



## Fomento Social Banamex

Supporting indigenous communities through innovation

**Fomento Social Banamex** is the philanthropic arm of Citibanamex Mexico, and its goal is to reduce inequality in Mexico. It promotes capacity-building for social organizations to better meet the needs of marginalized communities living in poverty. Under this scheme and through its strategic partners, it has supported Unión Majomut, a cooperative of coffee farmers from Chiapas, so that it partakes in the entire value chain and earns a higher income for partner families.

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### LOCATION:

National – Mexico

### IMPACTED MUNICIPALITIES:

- Chenalhó
- San Juan Cancuc
- Tenejapa
- Oxchuc
- Pantelhó, in Los Altos region, state of Chiapas.



### SECTOR:

- Social and economic development,
- Entrepreneurship



### TYPE OF INVESTOR/SILO:

Corporations and companies with social-investment programs.



### MAIN PARTNERS:

- Cirklo
- Único Valerica
- Unión Majomut



### FINAL BENEFICIARIES:

- Rural communities
- Social entrepreneurs



### DURATION:

2015

–present



### MOTIVATION/ PROBLEM TO TACKLE:

Fostering the transformation of traditional productivity and entrepreneurship models for greater impact, sustainability, and scalability.



### NON-FINANCIAL SUPPORT OFFERED:

- Management and impact measurement
- Business model and/or strategy
- Operational (marketing, logistics, IT, sales, purchases, legal).



### SDGS ADDRESSED:



### TYPE OF FINANCE:

Donation

### RESOURCES INVESTED:

USD 90,800



### IMPACT:

Increase in the income of around

1000 coffee-farming families.

Creation of

7 direct and 48 indirect jobs



Strengthening the cooperative's productive and transformation process.



Knowledge transfer for the development of projects to fairly sell coffee by the cup.



## BACKGROUND AND CONTEXT

The state of Chiapas, in the south of Mexico, is characterized by its high level of poverty. It is estimated that 60% of the population does not have food security, and 86% lives in households where labor income per capita is below the poverty line. Some localities in the state show the lowest multi-dimensional poverty index in the country.<sup>1</sup> In the municipalities of Chenalhó, San Juan Cancuc, Tenejapa, Oxchuc, and Pantelhó—located in the mountainous region of Los Altos de Chiapas, mainly inhabited by Tsotsil and Tseltal ethnic groups—the percentage of the population living in moderate and extreme poverty is over 97%.<sup>2</sup>

Coffee farming is one of the few economic opportunities rural communities in the region have.<sup>3</sup> Unfortunately, since mid-2013, coffee production has faced major challenges due to an epidemic of coffee rust. The disease caused millions in losses and a significant decline in production between 2013 and 2015.

For more than twenty years, Fomento Social Banamex (FSB) has been providing support to dynamize coffee production in the region. In particular, it has financed a cooperative called Unión Majomut. Its first intervention in the cooperative was in 2000, with lines of credit for organic-coffee harvesting, selling, and the transformation into the production of this type of coffee. In 2009, the first project to modernize and strengthen the production and commercialization was developed. Infrastructure for wet and dry processing of coffee and equipment for bean roasting and grinding were acquired. Since then, the relationship has continued through donations, which are made every two years approximately.

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**1** Consejo Nacional de Evaluación de la Política de Desarrollo Social (CONEVAL). 2019. *Sistema de Información de derechos sociales (SIDS), Chiapas*. Accessed at: [https://www.coneval.org.mx/coordinacion/entidades/Documents/Fichas\\_SIDS/SIDS-Chiapas.pdf](https://www.coneval.org.mx/coordinacion/entidades/Documents/Fichas_SIDS/SIDS-Chiapas.pdf).

**2** Centro de Estudios de las Finanzas Públicas (CEFP). 2018. Secretaría del Desarrollo Social. 2015. *Medición de la pobreza multidimensional y Gasto en Ramo 33, indicadores a nivel municipal, 2010 y 2015*. Accessed at: <https://www.cefp.gob.mx/publicaciones/presentaciones/2018/pbr/Chiapas.pdf>

**3** Comité Estatal de Información Estadística y Geográfica (CEIEG). 2018. *Región V-Altos Tsotsil Tseltal*. Gobierno de Chiapas. Accessed at: [http://www.ceieg.chiapas.gob.mx/productos/files/MAPASTEMREG/REGION\\_V\\_ALTOS\\_TSOTSIL\\_TSELTAL\\_post.pdf](http://www.ceieg.chiapas.gob.mx/productos/files/MAPASTEMREG/REGION_V_ALTOS_TSOTSIL_TSELTAL_post.pdf)

A new project was launched in 2015 to help Unión Majomut become institutionally and financially self-sustainable, based on an innovative, high-added-value business model.



