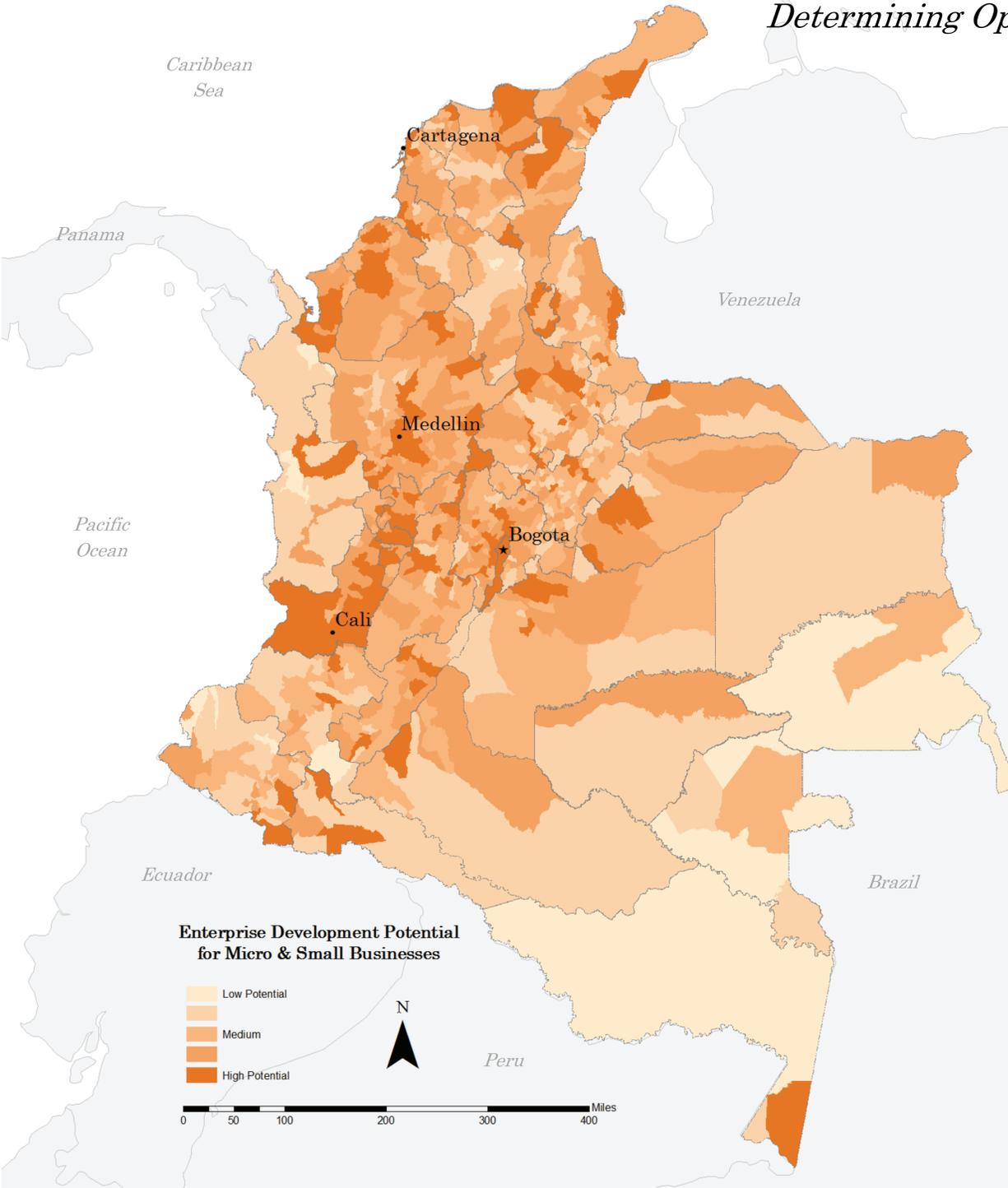# Business Development Opportunities in Colombia

