



EMPOWERING INCLUSIVITY

A Roadmap for Unlocking
the Economic Potential of
MSMEs in Colombia



**Building
Markets**



Preface and Acknowledgments

Building Markets is pleased to present this report on micro, small, and medium-sized enterprises (MSMEs) in Colombia, with a particular emphasis on those owned by migrants and internally displaced persons (IDPs). The development of this document was made possible through support and funding from the Conrad N. Hilton Foundation.

We extend our heartfelt gratitude to the foundation for its commitment to empowering vulnerable populations through business development.

The primary goal of this report is twofold. First, we aimed to provide an overview of the state of MSMEs in Colombia, particularly those owned by migrants and IDPs. Through extensive research, we sought to understand the barriers and needs that these businesses face to gain valuable insights that will inform Building Markets' future interventions to support and empower them.

Second, we endeavored to characterize and analyze the ecosystem of public, private, and cooperative actors working with and offering programs to MSMEs belonging to the aforementioned populations. By understanding the landscape of actors and interventions, we can identify opportunities for both Building Markets and peer organizations to make a meaningful impact in this vital sector.

Building Markets addresses inequality around the world by advancing inclusive economies that work for all. We do this by opening opportunities for small business owners — who fuel more than 70% of the world's jobs — to transform their lives and communities. Since 2004, Building Markets has combined its deep local knowledge, comprehensive data, and global networks to build confidence and strength in more than 27,000 small business owners affected by marginalization. From securing \$1.4 billion in contracts or loans to creating more than 74,000 full-time jobs in places where they're

needed most, Building Markets is elevating small businesses as engines of enduring social impact and economic growth.

We sincerely thank all our allies and partners who generously contributed to this research. We especially thank Colombia Productiva, Procolombia, the Chamber of Commerce of Cali, and the United States Agency for International Development (USAID) for Colombia for their invaluable support in sharing their expertise with us.

The collaboration and assistance from various individuals and organizations have been instrumental in gaining a deeper understanding of the Colombian MSME landscape and the actors that operate within it.

The Building Markets team in Colombia wrote and researched this report, including Carlos Rubio, Lina Valbuena, Johan Ortega, Paula Cucalón, and Adriana Márquez. Guidance was provided by Allison J. Anderson, Research and Impact Consultant.

We are acutely aware of the challenges faced by migrants and internally displaced persons in Colombia. They require our support, and we are fully committed to working with them to strengthen their businesses. We firmly believe that improving the conditions of vulnerable populations positively impacts the well-being of the entire country. By working together, we can make a lasting and positive impact on their lives and contribute to a more inclusive and thriving economy for all.

To learn more about Building Markets, visit buildingmarkets.org



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BOX 1: Definitions

Internally Displace Persons (IDP): “A displaced person is any individual who has been compelled to migrate within the national territory, leaving their usual place of residence or economic activities because their life, physical integrity, personal security, or freedom has been violated or is directly threatened due to situations such as internal armed conflict, widespread violence, or massive human rights violations.” UNHCR

Migrants: “While there is no formal legal definition of an international migrant, most experts agree that an international migrant is someone who changes his or her country of usual residence, irrespective of the reason for migration or legal status. Generally, a distinction is made between short-term or temporary migration, covering movements with a duration between three and 12 months, and long-term or permanent migration, referring to a change of country of residence for a duration of one year or more.” United Nations-Refugees and Migrants.

Highlights and Key Findings

MSMEs OVERVIEW

- ▶ Colombia has over 5.5 million MSMEs, over 70.4% of which are informal. Formalizing an MSME requires a third to half of its annual gross profits, making it challenging to enter the formal sector.
- ▶ MSMEs in Colombia have about half the productivity of larger companies, requiring twice the number of employees to achieve equivalent output. This is mainly due to informality, limited access to finance, limited talent pools, and lags in technology adoption.
- ▶ Loans granted to MSMEs have primarily been used for maintaining liquidity rather than making investments. Over the past three years, financial resources have primarily been used for working capital.
- ▶ Access to tenders from the private sector is limited for MSMEs; there is a lack of well-defined routes to enter these opportunities.

MSMEs OWNED BY INTERNALLY DISPLACED PERSONS AND MIGRANTS

- ▶ Entrepreneurship has been embraced differently by IDPs and migrants in Colombia. While businesses owned by displaced individuals are less common, the creation of enterprises by migrants has increased with the rise in Venezuelan migration to the country.
- ▶ There have been numerous policy interventions aimed at economically including IDPs and, more recently, migrants. These policies promote integration through employment and support for entrepreneurship.
- ▶ Foreign-owned companies, which include those established by migrants in recent years, commence operations with approximately 20% more capital compared to locally owned ones. However, there has been a noticeable decrease in the capital of migrant-owned businesses recently, implying that Venezuelan migrants might be facing difficulties in securing capital and accessing credit markets.
- ▶ Migrant-owned MSMEs have the same survival probability as locally owned businesses.

- ▶ Businesses owned by displaced persons are mainly in the informal sector due to limited work experience, lower education levels compared to locals, and a lack of assets, despite entrepreneurship being seen as a solution to overcome conflict consequences.

NEEDS AND OPPORTUNITIES

- ▶ Colombian MSMEs have the potential to expand their local and international market by participating in public and private procurement calls. However, they must address additional challenges, including product quality and meeting formal procurement prerequisites.
- ▶ Human capital is essential for MSMEs' productivity, and Colombia faces challenges in education, training, and development. Acquiring the right talent is a big hurdle, with 64% of small companies struggling to find needed skills in 2022. Only 50% of employees work in their trained areas, and a mere 14% gain skills through education.
- ▶ MSMEs in Colombia demonstrate slow responsiveness to market changes, limited adoption of new technologies, and low growth capacity.
- ▶ Among the most crucial services provided by public, private, and international institutions across various sectors is the facilitation of networking spaces and opportunities to establish connections with new markets, both domestically and occasionally internationally. These avenues encompass business rounds, trade fairs, and inclusive supply initiatives.
- ▶ The majority of business support programs reviewed focus on providing unsegmented training and financial services; meanwhile, only 40% prioritize enhancing export services. A mere few support organizations prioritize training on accessing bidding processes.
- ▶ In the Colombian market, there is significant potential to develop programs that equip companies with practical tools for successful participation in bidding processes. While Electronic Public Procurement System (SECOP, for its acronym in Spanish) and Colombia Compra Eficiente are platforms available for public bidding processes, clear pathways for accessing private sector tenders are still lacking.





INTRODUCTION

As the global community recovers from the COVID-19 pandemic and accompanying crises, new challenges are emerging, including global asymmetries, inflation, food insecurity, energy crisis, supply chain pressures, and weakened security and governance systems. Global gross domestic product (GDP) growth is projected to be 2.7%, representing the lowest annual rate since the global financial crisis.¹ To counter this, the international community seeks to promote stability, and cooperation through discussions, agreements, and actions to address these challenges, fostering sustainable development and ensuring financial stability.

BOX 2: Priorities of the International Economic Agenda 2023

Include: i) economic recovery and resilience, ii) sustainable development, iii) climate change, iv) inclusive growth and social development, and vi) digital economy and innovation.²

Since adopting the 2030 Agenda, the international community has been dedicated to achieving the Sustainable Development Goals (SDGs), which aim to eradicate poverty, protect the planet, and ensure peace and prosperity for all. The urgency to address these issues has positioned sustainability as a necessity, not just an option.

Despite being a broad and challenging agenda, especially given growing global inequality, there is a decisive factor: small businesses. Small businesses are crucial in mitigating economic exclusion and inequality. They account for around 70% of global employment,³ driving economic growth in communities. Strengthening small businesses based on sustainable strategies is vital for more significant economic equity and community well-being. Key actions that the international community can prioritize include inclusive supply chains, providing financial assistance and guidance, promoting innovation and technology adoption, and creating favorable regulatory policies.

Empowering small businesses generates opportunities and can foster environmentally friendly economic development, leading to a more equitable economy and improved community welfare.



OVERVIEW & CONTEXT

2.1 ECONOMY

Colombia, a medium-high-income country and the region's fourth-largest economy is essential in Latin America's post-COVID recovery.⁴ As one of the longest-standing democracies in the region, the country boasts strong economic and political institutions that have proven resilient over time. The country's financial stability is anchored by its Central Bank, complemented by a robust rule of law and an independent judiciary that safeguards citizens' rights.

Fiscal responsibility and sturdy institutions like the National Planning Department and the Ministry of Finance foster effective governance and long-term development. Additionally, Colombia's economic strength is augmented by an investor-friendly environment featuring initiatives to attract foreign investment.⁵

Colombia's economy has displayed signs of resilience and recovery in recent years. In 2022, the country's economy recorded an annual GDP growth rate of 7.5%, surpassing the

Latin American average of 4%.⁶ This represented the second consecutive year of growth after the COVID-19 crisis. However, in early 2023, Colombia experienced its highest level of inflation in twenty years, reaching 13.3%.

The country's economic activity is dominated by five key sectors, collectively accounting for 41% of the GDP in 2022. Their respective contributions and annual growth rates are as follows:

TABLE 1: TOP SECTORS CONTRIBUTIONS TO GDP (2022)⁷

Sector	Contribution to GDP	Annual growth 2022/2021
Wholesale and retail trade ⁸	9.9%	5.7%
Real estate activities	9.7%	2.0%
Professional, scientific, and technical activities ⁹	7.8%	8.3%
Public administration and defense ¹⁰	6.8%	5.8%
Agriculture and livestock ¹¹	6.4%	-1.9%

MSMEs play a substantial role in Colombia's economy, accounting for 40% of the total national GDP. This emphasizes the importance of these enterprises in generating economic activity and creating employment opportunities.