## DESCRIPTION

Fomento Social Banamex (FSB) is a non-for-profit civil association created in 1992. It is the philanthropic arm of Citibanamex bank. Its main goal is to contribute to decreasing inequality in Mexico and to position Citibanamex as an impact-investment leader. Before 2014, the foundation was governed by traditional philanthropic schemes, but after its participation in The Yunus Centre's Global Social Business Summit, it decided to change its intervention model and incorporate innovation and social-impact paradigms.

For this, it developed a strategy based on establishing and facilitating partnerships with consulting firms and social impact managers—mainly incubators and accelerators—such as New Ventures, Socialab, and the Unreasonable Institute, among many others.<sup>4</sup> In 2015, it started its Apoyo al Emprendimiento Social (Supporting Social Entrepreneurship) program, under which an annual call is issued. Around USD 51,600 were allocated to partner organizations to develop a challenge consisting in launching a call for social entrepreneurs around a specific issue. Winners participate in incubation and acceleration programs and receive seed-funding donations. In this context, FSB's partners have been in charge of structuring the challenge, organizing the request for proposals, participating in the selection process, providing counseling, and channeling FSB's seed funding towards the selected organizations.

Unión Majomut is a cooperative comprised of about 1000 coffee-producing families from 35 indigenous communities belonging to the Tsotsil and Tseltal ethnic groups, in Los Altos de Chiapas region. The cooperative's main source of income is cherry coffee<sup>5</sup> exports to Europe—about 90% of the sales. The cooperative has also been trying to develop market outlets in the country, especially for the sale of ground roasted coffee. Unfortunately, this product has had little success.


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<sup>4</sup> In 2019, criteria were adopted for intermediary partners to be elected within the framework of a call too.

<sup>5</sup> Cherry coffee is that which has not undergone processing and retains its skin, pulp, and mucilage.

With that in mind, in 2015 FSB approached Cirklo, an innovation and social business consultancy, so as to work alongside the cooperative on the development of a new business model based on selling ground and roasted coffee.

For three years, Cirklo and Unión Majomut collaborated closely to develop a project to sell cups of coffee, as the profit margins of this activity are significantly higher than those derived from selling cherry coffee and even roasted coffee. The cooperative asked for the price not to be prohibitive and for the product to pollute as little as possible. After considering several options, a model of mobile coffee-selling units was chosen. These units are generally placed in captive markets such as malls and corporate buildings that appeal to a segment that appreciates quality, organic coffee made in Mexico.

To develop and run these points of sale, Único Valerica, a consultant and coffee seller, was contacted.<sup>6</sup> Together, FSB, Cirklo, Unión Majomut, and Único Valerica conceived the idea of starting a business called Caravana to run the mobile units. The project began in 2015. In 2019, the first two coffee vending carts were put on the market in Mexico City.

Único Valerica and Unión Majomut are equal partners of Caravana, and their corporate governance framework is innovative: it consists of a Technical Committee including all the stakeholders, who make the decisions. Although not a partner of the company, FSB also has a say in the Committee so that it can follow up on the enterprise.



## IMPLEMENTATION

During the first phase of the project (2015–2016), Cirklo made site visits to the cooperative to get to know it and assess its capacity and infrastructure. It concurrently conducted market research and explored coffee placement options by means of a comparative analysis. Then, it submitted its alternatives and

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<sup>6</sup> Único Valerica's support was directly provided by its director Rosa E. Cantú, an expert in second-wave coffee production and commercialization, who is also president of the Mexico chapter of the International Women in Coffee Association (IWCA).

proposals to Unión Majomut;<sup>7</sup> together, they set the objectives of the project. Additionally, Cirklo provided counseling about the coffee market so that the cooperative became familiar with the consumption of its product.

The decision was made to adopt a business model based on Unión Majomut's supply of high-quality organic ground and roasted coffee to be sold by the cup. The most attractive alternative for this purpose was mobile coffee-vending units, which are convenient in that they allow to reduce costs, particularly thanks to their ability to create a point of sale without requiring complex infrastructure or renting premises. What is more, units can work as kiosks at shopping malls, and they feature all the necessary equipment to sell coffee.

The second phase was completed between 2017 and 2018. It consisted in designing, modelling, and testing a mobile unit. After the selection process, Cirklo introduced Único Valerica, which had already worked on a coffee fair-trade project with mobile coffee shops. This new partner, in addition to contributing to the development of Caravana, provided the cooperative with guidance on processed coffee production. During this stage, both partners worked very closely and constantly briefed Unión Majomut's Board of Directors and General Assembly on their progress.

The third stage began at the end of 2019, when both mobile units went into operation.



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### Tailored Finance

FSB financed the project and implementation stages in full with USD 90,800. This covered Cirklo's and Único Valerica's assistance, as well as the training, coffee procurement, materials, human resources, equipment for coffee selling, and purchase of machinery for tests, prototypes, and end devices for coffee distribution during the pilot stage.