Determining Optimal Areas for Micro & Small Enterprises Growth

Project Overview

In the past decade Colombia has transformed itself from a politically volatile state into one of the most dynamic economies in Latin America, achieving recognition by the World Bank as one of the best areas in Latin America to start an enterprise in 2010. The government has been emphasizing entrepreneurship as a primary policy for economic stimulus and poverty reduction since 2006, and has implemented national reforms to spur business creation in all sectors of commerce. As the ease of doing business increases and the cost of launching an enterprise drops, Colombia has nearly doubled the number of companies created annually to over 55,000 in 2012 according to the World Bank. By laying a strong institutional foundation for positive business development, the government has created an attractive environment for increased investment of funds and resources into the Colombian market.

As public and private organizations realize the increasing growth potential of the Colombian economy, foreign direct investment (FDI) and enterprise support networks are growing across the country - determining *which* areas offer the greatest potential for entrepreneurial development becomes increasingly important.

While Bogota and Medellin have served as natural beachheads for business support networks and FDI, alternative geographic locations may offer similar potential. By identifying where micro and small enterprises currently exist as well as population and government indicators that positively affect the development of a new business, this study identifies optimal areas for micro and small business development in Colombia in order to channel funds, investment and resources to nascent enterprises.

Colombian Enterprises

The Colombian Government defines a type of businesses in a number of different ways, but this study used the National Administrative Statistic Department (DANE) classification by number of employees. Businesses are defined as follows:

Type of Enterprise	# of Employees
Micro	1 – 10
Small	11 – 50
Medium	50 – 200
Large	> 200

These businesses are further categorized by sector, with the three primary sectors including service, industry and commerce. This study made no attempt to differentiate between the three sectors, and aggregated the information to geographically illustrate business locations and frequency over a district.

While this study attempted to explore the entrepreneurial landscape of different districts inside Colombia to identify optimal growth areas, attaining data on entrepreneurs proved difficult. As a proxy, this study concerned itself with micro and small enterprises as they are most representative of newly launched ventures in Colombia.
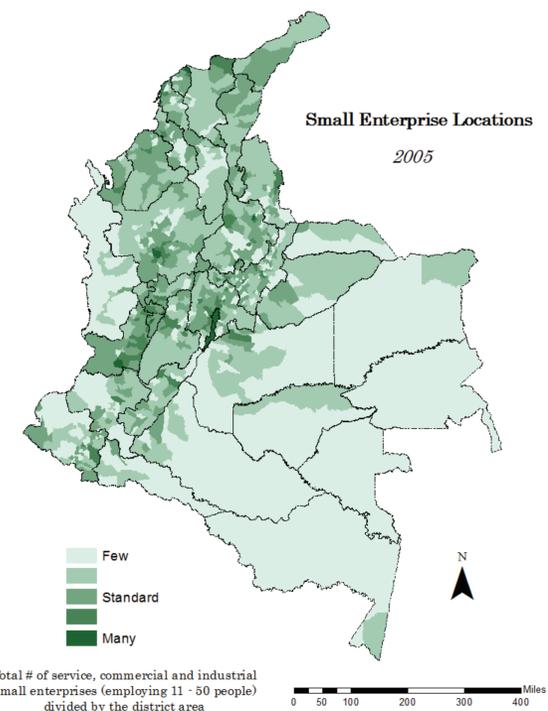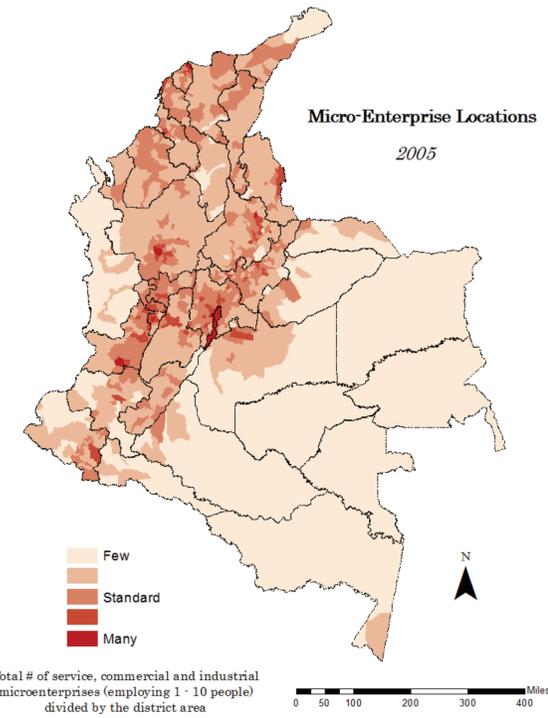
Additionally, many businesses offer different growth potential – for instance a tech company can typically grow much faster and at a larger scale than a restaurant or a flowershop. Categorizing the growth potential of a business is a difficult exercise, especially with limited data, but this study attempted to target higher-growth potential businesses by factoring specific socio-economic variables that correlate with high-growth companies.