Country Statistics

Capital: Bogotá

Population: 51.6 million people, most of whom reside in urban areas (81.4%)

Labor force (2022): 22.4 million

GDP (2022): US\$ 334 billion
US\$ 6,417 per capita
7.5% annual growth

Unemployment (2022): 11.2%

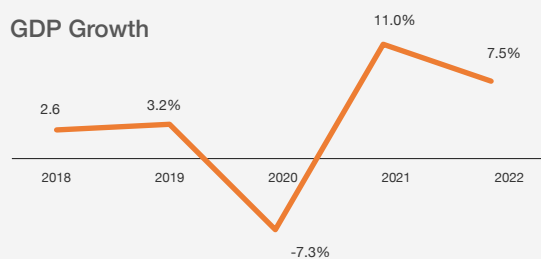
Inflation (2022): 13.12%

FDI inflow: US\$17.1 billion

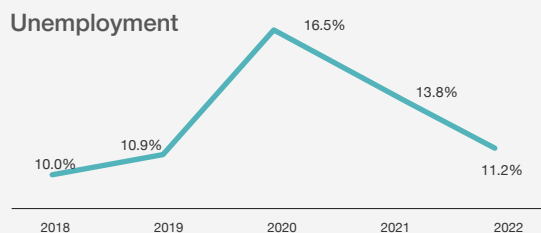
Exports: 41% of GDP

Key exports: oil, coal, coffee, sugar, medicinal products, vehicles, electric accumulators, flowers, and bananas.
Main destinations: United States, Panama, Netherlands, India

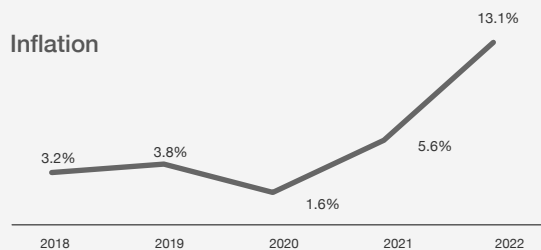
GDP Growth



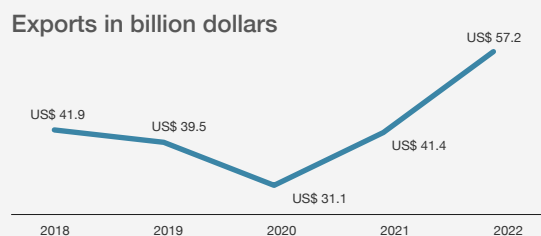
Unemployment



Inflation



Exports in billion dollars



Colombia's labor market is characterized by a high level of informality and low job quality. In 2022, the employment rate was 56.5%, with almost 60% working in the informal sector. However, it is important to consider that when adjusted for dollars, Colombia's minimum wage for 2023 amounts to US\$242, ranking as the fourth lowest among Latin American economies, with Costa Rica and Venezuela representing the highest and lowest, respectively.¹²

Colombia continues to display a relatively low level of economic openness, especially compared to other countries in Latin America. In 2021, its international trade in goods and services constituted 41% of its GDP, yet its exports remain relatively undiversified, with 40% concentrated in traditional sectors like mining, energy, and agriculture.

Colombia's National Strategy for International Cooperation¹³ is aligned with the Sustainable Development Goals (SDGs), focusing on environmental concerns, peace promotion, business support, rural development, and inequality reduction. Migration-related projects and territorial stabilization received the highest share of global cooperation resources from 2019 to 2021. Interestingly, Colombia has transitioned from being a primary recipient of cooperation funds to a provider of South-South Cooperation, aiming to allocate at least 0.7% of its Gross Domestic Product to Official Development Aid.

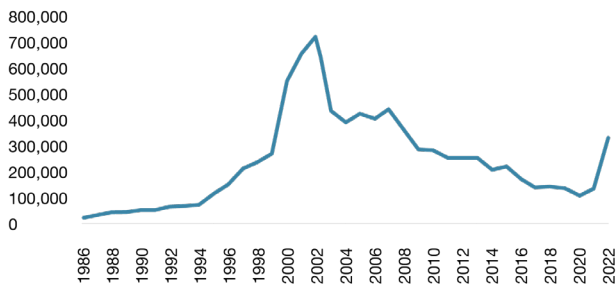
Despite these strengths, Colombia faces significant socioeconomic challenges. The poverty rate is high at 39.3% and Colombia ranks as the second most unequal country in Latin America, surpassed only by Brazil.¹⁴ Additionally, Colombia faces the long-lasting repercussions of a protracted armed conflict closely intertwined with internal forced displacement.

This conflict, rooted in political, social, and particularly territorial disputes, is exacerbated by the prevailing inequality within the country. In recent years, drug trafficking has contributed to the conflict as it has transformed into a struggle for control over territorial routes used for drug transportation. As a result, the rural population bears the heaviest burden, enduring the significant impact of forced displacement caused by this conflict. In addition, an estimated 2.5 million Venezuelan migrants have taken refuge in Colombia due to the economic crisis in Venezuela,¹⁵ exerting additional pressure on the country's economic and social structures.

2.2 INTERNAL DISPLACEMENT

Colombia, enduring an armed conflict for over five decades, witnessed over eight million internally displaced persons between 1985 and 2022, one of the most significant populations of IDPs globally. The impact of internal displacement is extensive, impacting both individuals and society. With approximately 16% of the population having experienced displacement, the consequences encompass the loss of homes, possessions, livelihoods, and often the tragic loss of loved ones. This phenomenon gives rise to various socioeconomic challenges, including limited access to essential services, heightened poverty levels, discrimination, and social exclusion. The size of the displaced population is shown below:

FIGURE 1: INTERNAL DISPLACED PEOPLE BY YEAR (1985-2022)¹⁶

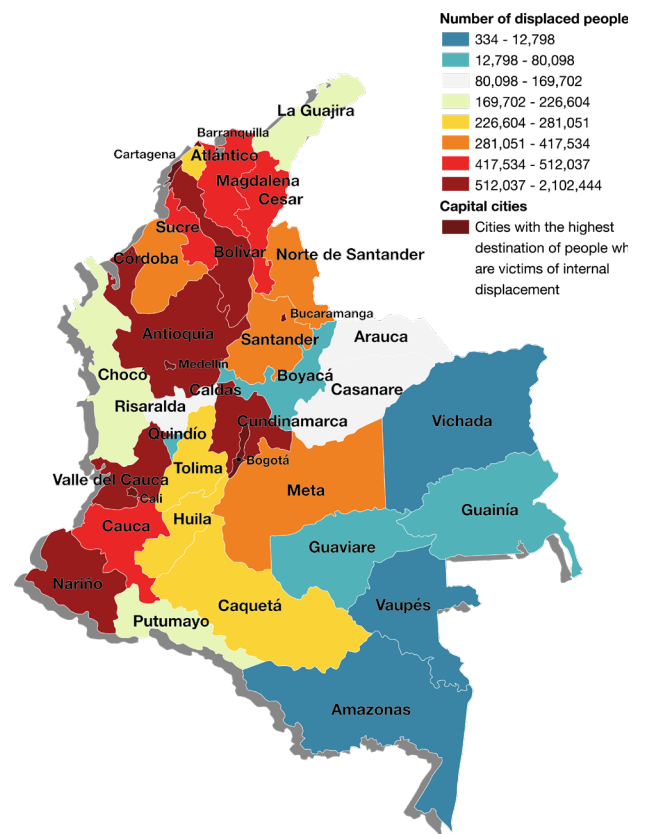


In 2016, a Peace Agreement was signed to end the prolonged armed conflict with the Revolutionary Armed Forces of Colombia (FARC). While overall violent incidents decreased, forced displacement has persisted. In 2022, it reached its highest point in the past decade, affecting 339,000 individuals.¹⁷

Displacement from rural areas has been the most pronounced, with 87% of the displaced population originating from these regions. This population faces lower levels of education and higher rates of unemployment due to regional disparities in the country. Upon arriving in new locations, these gaps are further accentuated as they lack the necessary knowledge to integrate adequately.

Major cities in Colombia (Bogotá, Medellín, Cali, Cartagena, Barranquilla, Bucaramanga, and most departmental capitals) have received large numbers of IDPs and have implemented specific policies and programs to address the needs of the displaced population and to facilitate their integration.

FIGURE 2: INTERNALLY DISPLACED PEOPLE'S DESTINATIONS¹⁸



Women constitute slightly more than half (51%) of the displaced population in Colombia, with significant impacts on various demographic groups. Among those affected are children and adolescents under 18 years old (35%), individuals over 60 years old (7%), and ethnic groups (14%), including Afro-Colombians and Indigenous peoples. Displaced families also face educational challenges, as they have lower levels of educational attainment compared to the national average. They experience higher rates of illiteracy (20% vs. 9.6%) and fewer years of schooling (5.7 years vs. 7.6). Moreover, the displaced population has a younger age structure, with an average age approximately 13% lower than the country's overall population.¹⁹

The displaced population faces significant challenges in accessing the labor market. They experience a considerably higher unemployment rate of 35.5%, nearly three times the national average, and this issue is even more severe for young individuals, with an unemployment rate reaching 58%. Additionally, their employment levels are significantly lower at 40% compared to the national rate of 57%.

Economic integration has proven to be challenging, despite the absence of exact data on the number of businesses owned by or employing displaced individuals, the figure is expected to be relatively low given their characteristics. Indeed, the economic integration of internally displaced persons (IDPs) has primarily occurred through informal and unskilled employment.²⁰

2.3 VENEZUELAN MIGRATION

In addition to grappling with mass internal displacement, since 2014, Colombia has received over 2.4 million Venezuelan migrants fleeing the country's challenging social and economic conditions, including high unemployment, scarcity of basic needs, and hyperinflation. Due to its proximity, Colombia has become a vital destination or transit point for these migrants, hosting over a third of Venezuelans who have left their home country.²¹

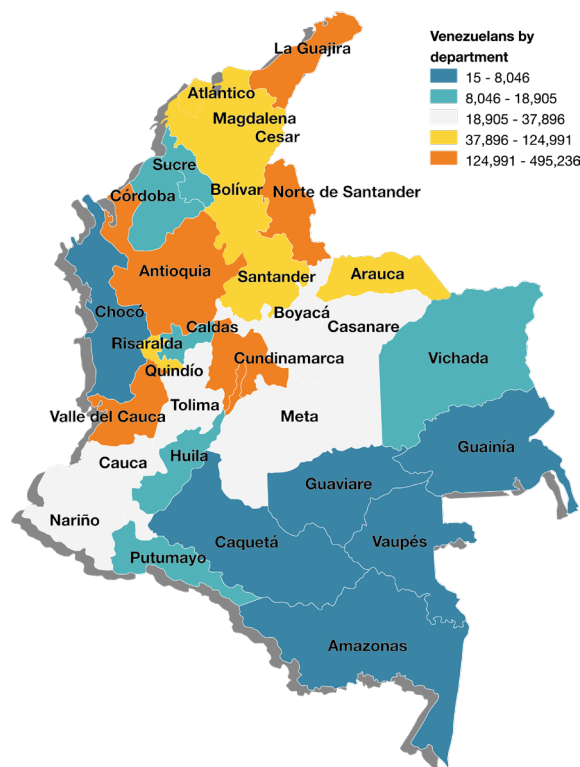
Venezuelan migration to Colombia has predominantly been irregular, with many entering the country without going through official border checkpoints or overstaying their visas. Over 57% of migrants lack proper documentation, which hampers their social and economic integration.²² Their irregular status limits their access to identification documents, formal employment, education, and healthcare services.²³

To tackle these challenges, the Colombian government has implemented integration measures.²⁴ The Special Permit for Permanent Residence (PEP), introduced in 2017, allowed migrants to stay temporarily in the country legally, granted them access to institutional health, education, child and adolescent care services, and permitted employment. In 2021, the Temporary Protection Statute for Venezuelan Migrants (ETPMV) was enacted, establishing: i) the Unique Registry of Venezuelan Migrants (RUMV), created to collect data from the Venezuelan population for the design and development of comprehensive care policies, and ii) the Temporary Protection Permit (PPT), which supersedes the PEP as the official identification document for migrants. These regularization processes have improved well-being, labor conditions, access to state services, and social integration for migrants. Despite initial expectations of a significant increase in migration, there has not been a substantial influx of new migrants during the implementation of these measures.

