the potential to access local, regional, and international markets.

Partnering with new social and solidarity economy enterprises can streamline product marketing, enhancing overall competitiveness.

Strategic Formulation

The previous strategic analysis served as the foundation to feed into the SWOT Matrix and identify the following strategies:

- **Long-Term Overall Strategic Objective** (1.5 years): Foster the development of social and solidarity economy organizations within the micro mezcals-producing businesses of Santiago Matatlán, Oaxaca.
- **Long-Term General Strategy**: Address the obstacles hindering the implementation of social and solidarity economy within the micro businesses of Santiago Matatlán.
- **Short-Term Operational Objective** (6 months): Create the general conditions for the acceptance of social and solidarity economy among the micro producers.
- **Short-Term Strategies** (6 months): Program for raising awareness among micro entrepreneurs about the importance of the social and solidarity economy model, including actions such as: a) Organizing informational meetings about the benefits of the social and solidarity economy model; sharing successful examples of social and solidarity economy. b) Providing training and raising awareness about social and solidarity economy principles. c) Cultivating an organizational culture that promotes openness to change and experimentation, encouraging innovation and the adoption of new practices. d) Active participation of entrepreneurs and workers in training meetings to establish and formalize a social organization, such as a cooperative or other type of social entity.
- **Medium-term strategies** (one year): Program for formalizing a cooperative with personalized guidance from INAES, including actions such as: a) Defining the organization's tasks and functions of the cooperative or other type of social entity and drafting the bylaws; b) Officially registering the social organization as a social and solidarity economy entity with the assistance of INAES; c) Developing an activity plan for the social organization, considering the economic, social, and sustainable interests of the members.

- **Long-term strategy** (one year and a half): Program to formalize the government's social security services. Through the formalization of the social enterprise, the necessary procedures will be carried out with the Mexican Social Security Institute (IMSS) to obtain health and retirement pension services for the workers. Program for financing and competitiveness of the organization with actions for financing, such as: Seeking private funds and grants, forming strategic alliances with other organizations to share resources, knowledge, and financial support, and participating in government competitions that offer financial assistance. For competitiveness, with actions such as: a) Specializing in mezcal products that large and medium-sized companies cannot provide with the same personalized attention. b) Innovating products or services that offer differentiated value. c) Focusing on regional and national markets to market their products and build a loyal customer base that supports the company. d) Other actions such as: Quality and customer service, collaborations and partnerships, online presence, adaptability to changes, efficient costs, sustainability, and social responsibility, among others.

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