Methodology and Limitations

This study was conducted by selecting six socio-economic factors that affect the business development potential of a district and assigning each factor a score: 1 for unfavorable and 4 for most favorable. Scores were then tallied (total potential favorable weight of 24). The number of micro and small business in a district were given a similar 1-4 ranking based on number of businesses in a district (1 = few & 4 = many), and the each district was given a total ranking for the service, commercial & industrial sectors. This was done for both Micro and Small Enterprises, with a total potential weight of 24 (3 sectors x 4 potential score x 2 business size categories). Both scores were added, giving each district a ranking potential between 1 - 48 and graphed in the final map by their relative standing according to the final score.

Data was collected and compiled from the National Administrative Statistic Department (DANE).

While ambitions in scope, this project has a number of limitations. The socio-economic factors selected depended on data availability; where internet penetration was unavailable, telephone coverage was used as a proxy. School enrollment was an indicator of the educational capacity of a district, but may not reflect the creative or innovative nature of a district. While this study tried to account for socio-economic factors in addition to enterprise location, the given scores were standardized, and a more refined, sophisticated weight system could reveal more nuanced results.

Caribbean Sea

Panama

Venezuela

Cartagena

Medellin

Bogota

Cali

Pacific Ocean

Ecuador

Brazil

Peru

Enterprise Development Potential for Micro & Small Businesses

Low Potential
Medium
High Potential

N

0 50 100 200 300 400 Miles

Micro-Enterprise Locations
2005

Few
Standard
Many

Total # of service, commercial and industrial microenterprises (employing 1 - 10 people) divided by the district area

N

0 50 100 200 300 400 Miles

Small Enterprise Locations
2005

Few
Standard
Many

Total # of service, commercial and industrial small enterprises (employing 11 - 50 people) divided by the district area

N

0 50 100 200 300 400 Miles

Socio-Economic Factors

Infant Mortality Rate
2007

< 20 (Low)
20 - 30
30 - 40
40 - 50
< 50 (High)

N

# of deaths of children under one year divided by the number of live births per year) x 1000

Life Conditions Index
2005

No Data
Lowest
Low
Medium
High

Weighted Living Condition of households factoring in health, education, work and access to goods and services

School Enrollment
2011

Low
Medium
High

# of students by level divided by the population in each corresponding age group) x 100

Telephone Coverage
2005

0 - 10%
10 - 20
20 - 35
35 - 60
60 - 100%

# of households with telephone service divided by total # of dwellings in the district) x 100

District Income Generation
2010

Insufficient
Moderate
Optimal

(Income Tax / Total Income) x 100

District Performance and Legal Compliance
2011

High Incompliance
Medium incompliance
Low Incompliance
Satisfactory Compliance
Optimal Compliance

Government score of District compliance with laws governing tax collection and revenue disbursement