Venezuelan migration in Colombia is predominantly concentrated in seven departments and cities, including Bogotá, Antioquia,

Norte de Santander, Valle del Cauca, Atlántico, Cundinamarca, and La Guajira.

FIGURE 3: VENEZUELAN MIGRATION DESTINATIONS²⁵



The majority of Venezuelan migrants in Colombia are between the ages of 18 and 29 (31%), followed by children under 9 (24%), while adults over 65 make up a smaller proportion (1.5%). The gender distribution is roughly equal between men (49%) and women (51%), and the age distribution is similar across genders. Migrants tend to have higher levels of education (8 years) compared to non-migrants (7.6 years). Additionally, around 84% of migrants who arrived in the past five years are of working age, and they exhibit higher labor market participation (79.6%) compared to non-migrants (65.4%).

Despite their active participation, migrants face higher unemployment rates. Factors such as regulatory and migratory challenges, difficulties in validating their education, and the job market structure increase their likelihood of entering the informal sector and earning lower wages than their local counterparts.²⁶ For migrants who have resided in Colombia for less than five years, the unemployment rate stands at 11.9%, slightly higher

than the national average. However, this disparity becomes more significant for migrants with less than one year in the country, with an unemployment rate soaring to 19.8%. In terms of informality, both short-term and long-term migrants experience high levels of informal employment, surpassing 65%. This is nearly seven percentage points higher than the country's average informality rate.²⁷

To effectively address the challenges faced by both Venezuelan migrants and the internally displaced population in Colombia, it is essential to implement comprehensive and strategic actions involving the public, private, and international cooperation

sectors. These actions should focus on promoting the economic integration of migrants while mitigating the impacts on the Colombian economy. Furthermore, addressing forced displacement requires comprehensive measures aimed at protecting the rights of and improving the living conditions for displaced individuals.





MSMEs in Colombia

3.1 OVERVIEW

Alongside the imperative to address the challenges faced by Venezuelan migrants and the internally displaced population, it is crucial to recognize the significant role of MSMEs²⁸ in the Colombian business landscape.

MSMEs substantially contribute to the Colombian economy accounting for approximately 79% of employment opportunities and constituting 40% of the national GDP. In 2021, MSMEs demonstrated significant growth, experiencing a 13% increase compared to 2020, which can be attributed to the economic recovery following the Covid-19 crisis. Of the new businesses, 99% are microenterprises, with 49% creating job opportunities.

Furthermore, Colombian enterprises primarily concentrate on serving local markets and producing traditional goods and services with low knowledge intensity and productivity, such as

retail trade.²⁹ To expand their market reach, they could participate in procurement processes, which can enhance their production capabilities. However, they encounter notable challenges concerning product quality assurance and meeting formal procurement requirements. When Colombian MSMEs engage in exporting, they tend to focus on low-complexity products integrated into global value chains for basic commodities, accounting for only 18% of the total value of exports.³⁰

Given the information above, it is valuable to further explore and address the key constraints that hinder their growth and understand the underlying causes of the challenges faced by these enterprises.

QUICK FACTS / MSMEs in Colombia

Total MSMEs: 5,698,141

Informal MSMEs: 70.4%

Distribution of business by size:

Micro (98.3%)

Small (1.4%)

Medium (0.3%)

MSMEs contribution to GDP: 40%

Micro: 5%

Small and Medium: 35%

MSMEs contribution to national employment: 79%

Micro: 14%

Small and Medium: 65%

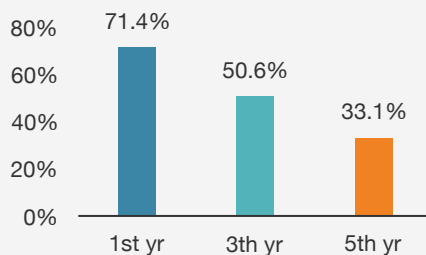
Distribution of business by sectors

► **Professional, scientific, technical, and administrative services sector:** 31.7%

► **Commerce:** 20.3%

► **Artistic, entertainment, recreational, and other services:** 10.4%

MSMEs Survival rates



MSMEs in exports:

Represent 77% of the exporting enterprises and account for 18% of the total value of exports.

Gender disparity in MSMEs leadership

Male managers: 65.9%

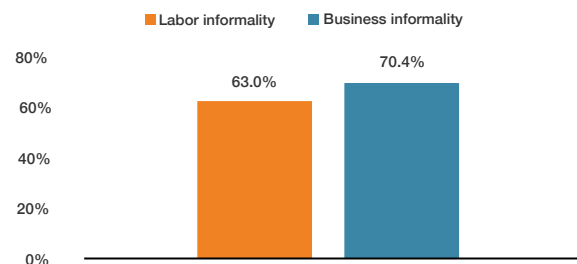
Female managers: 34.1%

3.2 PRODUCTIVITY: THE GREAT CHALLENGE FOR MSMEs

SMEs exhibit approximately half the productivity of their larger counterparts, requiring twice the number of employees to achieve similar value-added output.³¹ To tackle these issues, it is crucial to address factors influencing productivity, such as formality, access to capital, human capital development, and adopting new technologies and innovation.

Formality: Formal companies demonstrate higher productivity and generate greater sales income than their informal counterparts, with informal firms exhibiting only 59% of the productivity of formal ones.³² Moreover, employees in the formal sector enjoy higher income levels and additional benefits.³³ Formality also enables companies to participate in public productive development programs and compete in local and international markets through procurement processes that require formal registration.

FIGURE 4: LABOR AND BUSINESS INFORMALITY IN COLOMBIA³⁴



Despite the benefits of formality, high costs and regulations in Colombia contribute to a 60% labor informality rate and a 70.4% business informality rate. Microenterprises struggle with only 15.2% of formal employment. Transitioning to formality poses challenges due to the concentration of business creation in the informal sector. **Formalizing an MSME in Colombia can require 32% to 47% of annual gross profits, placing a substantial burden on these businesses.**³⁵

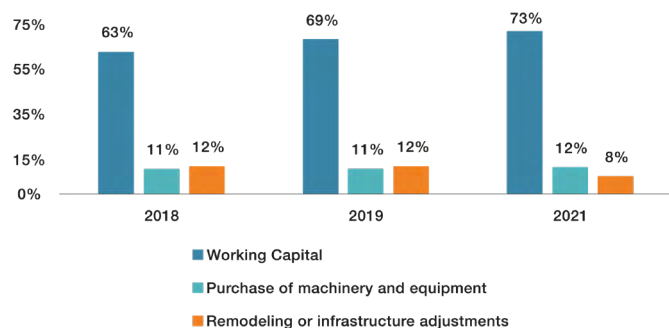
Access to Finance: Most MSMEs in the country have low integration with the financial system. During the second half of 2021, only 32% of companies reported having sought a loan, slightly up from 29% in 2020.³⁶ This primarily stems from two factors: information imbalances between businesses and financial institutions, and a general reluctance among companies to apply for and access credit facilities.³⁷

Access to financing for MSMEs is deeply influenced by their economic viability and capacity to repay loans. Yet, information asymmetries and a common lack of credit history and collateral create a hostile credit market for these businesses.

In the past decade, SMEs have been subjected to an average annual credit interest rate of 18.2%, considerably higher than the roughly 10% larger firms face.³⁸ Moreover, MSMEs often avoid formal financial services, discouraged by excessive paperwork (10.7%), prolonged application processes (9%), and high financial costs (7.3%).

Despite these barriers, the loan approval rate for MSMEs stands at 77%, indicating that an obstacle to credit access lies in the application process rather than the financial institutions' unwillingness to approve loans. However, most of the approved loans serve liquidity needs rather than facilitating investment.³⁹

FIGURE 5: MAIN USES OF FORMAL CREDIT⁴⁰



Human Capital: Acquiring the right talent has become a significant challenge in Colombia, with 61% of employers reporting difficulties finding the skills they need in 2022. Small companies in the country face even more substantial challenges at 64%.⁴¹

Given this, it is evident that Colombia faces a significant skills gap, surpassing the OECD average and other Latin American countries. Only 50% of surveyed employees work in their trained areas, and a mere 14% acquire skills through education.

Moreover, in 2019, the country ranked 89th out of 141 countries for average years of schooling and 94th for digital skills among the working population.⁴²

Digitalization: SMEs in Colombia have higher levels of difficulty in using digital tools and services than in neighboring countries. The Digital Maturity Index (DMI) for Colombian SMEs is 37.1%, while economies like Chile and Peru have values close to 56%.⁴³ SMEs have limited use of digital tools and are limited in their use of e-commerce platforms.

