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 2008, and has implemented national reforms to spur business creation in all sectors.

As the cost of doing business increases and the cost of launching an enterprise drops, Colombia has nearly doubled the number of companies created annually to over 50,000 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 beacheads 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.

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 businesses in a district was 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 7-48 and graphed in the final map by their relative standing according to the final score.

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

Socio-Economic Factors

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

- **Micro**
  - 1 – 10 employees
- **Small**
  - 11 – 50 employees
- **Medium**
  - 51 – 200 employees
- **Large**
  - > 200 employees

These businesses are further categorized by sector, with the three primary sectors including services, industry, and commerce. 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 flower shop. 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.