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<sup>7</sup> Majomut is governed by its General Assembly, in which all its partners participate actively. Every three years, the Assembly designates the Board of Directors, the decision-making management body. (Unión Majomut, n.d.) <http://www.union.majomut.org/majomut/nuestra-historia/>.

Before the project was set in motion, an initial financing amount was established based on a preliminary project draft proposed by Cirklo. This amount underwent many adjustments as the project evolved and other needs arose. New resources requested would be put under the consideration of FSB's Project Assessment Committee.<sup>8</sup>

Throughout the project, resources were invested as follows: 9% in the workshop for the integration of project stakeholders and Majomut's Board members; 40% in brand development, prototype designing, and pilot assessment strategy; 33% in point-of-sale implementation, and 18% in scalability (franchise model).

### Non-financial Support

Through its partners, FSB provides tools and knowledge that allow organizations to strengthen their structures and build capacities. As an example, Cirklo provided the cooperative with training and workshops on the structure of the Mexican coffee market, its consumption, and competitors. It also advised the design and execution of the project with a methodology that had been previously used for other projects. Único Valerica provided counseling and organized workshops to enhance the coffee-production process. Particularly, it taught courses on the appropriate use of coffee roasters—equipment that the cooperative already had but barely benefited from. Also importantly, FSB supported the project by lending the esplanade of the Seguros Banamex corporate building to set up the first operating cart.

For its part, FSB—within the Apoyo al Emprendimiento Social program framework—offered training in financial education when needed and has continued supporting Caravana amidst the COVID-19 crisis. It still retains its seat in the company's Board of Directors.

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<sup>8</sup> A capped amount of USD 258,000 had been set for the project, and it was not exceeded.



## RESULTS

The main outcome was the execution of the project itself as a collaborative initiative that started from scratch. Outcomes in the first months of operation were quite positive and promising. Caravana's break-even point can be measured in terms of the number of cups that must be sold for the units to cover their expenses. USD 155 must be sold per day, which equals 120–130 cups of coffee. Before the COVID-19 pandemic, both points of sale would sell around 560 cups.

For small producers, impact is represented by the sale of half a ton of parchment coffee in 20 months of operation, which equals the average production of a family of small producers and the creation of 4 indirect jobs (2 men, 2 women).

For the cooperative, that impact is reflected on the average sale of 27 kilograms of parchment coffee at a price 1.8 times higher than the agreed selling price and the creation of 4 indirect jobs (3 men, 1 woman).

All of Caravana's inputs and products come from micro- and small Mexican enterprises. Moreover, at Único Valerica, jobs created equaled 7 direct jobs (3 men, 4 women), 11 indirect jobs (6 men, 5 women), and another 29 indirect jobs (17 men, 12 women) throughout the process.

Every month, a turnover report is addressed to Unión Majomut, who not only makes a profit as an exclusive supplier, but also earns a 2% commission for every cup sold. In total, 55% of these profits come from sales of grounded coffee, and 45% from a revenue sharing scheme for each cup sold.

Before FSB's intervention, Unión Majomut had made inroads in direct-to-consumer sales at a coffee museum in San Cristóbal de las Casas. Nonetheless, this initiative failed as a result of high renting costs and strong local coffee-shop competitors. In contrast, with Caravana, a profitable business model with growth potential based on a franchise structure was created, one in which the cooperative is a partner and makes a fair return on its production.



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## LEARNINGS AND PERSPECTIVES

FSB states that one of the main challenges of this project is the cultural, geographical, and language barrier faced when working in an indigenous region. Trust is key for the success of this type of collaborative projects; therefore, a major achievement is the fact that Unión Majomut agreed to partner with Unión Valerica to create Caravana.

*“The idea was to start a business from the cooperative. The lesson is that it is indeed possible to set up a social business from scratch and with a bottom-up approach.” Ana Vanessa González, Head of Fomento Social Banamex.*

A significant challenge for Caravana is that the value chain, the costs, and the logistics are hard to cover and deal with in the coffee industry. Furthermore, the sector is dominated by several monopolies. This justifies the investment made in analyzing markets and potential niches and in implementing a pilot stage to test the business model. It also explains why the project, initially conceived for a two-year period, lasted four years.

The COVID-19 crisis means that Caravana must keep contact with costumers to a minimum; employees have therefore been trained, and protocols and tests have been implemented to prevent cross-contamination. A fully digital modality has been adopted for communication, and coffee in bulk is home delivered. Thanks to the formation of the Café para Todos group, Caravana has been able to channel the coffee beans previously sold by the mobile units. This will help it ensure a minimum amount of income until operations are resumed after the pandemic.

And to adapt to the pandemic, the Caravana 2.0 project is also being developed. This project will reframe the franchise model in place to adapt it to the new reality. The current challenge is to succeed in scaling up the project through this franchise scheme.

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