Slightly more than half of the small and medium-sized companies in Colombia (57.6%) have engaged in e-commerce sales at some point. This percentage decreases significantly when micro-enterprises are included, reaching only 8%.⁴⁴

3.3 INTERNALLY DISPLACED PERSONS IN BUSINESS

In Colombia, comprehensive statistical data on businesses owned by displaced individuals is scant. Few such businesses have been identified, and establishing enterprises is particularly challenging for this population.⁴⁵ However, both the public and private sectors have recognized business creation as a practical solution to address the employment and income needs of the displaced population.

Government support to help internally displaced persons (IDPs) achieve socioeconomic stability has included training, financial incentives, and assistance with income-generating projects. Unfortunately, access to training is limited, with only 12% of registered households able to participate due to eligibility requirements and educational barriers. Promoting income-generating projects, such as starting businesses, has proven challenging as not everyone possesses an entrepreneurial mindset, and, in many cases, they cannot afford the additional costs associated with undertaking business projects. Consequently, these limited initiatives often lead to endeavors related to the informal economy.⁴⁶

Indeed, among the most frequently reported occupations for this population have been unskilled activities, such as domestic service for women, while men are often engaged in masonry and street vending.⁴⁷

Before 2009, there were 18 national-level public interventions aimed at income generation specifically targeting the displaced population across various sectors. However, since then, the government has introduced new policies⁴⁸ to address income generation and reparation for victims. These policies provide a roadmap for the next decade, highlighting the significance of supporting business creation and strengthening. As part of this strategy, seven national-level initiatives with a broader scope than previous interventions have been identified for implementation over the next ten years (Annex 1 for more details).

International cooperation has also been instrumental in providing vital income-generation support to vulnerable and displaced populations in Colombia. The national government recognizes the significant role of international cooperation in implementing comprehensive care plans for conflict victims over the past decade. In 2019, the Victims Unit managed substantial funds, including US\$8.5 million and €5 million for humanitarian aid, as well as US\$1.3 million through public-private alliances. Presently, the Victims Unit collaborates with global partners to coordinate international cooperation efforts, overseeing 3,724 interventions across the country, with a particular focus on strengthening and providing technical assistance for entrepreneurship, particularly in the agricultural sector.

Private sector-led initiatives targeting displaced persons are much more limited in scope, despite interest from Colombian companies to engage in such initiatives.⁴⁹ This is due to the challenges faced by this population and the companies' lack of knowledge regarding appropriate mechanisms for sustainable support.

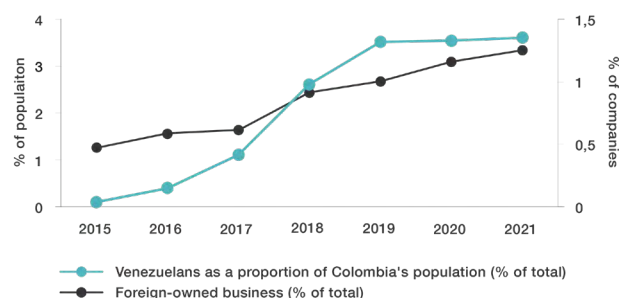
In conclusion, it is evident that internally displaced individuals rely on continuous assistance from both the government and humanitarian organizations to achieve self-sufficiency and meet their fundamental needs in a sustainable manner.⁵⁰

3.4 VENEZUELAN MIGRANTS IN MSMEs

Similar to IDPs, business creation serves as a practical solution for the employment and income needs of Venezuelan migrants, both as employees and entrepreneurs. In Colombia, Venezuelan business owners demonstrate high levels of self-confidence, which correlates with their ability to seize opportunities and take risks.⁵¹ While precise data on Venezuelan business ownership is not available, formal company data allows for an approximation of the number of companies owned by Venezuelan migrants.⁵²

Estimates indicate that nearly 90% of migrants in Colombia are Venezuelans, and the rising proportion of Venezuelan migrants aligns with the increased involvement of formal companies with foreign owners.⁵³ Hence, companies with foreign ownership provide the closest estimate for identifying businesses owned by Venezuelans.

FIGURE 6: DYNAMICS OF VENEZUELAN MIGRANTS AND FORMAL COMPANIES WITH MIGRANT OWNERS⁵⁴



By 2021, Colombia witnessed the creation of approximately 325,000 formal companies, of which 4,063 were owned by foreigners.⁵⁵ These foreign-owned companies, specifically Venezuelan-owned, exhibit similar sectoral distributions to Colombian-owned companies.⁵⁶

TABLE 2: COMPANIES CREATED IN 2021 BY THE ECONOMIC SECTOR⁵⁷

Sector	Foreign	Colombian
Vehicle trade and repair	27%	42%
Accommodation and food services	17%	15%
Professional, scientific, technical activities, and administrative services	12%	9%
Arts, entertainment, recreation, and other service activities	9%	5%
Manufacturing industries	9%	10%
Public administration and defense, education, and human health care	8%	7%
Information and communications	7%	2%
Real estate activities	4%	2%
Construction	3%	4%
Supply of electricity, gas, water, and waste management	2%	1%
Transport and storage	2%	3%
Arts, entertainment, recreation, and other service activities	2%	2%
Agriculture, livestock, hunting, forestry, and fishing	2%	2%
Financial and insurance activities	1%	1%
Mining and quarrying	0.5%	0.3%

Furthermore, foreign-owned companies established in recent years are approximately 20% more capital-intensive than locally owned businesses.⁵⁸ Despite their higher initial capitalization, Venezuelan-owned companies do not exhibit a higher survival probability than smaller Colombian companies operating in

the same industry and geographic location. Moreover, there has been a decline in the initial capital investment by foreign companies in recent years, indicating that Venezuelan migrants face challenges in raising capital and accessing credit markets.⁵⁹ However, obtaining a legal permit and transitioning from an irregular situation increases the probability of Venezuelan migrants creating new formal companies, highlighting the significance of accessing legal markets and having greater certainty regarding the duration of their stay in determining their participation in business activities.⁶⁰

Finally, business development initiatives for Venezuelan migrant MSMEs, various public, private, and international cooperation institutions have established programs aiming to promote the productive development of migrant entrepreneurs. Until 2021, the Colombian government, in collaboration with over 15 international cooperation agencies, had implemented diverse business development and entrepreneurship programs and interventions, benefiting more than 6,400 Venezuelan migrant businesspeople, refugees, and returned Colombians.⁶¹





Stakeholder Assessment

4.1 INTRODUCTION

Across Colombia, several public, private, and international organizations and stakeholders offer interventions aimed at supporting MSMEs, including migrant and IDP-owned businesses, through technical assistance, financial resources, and prototyping.

This stakeholder assessment summarizes the various public, private, and international cooperation entities in the country offering programs focused on MSMEs with a dual goal of outlining what services are offered, and what gaps remain, where BuMa interventions can add value.

It's important to note that government entities alone cannot fully address the needs of businesses, such as technical assistance, financial resources, and prototyping. As part of their corporate social responsibility, larger companies often establish private foundations to support business development and improve the local communities they operate in, thereby enhancing the quality of life for the people they serve. Similarly, international

cooperation agencies also implement programs aimed at improving economic opportunities for vulnerable populations. Many of these initiatives focus on providing technical training for individuals engaged in business activities. However, the current offerings primarily focus on courses and training that may not align with the specific needs of entrepreneurs. Consequently, this mismatch of needs results in a dropout rate of up to 35% in certain programs.

Furthermore, as the current supply of interventions doesn't fully address all the needs of businesses, there is an ongoing evaluation of the scope of interventions. The objective is to make them more practical and inclusive, focusing on training, financing mechanisms, market access, and export processes.

It's worth mentioning that Cundinamarca and Bogotá have the highest concentration of actors, offerings, and resources. Bogotá, in particular, encompasses offerings from national and territorial entities, corporate foundations, and international cooperation agencies. However, this doesn't imply a lack of institutional presence in other regions, such as Valle del Cauca.

It simply means that there are fewer institutions and a relatively smaller budget allocation in these areas.

4.2. MAIN FINDINGS

An Identification Matrix was developed and analyzed based on publicly available information from a minimum of 32 entities to understand the ecosystem of actors. These entities include ten from the public sector, seven from the private sector, five from guilds and/or mixed entities, nine from the social sector, and one from international cooperation.⁶²

The main findings reveal that 29 actors primarily focus on providing services for training and strengthening business capacities, whereas only 2 prioritize training and/or access to bidding processes. This discrepancy can be attributed to a lack of information and weaknesses in project structuring. Furthermore, over 22 of the entities offer access to financing and market connections, but only 12 include export services and digital tools like a business directory in their portfolio (see Figure 7).

Upon closer examination of different sectors, it's clear that training programs for MSMEs serve as the foundation, with a predominant emphasis on free or virtual channels. Additionally, entities tailor their offerings to address specific needs and anticipated growth levels. Typical training topics encompass managerial skills, sustainability, e-commerce, digital transformation, and innovation (based on the 2014 management survey).

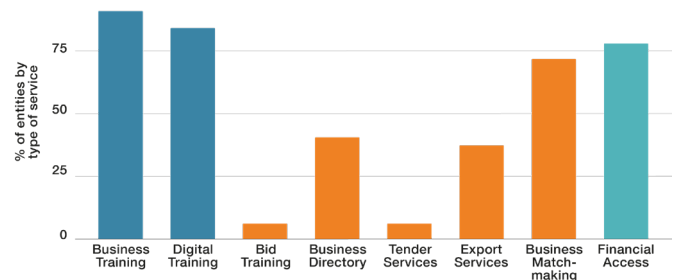
One of the most significant services across sectors is the provision of networking spaces and opportunities to connect with new markets, both domestically and, in some cases, internationally. These avenues include business rounds, trade fairs, and inclusive supply initiatives. Some public and private entities have developed business directories, such as the Andi Foundation's "Se le tiene," which showcases migrant and/or displaced entrepreneurs. Furthermore, certain entities have established their own marketplaces, like Comfandi or Compensar, or formed partnerships with existing platforms to grant access to participating MSMEs. The collaboration between the Cundinamarca Marketing Agency and "Mercado Kunamyra" serves as an illustrative example. These mechanisms act as complementary tools to facilitate the utilization and adaptation of digital environments.

Access to financing is a major demand, given that many small

companies lack the requisite credit history and collateral to secure external funding. To address this challenge, several public entities offer credit lines for MSMEs through partnerships with institutions such as Bancoldex and the National Guarantee Fund. Notably, there's a growing trend of forging alliances with other financial actors, including fintech companies, which possess the capacity to assume higher risks and reach underserved market segments.

Lastly, there is significant potential within the Colombian market to develop programs that equip companies with practical tools to effectively participate in bidding processes and thrive in the market. While various instruments are available for accessing public bidding processes, such as SECOP⁶³ (<https://colombiacompra.gov.co/secop-ii-b>) and Colombia Compra Eficiente⁶⁴ (<https://www.colombiacompra.gov.co/content/licitacion-publica>), there remains a dearth of clear pathways for accessing private sector tenders. This information gap hinders companies from exploring the necessary criteria, products, and services required for participation and success.

FIGURE 7. CHARACTERIZATION BY TYPE OF SERVICE OR BUSINESS DEVELOPMENT PROGRAM⁶⁵



4.3 EXISTING BUSINESS SUPPORT INTERVENTIONS

To gain a more detailed understanding of the activities of certain actors, further analysis and characterization were conducted based on the information from the Identification Matrix. The selection of these actors was based on the following criteria:

- i. Focus on MSMEs, with priority given to entities that cater to vulnerable populations.

- ii. Geographical coverage in the country, particularly in the locations chosen by BuMa.
- iii. Budget size to comprehend the distribution of beneficiaries in the selected territories.
- iv. Level of beneficiary association with the programs.

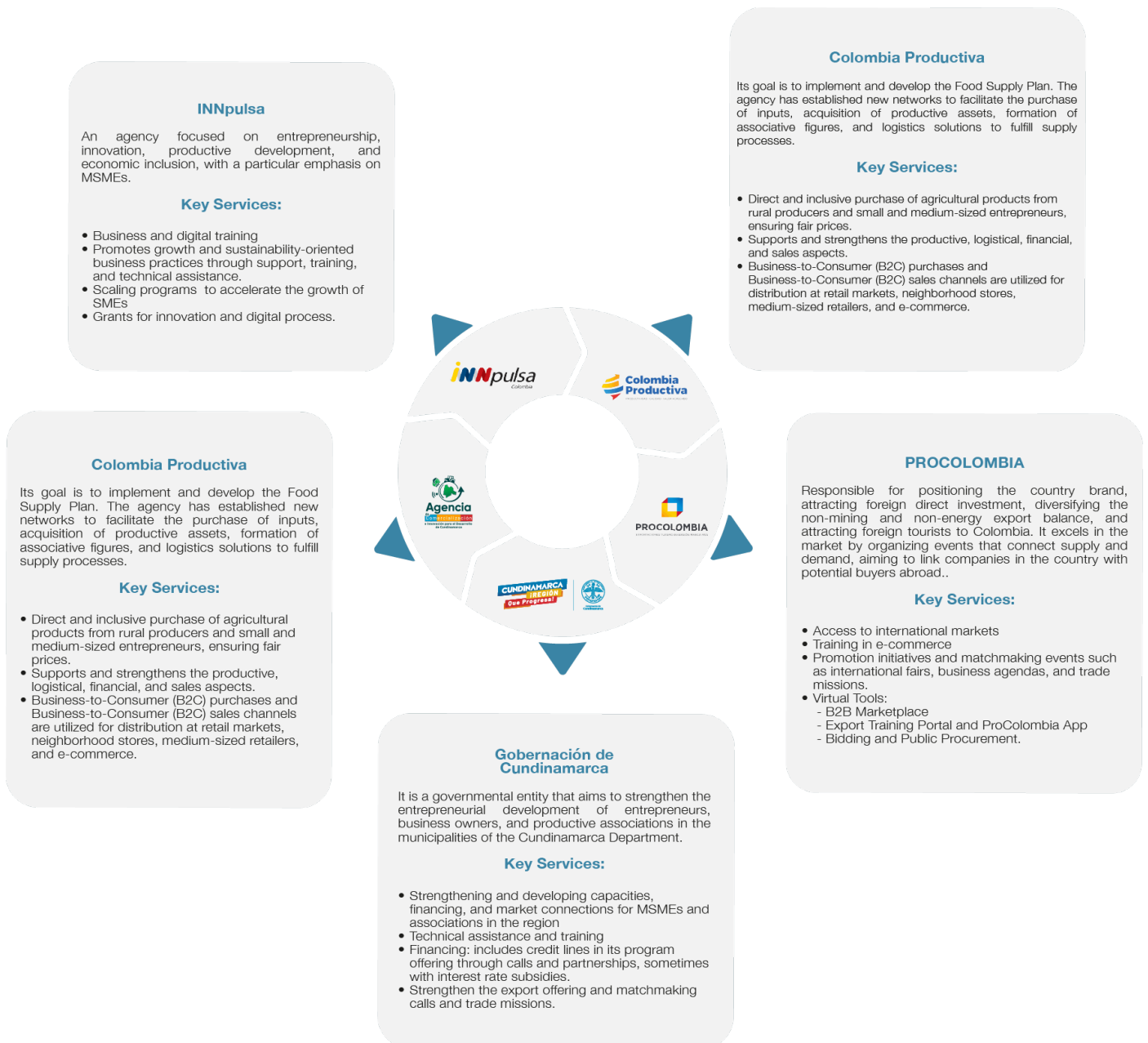
4.3.1 CHARACTERIZACION

The following describes the entities selected for in-depth analysis, along with their respective program offerings. The information is

presented in public, private, and cooperation groups.

It is worth noting that in the section regarding actors from the private sector, a subsection has been included to analyze the existing non-traditional financing options that cater to the type of companies being identified by BuMa. This is done in order to strengthen these companies and connect them with the market.

PUBLIC SECTOR:



PRIVATE SECTOR:

Coomeva Foundation

Promotes educational and business development projects with the aim of facilitating the creation and strengthening of companies.

Key Services:

- Training in digital marketing, innovation strategies, and sustainability through their website portal.
- Inclusion in supply chains with Coomeva Foundation companies
- They offer microcredits, training, and tailored support.

Carvajal Foundation

It is corporate foundation established in 1977. Its mission is to provide comprehensive assistance to vulnerable families, facilitate education in prioritized territories, and measure the impact of its actions.

Key Services:

- Virtual school of digital training
- Technical assistance
- Machinery rental
- Sales of services and products.
- Semi-personalized support
- Individual consultations.



WWB Foundation

Reduce inequality for women and promote their participation in economic development in Valle del Cauca.

Key Services:

- It develops business support programs to facilitate the growth and development of women's entrepreneurship
- Are involved in research, generating information and data on variables that negatively affect women's performance in business and employment activities
- They have invested in private equity funds to accelerate the growth of innovative entrepreneurship and have developed credit instruments.

Cali Chamber of Commerce

Supports entrepreneurs and business owners in the region throughout their formalization, growth, and market connection process.

Key Services:

- Practical training and networking opportunities
- Specialized mentor network
- Access to capital
- Business Growth Strategy Business Innovation
- Scaling
- Networking.

FINANCING INSTITUTIONS:

Sempli

It provides digital credit analysis directed at companies with a minimum billing level of at least 100 million pesos, approximately \$24,390 USD.

Key Services:

- The entire application process is conducted online, and the company's primary focus is on providing cost-free credit analysis. Term loans have an approximate annual effective interest rate of 23%, which varies according to the risk of each business.

Crowdfunding

Currently, it focuses solely on debt financing, with a minimum investment ticket of 200,000 pesos and no maximum limit.

Key Services:

- The Stock Exchange assesses the potential of the company and publishes information related to its financial situation. They also conduct a pre-validation of the resource needs and returns for financiers.



Finaktiva

Fintech company with a focus on providing corporate credit.

Key Services:

- The product portfolio is complemented by options such as factoring, confirming, and the Libera platform, depending on the target business segment.

Crowdfunding

Fintech company with a focus on providing corporate credit

Key Services:

- Mesfix not only represents an option for working capital management for companies but also serves as an investment mechanism for those interested in developing the business ecosystem.

INTERNATIONAL COOPERATION:



USAID

U.S. Agency for International Development, responsible for planning and administering economic and humanitarian assistance worldwide. In Colombia, USAID focuses on three strategic areas: i) Democracy, human rights, and governance; ii) Environment and climate change; and iii) Crisis and conflict.

Key Services:

- Opportunities without Borders:

-Three pillars

- i) Employability ii) Entrepreneurship, and iii) Financial inclusion.

The program's lines of action include seed capital, technical assistance, and capacity building for employment or business development.



4.3.2 MAIN ALLIES

The following chart explains the key four entities that address the business needs in Cundinamarca and Valle del Cauca, including migrants and vulnerable populations.

The main programs are described in each column, highlighting the specific aspects they focus on. Additionally, it discusses how Building Markets can enhance their offerings for a more significant impact.

TABLE 3: ALLIES AND MAIN PROGRAMS

<p>Colombia Productiva</p>	<p>It's worth noting that their intervention strategies primarily focus on companies that have shown market traction, typically indicated by strong sales, and the potential to expand into diverse markets. Their offerings extend further through the "Fábricas de Productividad" (Productivity Factories) program, a specialized intervention initiative designed to enhance productivity through the implementation of technological extension mechanisms.</p>
<p>Procolombia</p>	<p>The organization's mission has evolved to encompass not only companies with export potential, as it traditionally did, but also MSMEs to build a strong foundation for expanding into new markets. Their specific focus is on narrowing gaps and fostering both population and territorial inclusion, guided by a strategy based on four core pillars:</p> <ul style="list-style-type: none"> i) Strengthening the role of MSMEs in propelling the growth of non-mining, non-energy exports. ii) Increasing the engagement of various regions in the expansion of non-mining, non-energy exports. iii) Broadening the scope of non-mining, non-energy exports to include Latin America and the Caribbean. iv) Promoting increased involvement from a diverse array of economic entities within the population, including vulnerable groups like migrants, displaced individuals, returnees, non-energy exports.
<p>Cali Chamber of Commerce</p>	<p>Digital transformation is one of the most crucial initiatives undertaken by this organization for both startups and established businesses. This program goes beyond digital marketing, incorporating data-centric tools like chatbots and CRM systems to enhance decision-making capabilities. As a result, this initiative has significantly improved digital literacy among companies in Cali, presenting a valuable opportunity for BuMa. This allows MSMEs to easily access the digital tools provided by the program.</p> <p>In the realm of strategic financing, the Chamber has revamped its offerings through partnerships with over 300 financial entities, including a diverse array of fintech companies in the country. These services encompass seed capital, credit facilities, and investment opportunities for entrepreneurs in the region. Additionally, there is a keen interest in contributing to the establishment and operation of funds, including working capital funds.</p>
<p>USAID</p>	<p>Recently, the program has shifted its focus towards companies with growth potential that are composed of migrant and/or returned populations, with the goal of facilitating their entry into new markets. To achieve this objective, USAID has established strategic partnerships with various stakeholders, including the Ministry of Commerce, Chambers of Commerce, Municipalities, Norte University, Minuto de Dios University, Suricata Lab, Macondo Lab, WWB Foundation, and other non-governmental organizations and entities actively engaged in the project's target areas.</p> <p>Within this landscape, "Opportunities without Borders" emerges as one of the most influential players on the national stage. This distinction is not only attributable to its program offerings, which closely align with those of Building Market, but also to its substantial operational capacity and long-term outlook.</p>

4.4 MAIN FINDINGS

After analyzing the existing offerings, it's clear that while many organizations provide free, standardized training in a variety of formats, these tend to be lecture-based and may struggle to hold the ongoing interest of entrepreneurs. Though training is plentiful in managerial skills, sales strategy, financial management, and soft skills, there are emerging areas necessary to stay competitive, including:

I. Digital transformation and innovation: This includes digital marketing, e-commerce, social media management, adoption of key enabling technologies such as artificial intelligence and cyber-connectivity, SEO (Search Engine Optimization), data analysis, among others.

II. Sustainability: Topics encompass circular economy, environmental management, social inclusion, shared value, diversity, equity, and inclusion.

III. Training in project formulation and structuring to access tenders and calls for proposals: Building Markets can complement existing market access, as there is a clear lack of information on private sector procurement of products and services. By teaching companies how to identify opportunities, meet requirements, navigate processes, propose competitive offers, and understand evaluation criteria for tenders, BuMa can fill this information gap and provide valuable support to businesses.

IV. Digital tools for market access: While resources for capacity building are plentiful, there is a need for practical strategies to effectively enter new markets. Public and private entities have integrated digital tools into their platforms to facilitate commercial transactions, but merely providing these tools is insufficient. Entrepreneurs require practical support and mentoring during the adaptation process, as well as in negotiation management, marketing, and post-sales logistics services, to maximize the benefits of using these digital tools.

V. Internationalization Matchmaking spaces and business rounds are increasingly popular; however, there's a gap in bolstering export offerings through assistance with documentation, export procedures, follow-ups, supply chain management, and foreign exchange procedures. Building Markets could potentially fill this void by managing international market connections for MSMEs.

VI. Access to Finance: Overcoming Financial Hurdles is vital for small businesses, yet it is often challenging due to the difficulties in establishing a credit history. Additionally, higher-risk profiles further complicate their ability to secure loans, thereby limiting access to external funding. Blended financing models, like those employed by the CAF (Development Bank of Latin America) that supported the growth of 1,500 agricultural businesses, have demonstrated success.

Potential exists for extending guarantee mechanisms, traditionally offered by national and regional funds. Colombian laws allow movable assets like crops to be used as collateral, opening doors for integrated supply chain financing products. While working capital is important, it may not directly boost productivity. Colombian entrepreneurs also express interest in securing machinery or seed capital to fuel their operations.





CONCLUSION

Colombian MSMEs face productivity and competitiveness challenges, hindering their growth potential, equitable wealth distribution, and poverty reduction through employment opportunities. Internal displacement and Venezuelan migration add pressure to the economic landscape, requiring integration into a recovering labor market and entrepreneurship while considering the limitations of each vulnerable population's characteristics.

Despite the challenges, embracing the economic potential of migrants and displaced populations can greatly benefit Colombia's economy. Their entrepreneurial spirit and resourcefulness can drive innovation and contribute to the growth of various industries, enhancing productivity and competitiveness.

Colombia can tap into its untapped talents by providing opportunities for skill development and technical training, increasing overall productivity, and expanding the workforce for greater economic growth and prosperity.

Integrating IDP and migrants into the formal economy can also have positive social impacts, improving their well-being, reducing poverty and inequality, and fostering social cohesion for a more inclusive society.

To fully unlock the economic potential and reap the benefits of integrating these two vulnerable populations while simultaneously strengthening the business fabric of small enterprises, comprehensive coordination with various stakeholders in the ecosystem is essential.

Building Markets has an opportunity to enhance the training offerings in areas such as digital transformation and innovation, sustainability, project formulation for accessing tenders and proposals, digital tools for market access, and internationalization support. Additionally, in response to the financial needs of MSMEs, the importance of financing mechanisms such as blended financing programs and expanding guarantee options is evident, as well as creating a working capital fund.

5.1 RECOMMENDATIONS

- ▶ The wide range of offerings from different actors within the Colombian business ecosystem calls for **significant efforts in coordination and collaboration**. It is crucial to build win-win relationships with allies and partners to efficiently distribute resources and generate more significant aggregated impacts for MSMEs.
- ▶ Offer business training on strategic topics in which **Building Markets could add value**. Due to an oversupply of training programs in areas such as managerial skills, sales strategy, financial management, and soft skills, and a lag in human capital development in key areas for business growth, it is meaningful to focus the training portfolio on the following areas: i) Adoption of digital tools and strategies, ii) Sustainability, iii) Project formulation and structuring proposals for procurement calls, and iv) Connecting with international markets.
- ▶ The financing needs of MSMEs reveal an opportunity to offer a **working capital fund, blended financing programs, or even guarantee mechanisms**. Providing such financing would assist small businesses in addressing the liquidity challenges they face and help manage their day-to-day operations more effectively, enabling them to seize growth opportunities.
- ▶ Developing capacities within MSMEs to access new national and international markets through participation in public and private procurement calls represents a **significant opportunity for their growth**. These calls provide a pathway for MSMEs to expand their operations and gain visibility in the market. Moreover, capacity building enhances their competitiveness on a global scale, enabling them to meet diverse market requirements and compete on equal footing with larger companies.
- ▶ The disparities between the IDPs and the rest of the country's population call for addressing these differences by **designing and implementing tailored support and training programs for MSMEs associated with IDPs or employing them to level the playing field**. Additionally, collaboration with the public, private, and international cooperation sectors is essential to support these MSMEs in a coordinated manner.
- ▶ While MSMEs owned by migrants resemble local MSMEs, the migrant population still faces some constraints in the country that could hinder business growth and development. Therefore, prioritize **providing targeted entrepreneurship training, facilitating access to capital, and offering legal assistance** to improve their business prospects and integration into the local economy.



ANNEXES



Annex 1. Income Generation Initiatives: Business-Focused Programs for Vulnerable Populations⁶⁶

Public Entity	Program	Goal	Training	Entrepreneurship	Financial Services
DPS	Financing of business initiatives	77,573 victims 7,008 per year		x	x
DPS	Strengthening entrepreneurship	30,354 victims 2,628 per year		x	
DPS	Strengthening female entrepreneurship	20,671 victims 1,786 per year		x	
SENA	Formulation of business plans for victims of displacement	23,342 displaced 2,118 per year	x	x	
SENA	Formulation of business plans for women victims of displacement	14,005 victims 1,271 per year	x	x	
Ministry of Commerce, Industry, and Tourism	Technical assistance, training, and support for market access for companies of displaced persons	12,532 displaced in 10 yeras	x	x	
Ministry of Commerce, Industry, and Tourism	Technical assistance, training, and support for market access for displaced women's persons	26,449 displaced in 10 yeras	x		

Annex 2. Methodology

To gain a better understanding of the landscape of MSME services and actors in Colombia, the Building Markets LatAm team conducted a three-phase analysis of information described as follows:

Phase 1:

In this phase, the team identified the relevant actors in each of the prioritized territories where BuMa will start the initial intervention in Colombia. The offerings of these entities are examined and correlated with the intervention model designed by Building Markets to determine the level of programmatic density in the market.

Phase 2:

The team conducted research by reviewing secondary information to gain a deeper understanding of the available offerings and

intervention methodologies. The goal is to identify opportunities for value generation through BuMa Latam's involvement.

Phase 3:

Once opportunities were identified, semi-structured interviews were conducted to facilitate effective communication of potential synergies and impacts during the call process. The interview included the following questions:

1. Have you identified migrant companies with revenues exceeding 100 million? If not, what are the significant barriers encountered, such as visa renewal difficulties?
2. What services does your entity offer to companies, and what requirements must they meet to access them? Are these services provided free of charge?
3. Methodology:
 - a. What methodology did you employ to identify beneficiary companies and anchor companies (if they offer market connections)?

b. What is the intervention methodology, such as through partnerships, digital media, or field engagement?

4. How do your intervention programs differentiate themselves to address high demand?

5. What strategies are in place to prevent or mitigate company dropout? Are there any incentives provided?

6. How have you measured the impact of your programs?

Annex 3. Characterization of Actors based on Available Secondary Information:

PUBLIC SECTOR

i) iNNpulsa Colombia

Descripción: a government agency focused on entrepreneurship, innovation, productive development, and economic inclusion, with a particular emphasis on MSMEs.

Scope: It has a nationwide presence and is a recognized entity for leading initiatives aimed at financing, training, and reducing knowledge gaps in companies.

iNNpulsa Colombia provides acceleration and entrepreneurship initiatives that aim to address functional gaps within companies. Some of the key programs are as follows:

- ▶ **Zasca:** This program establishes physical spaces in locations with concentrations of companies in specific economic sectors (manufacturing, apparel, leather, agriculture). These spaces provide the necessary infrastructure and equipment to enhance the productivity of micro- businesses. The national government plans to open 120 business development centers in Atlántico, Valle del Cauca, and Bogotá.
- ▶ **FortaleSER:** This program promotes growth and sustainability-oriented business practices through support, training, and technical assistance. Its target audience comprises micro- businesses in sectors such as commerce, gastronomy, beauty, fashion, apparel, and tourism. The program offers an initial assessment, training, group and

individual support, commercial relationships, and a final assessment. It operates in Barranquilla, Cali, Palmira, and Bogotá. Budget: \$10 billion pesos Serving 2,970 productive units.

- ▶ **Aldea Escala:** This scaling program aims to accelerate the growth of MSMEs to increase sales, employment, and profitability. It consists of three stages: alignment of expectations, scaling route, and scaling strengthening. Companies with more than 10 employees and demonstrated scaling potential are eligible for selection.
- ▶ **Aldea:** This program supports the consolidation, growth, and sustainability of innovative entrepreneurs (high impact). It targets early-stage companies that are legally constituted, have been in operation for no more than 7 years, generate minimum sales of \$100 million pesos, demonstrate innovation, and have a team of at least 2 people. The program offers technical assistance services and grants of up to \$60 million pesos.

ii) Colombia Productiva

Description: it is a national government entity that aims to promote productivity and competitiveness in the industry. Its interventions focus on increasing efficiency in production processes, including quality and human capital.

Scope: It is dedicated to enhancing economic growth by strengthening companies' production processes, fostering innovation, and promoting collaboration between the public and private sectors.

Colombia Productiva provides several programs targeting a diverse population. These programs include:

- Call for improving the productive and commercial capacities of women shopkeepers:** This program supports 3,000 women with micro-businesses through training processes that have a positive impact on sales and formalization. The skills developed include pricing strategies, relationship-building, tax regime, value chain integration, financial inclusion, digital transformation, and leadership.
- ▶ **Tu negocio más digital:** This program aims to strengthen micro-businesses by enhancing their digital maturity. It offers training through virtual courses, digital maturity

assessments, and the implementation of technological solutions.

- ▶ **Quality training for manufacturing, services, and agribusiness:** This program provides training and updates on quality standards according to established global standards, with the aim of increasing productivity. It targets 720 micro, small, or medium-sized enterprises nationwide.
- ▶ **Extensionism in quality for manufacturing, services, and agribusiness:** This program offers tailored technical assistance to companies for implementing quality standards based on organizational needs and market requirements.
- ▶ It operates in Valle del Cauca, Atlántico, and Bogotá.
- ▶ **Knowledge-based company call:** This program seeks to provide technical assistance and specialized support to 55 companies from all regions of the country to improve their productivity. The support includes areas such as business strategy for internationalization, human talent management, organizational culture, process optimization, and quality.

iii) ProColombia

Description: ProColombia is the National Promotion Agency responsible for positioning the country brand, attracting foreign direct investment, diversifying the non-mining and non-energy export balance, and attracting foreign tourists to Colombia. It excels in the market by organizing events that connect supply and demand, aiming to link companies in the country with potential buyers abroad.

Scope: it is a significant actor not only at the national level but also internationally.⁶⁷ In terms of training and export support services, it is undoubtedly one of the most relevant actors in the market. It offers not only robust and comprehensive programs but also provides entrepreneurs with easily accessible and mostly free digital services.

Procolombia offers several digital tools and programs. Among them are the following:

- ▶ **Fábricas de Internacionalización (Internationalization Factories):** This training and support program strengthens the export capabilities of companies, enabling them to access international markets through five steps: diagnosis, identification of product potential, identification of possible

demand, analysis of export costs, and promotion tools. The program supports companies in accessing new markets through mentoring, specialized advice, and participation in initiatives such as Colombia a un clic, which provides training in e-commerce and export process support through various digital platforms. It also includes commercial promotion initiatives such as international fairs, business agendas, and trade missions.

Virtual Tools:

- ▶ **B2B Marketplace:** The entity developed a platform that showcases companies available for export, allowing interested buyers to directly contact them to discuss business opportunities. ProColombia focuses on strengthening relationship-building through this platform.
- ▶ **Export Training Portal and ProColombia App:** These resources provide free access to various tools for simulating the service needs required to complete the export process, including training materials.
- ▶ **Bidding and Public Procurement:** Through the training portal, MSMEs have access to free training for effective participation in national and international public bidding processes. They can also access international portals such as: <https://procurementmap.intracen.org/>

iv) The Government of Cundinamarca

Description: it is a governmental entity that aims to strengthen the entrepreneurial development of entrepreneurs, business owners, and productive associations in the municipalities of the Cundinamarca Department.

Scope: Cundinamarca is highly developed in the agro-industrial sector and serves as the closest supplier to the capital city. The region's productive orientation revolves around agriculture, livestock, and food sectors. The Government of Cundinamarca includes companies and associations composed of vulnerable populations, including victims of violence and internally displaced persons, among its beneficiaries, due to the dynamics of rural areas.

The service portfolio of the Government of Cundinamarca focuses on strengthening and developing capacities, financing, and market connections for MSMEs and associations in the

region. The following programs are offered:

- ▶ **Strengthening for the progress and competitiveness of micro-businesses and productive units:** This program aims to support 600 micro-businesses or productive units in the productive, commercial, and service sectors of Cundinamarca. It provides technical assistance and training to 500 micro-businesses and/or productive units, with a maximum amount of \$7 million pesos (approximately USD\$1,700).
- ▶ **Financing:** The Government of Cundinamarca includes credit lines in its program offering through calls and partnerships, sometimes with interest rate subsidies.
- ▶ **One-on-One Internationalization Strategy:** This program provides diagnostics to strengthen the export offering of companies. The Government of Cundinamarca offers technical assistance and support through strategic allies to help MSMEs prepare for internationalization. Once the process is completed, companies can participate in matchmaking calls and trade missions.

v) Cundinamarca Marketing Agency

Description: It is an entity created through coordination between the Government of Cundinamarca, the Bogotá City Hall, and the departments of Boyacá, Huila, Meta, and Tolima. Its goal is to implement and develop the Food Supply Plan, which aims to benefit 750,000 farmers by strengthening the marketing processes of their products.

The agency has established new networks to facilitate the purchase of inputs, acquisition of productive assets, formation of associative figures, and logistics solutions to fulfill supply processes.

Scope: This agency recognizes the gaps in connecting rural and urban areas and aims to ensure food security and supply for various industrial chains, addressing transportation issues, lack of sales points, and deficiencies in the availability of collection centers.

The main program of this entity stands out:

- ▶ **Compramos tu cosecha (We Buy Your Harvest):** This program promotes the direct purchase of agricultural

products from rural producers and small and medium-sized entrepreneurs, ensuring fair prices. The program provides support and strengthens the productive, logistical, financial, and sales aspects. It operates through two approaches: Business-to-Consumer (B2C) purchases, where producers manage sales to public buyers under initiatives such as the School Feeding Program (PAEs), agro-industry, large retailers, and exports. Additionally, Business-to-Consumer (B2C) sales channels are utilized for distribution at retail markets, neighborhood stores, medium-sized retailers, e-commerce, farmers' markets, restaurants, and more.

PRIVATE SECTOR

i) Cali Chamber of Commerce

Description: It is a mixed entity, funded by private resources, with a corporate and guild nature that supports entrepreneurs and business owners in the region throughout their formalization, growth, and market connection process. It does so through tailored training programs that address the specific needs of companies, facilitating practical training and networking opportunities. Moreover, it connects them with a specialized mentor network and provides access to capital.

Scope: The Cali Chamber of Commerce (CCC) is one of the strongest actors in the region due to its territorial presence and comprehensive approach in serving various business segments. Its services range from supporting the discovery of new businesses to offering innovative differentiation programs and access to financing.

Although the Chamber does not have a specific focus on migrants and/or internally displaced persons, it does not exclude them from participating in its calls and programs. Therefore, these populations can implicitly benefit from its initiatives.

Furthermore, the Chamber strengthens its impact through partnerships with strategic allies at the national and even international levels, such as iNNpulsa, Bolívar Davivienda Foundation, Finaktiva, WWB Foundation, ProPacífico, Pnud, among others.

Its strategic focus is "Extraordinary Entrepreneurship," a platform where entrepreneurs can diagnose their businesses and find the appropriate path for business strengthening based on the following areas of work: i) Business Growth Strategy ii) Capital

Sources iii) Business Innovation iv) Scaling v) Networking. Among its program offerings, Prospera stands out and is described as follows:

Prospera Business Development Center: This virtual training center provides capacity-building for micro, small, and medium-sized enterprises (MSMEs) in areas such as administration, sales (including digital marketing), finance, organizational skills, and soft skills. MSMEs have the opportunity to access a team of personalized and specialized business advisors. The program also facilitates valuable connections with other companies, suppliers, and relevant stakeholders in the region. Additionally, it offers networking opportunities with the market and business procurement events.

ii) Carvajal Foundation

Description: It is a corporate foundation established in 1977. Its mission is to provide comprehensive assistance to vulnerable families, facilitate education in prioritized territories, and measure the impact of its actions.

Scope: The foundation's territorial focus is on Cali, including the special district of Buenaventura, surrounding municipalities and rural areas, and the northern zone of the Cauca Department. Its work encompasses social and community development, business development, education and culture, housing, and the environment.

In collaboration with the territorial government, the foundation has created the Productive Development Center to contribute to the increase in productivity and competitiveness of companies. It provides training, comprehensive consulting, technical assistance, machinery rental, and sales of services and products.

Micro-MBA: The program is designed to stimulate the growth of micro-businesses by providing semi-personalized support, individual consultations, and business coaching with a focus on fostering a growth mindset.

The foundation also offers financial services and microcredit for companies in need.

iii) Coomeva Foundation

Description: It is a non-profit organization with national coverage that promotes educational and business development projects with the aim of facilitating the creation and strengthening

of companies.

Scope: The foundation plays a significant role in inclusive procurement, providing opportunities for its associated micro, small and medium-sized enterprises to become suppliers to large buyers and receiving support throughout the procurement process. It has also implemented a successful strengthening model based on segmenting its associates and providing customized support according to the level of business growth.

The foundation offers the following services to its associates:

- ▶ **E-learning Platform:** Entrepreneurs receive training in business strengthening areas such as digital marketing, innovation strategies, and sustainability through their website portal.
- ▶ **Support:** Specialized advice on business pitches, business networking, and digital transformation, among other areas.
- ▶ Inclusion in supply chains with Coomeva Foundation companies and support during the application process for purchasing opportunities.
- ▶ **Financing:** Through their "MiPyme a tu ritmo" (MSME at Your Own Pace) program, they offer microcredits, training, and tailored support.

iv) WWB Foundation

Description: The Foundation aims to reduce inequality for women and promote their participation in economic development in Valle del Cauca. It operates based on four fundamental pillars: gender, entrepreneurship, vulnerability, and financial inclusion.

Scope: As an organization working towards closing gaps and socioeconomic inclusion of vulnerable populations, it shares several programs and visions for addressing market failures faced by entrepreneurs.

This foundation aims to reduce inequality for women and promote their participation in economic development. It operates based on four fundamental pillars: gender, entrepreneurship, vulnerability, and financial inclusion.

It develops business support programs to facilitate the growth and development of women's entrepreneurship. They are also actively involved in research, generating information and data on variables that negatively affect women's performance in business and employment activities, as well as identifying issues related to

the caregiving system.

The foundation's objective is to make impact investments that aim to close gender-related activity gaps. They have invested in private equity funds to accelerate the growth of innovative entrepreneurship and have developed credit instruments. Additionally, they offer financing options, including credit and seed capital, through their banking arm.

FINANCING

In the last report conducted by Finnovista in 2020 regarding the evolution of the financial innovation ecosystem in Colombia, there was a 26% growth compared to the previous year, indicating greater participation in the growth and expansion business segment.

From the perspective of the heterogeneity of fintech companies, there are options with higher participation (in terms of the number of companies) in offering financial services, specifically focusing on loans, crowdfunding, wealth management, scoring, identity and fraud, and enterprise technologies for financial institutions. Now, in relation to the purpose of this document, the most relevant actors participating in higher-risk segments with low participation from traditional banks are mentioned.

i) Sempli

Description: Sempli is one of the leading fintech companies in Colombia that has experienced significant expansion in recent years. It provides digital credit analysis directed at companies with a minimum billing level of at least 100 million pesos, approximately \$24,390 USD.

Sempli is composed of a team with experience in financing small-sized companies, starting from early-stage investment processes and now offering debt mechanisms.

The entire application process is conducted online, and the company's primary focus is on providing cost-free credit analysis. Term loans have an approximate annual effective interest rate of 23%, which varies according to the risk of each business.

Despite the higher cost compared to the banking sector in terms of interest rates, Sempli's willingness to assume risk has been vital in providing financial access to companies that are not accepted by traditional banks.

One limitation for companies using Sempli is the absence of a credit history, making it difficult for them to obtain a corporate credit card.

ii) Finaktiva

Description: Finaktiva is a fintech company with a focus on providing corporate credit. It offers an online application process with fast approval and efficient disbursement time. The product portfolio is complemented by options such as factoring, confirming, and the Libera platform, depending on the target business segment.

Specifically, the Libera platform is a payment ecosystem designed to meet companies' cash flow needs through the use of invoices. Finaktiva is one of the actors that consistently interacts with several entities described throughout the document, providing comprehensive support and access to external resources.

iii) A2censo

Description: A2censo is the first crowdfunding platform launched in Colombia and is operated by the Colombian Stock Exchange. Currently, it focuses solely on debt financing, with a minimum investment ticket of 200,000 pesos and no maximum limit.

The Stock Exchange assesses the potential of the company and publishes information related to its financial situation. They also conduct a pre-validation of the resource needs and returns for financiers. It should be noted that Colombian regulations allow non-professional investors to participate, but they need to understand the associated risks.

This actor has changed financing parameters by attracting individuals with excess capital and a sophisticated or non-traditional risk appetite who seek short-term returns through project structuring.

iv) Mesfix

Description: Mesfix is a crowdfactoring platform that enables the sale of invoices, allowing anyone to acquire a portion of an invoice as an alternative financing mechanism and obtain a return rate. This platform has provided financing for approximately 1,359 companies through 6,115 investors.

Mesfix not only represents an option for working capital management for companies but also serves as an investment mechanism for those interested in developing the business ecosystem.

v) Microfinanzas

Microenterprises face significant challenges in accessing financing resources due to information asymmetries and a lack of sufficient collateral to facilitate credit access. Microfinance institutions have developed methodologies that combine technical assistance with specific reviews of the use of funds provided.

A report from the Banco de la República identifies that one of the main limitations for the deepening of microcredit is related to the companies' repayment capacity, clients' level of indebtedness, and credit history.

The Association of Microfinance publishes important impact data. As of April of the current year, there were 2,921,430 clients, with 52.1% being women from January to April 2023. A total of 4.59 trillion pesos were disbursed.

It is important to mention that there are different entities providing this service, ranging from supervised institutions to non-governmental organizations.

INTERNATIONAL COOPERATION

i) USAID:

Description: USAID is the U.S. Agency for International Development, an independent federal agency responsible for planning and administering economic and humanitarian assistance worldwide. In Colombia, USAID focuses on three strategic areas: i) Democracy, human rights, and governance; ii) Environment and climate change; and iii) Crisis and conflict.

Relevance: Due to its national influence and the implementation

of its program "Oportunidades sin Fronteras" (Opportunities without Borders), operated by Chemonics, USAID is undoubtedly one of the most relevant actors in the market. Their long-term program is targeted towards the migrant population, returning Colombians, and host communities. With a robust budget and strong management capacity, they provide comprehensive pathways for socioeconomic integration and business strengthening.

Among the programs offered by USAID is the following:

- ▶ Oportunidades sin Fronteras (Opportunities without Borders): As a complement to the Integra program,⁶⁸ USAID launched Oportunidades Sin Fronteras in January 2023, in partnership with various actors in the country, with the goal of benefiting over 65,000 migrants and returning Colombians in five years. With an investment of approximately \$50 million, USAID implements this program through three initial lines of action: i) Employability, ii) Entrepreneurship, and iii) Financial inclusion. The goals of the program include:
 - Providing access to formal employment for 10,000 individuals.
 - Supporting 5,000 entrepreneurial initiatives with seed capital or technical assistance.
 - o Providing capacity building for employment or business development to 20,000 individuals.

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- ²⁸ In Colombia, the classification of company sizes based on the number of employees is as follows: Microenterprise: Up to 10 employees, Small: Between 11 and 50 employees, Medium: Between 51 and 200 employees, Large: More than 200 employees.
- ²⁹ In 2021, Colombia accounted for just 10,646 businesses exporting their products or services. Among them, 363 companies achieved sales exceeding 10 million dollars, comprising 88% of the total export value. The remaining 12% came mostly from businesses with sales below 1 million dollars. That is why MSMEs could amount to 77% of companies exporting but represent just 18% of the total value of exports.
- ³⁰ <https://www.larepublica.co/economia/en-2020-mipymes-aumentaron-su-participacion-en-exportaciones-totales-de-colombia-3144001>
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- ³² This disparity arises due to formality-associated characteristics such as larger-scale production, access to proper credit, and a higher technology adoption and training likelihood.
- ³³ Workers in the informal sector earn between 45% and 65% of the income earned by formal sector workers.
- ³⁴ DANE. 2021. Integrated Household Survey and Multidimensional Business Informality for 2021.

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³⁶ This slow progress in connecting companies to the credit market is primarily due to information asymmetries between companies and lenders, as well as self-exclusion by entrepreneurs.

³⁷ This reluctance can be attributed to factors such as limited financial education, cultural norms, distrust in the financial system, and a desire by entrepreneurs to maintain control over debt levels, with the latter being the most significant reason.

³⁸ Álvarez, F., et Al. 2021. Information asymmetries in the credit market create unfavorable conditions for smaller companies. Larger, established companies with a credit history and assets as collateral enjoy lower interest rates, while smaller ones without such information face higher rates.

³⁹ In 2021, 72.5% of the financial resources were used for purchasing raw materials, supplies, inventories, and operating expenses. Over half of the companies utilized loans as working capital for their daily operations. This trend has continued over the years, with operating capital being the primary destination for over 60% of the resources obtained through formal financing since at least 2018.

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⁴¹ Manpower Group. 2022. Globally, 75% of businesses report difficulties finding talent, with large companies facing greater challenges (77%).

⁴² WEF. 2019. Global Competitiveness Report 2019.

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⁵² Based on information obtained from the RUES (Unique Business Registry), which collates information on formal companies from various chambers of commerce throughout the country.

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⁵⁴ Bahar et al. 2023. Refugee Entrepreneurship: The Case of Venezuelans in Colombia.

⁵⁵ In terms of the proportion of foreign-owned companies established in 2021, Bogotá leads with 3.42%, followed by Antioquia at 2.92%. La Guajira, a department bordering Venezuela, also stands out with 2.25%, while Norte de Santander, another significant border department, registers at 1.56%, slightly above the national average.

⁵⁶ Bahar et al. 2023. Refugee Entrepreneurship: The Case of Venezuelans in Colombia.

⁵⁷ Bahar et al. 2022. Economic integration of Venezuelan immigrants in Colombia, a roadmap for public policy.

⁵⁸ Capital intensity measures the firm's assets per employee, measured as K/L.

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⁶⁰ Bahar et al. 2022. Legalizing entrepreneurship.

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⁶² For more details on the methodologies used on this analysis, consult Annex 1.

⁶³ The Electronic System for Public Contracting (SECOP) is the official information platform for all contracts made with public funds. SECOP serves as the single point of entry for information submission by entities contracting with public resources.

⁶⁴ Colombia Compra Eficiente is a national-level entity that oversees the Public Procurement System of Colombia. It provides participants in the public procurement system with tools to streamline processes and enhance their capabilities to achieve greater value for public money within the Colombian Public Procurement System.

⁶⁵ Building Markets, based on information from the Identification Matrix.

⁶⁶ Departamento Nacional de Planeación. 2021. Documento de Política Pública Conpes 4031.

⁶⁷ The country's promotion entity was selected as the Top Investment Promotion Agency 2019 in the South America category by the US magazine Site Selection. <https://siteselection.com/issues/2019/may/top-investment-promotion-agencies-2019.cfm>

⁶⁸ Integra is a USAID project aimed at supporting the government of Colombia in addressing the social, political, and economic challenges of the massive migration from Venezuela. The program focuses on improving the Colombian government's border and migration management capacities, strengthening the capacities of municipal and departmental governments to provide access to social and justice services for the migrant population, and reducing xenophobia against migrants. The activity is implemented in urban areas with a high concentration of migrants, such as Barranquilla, Bogotá, Bucaramanga, Cali, Cartagena, Cúcuta, Medellín, and Riohacha, from September 2021 to September 2026.

EMPOWERING INCLUSIVITY

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Economic Potential of MSMEs in
Colombia

2023



**Building
Markets**