Training and Access to Capital for High-Potential Entrepreneurs to Foster Economic Growth in Colombia

Sector(s): Finance, Firms

Fieldwork: Innovations for Poverty Action (IPA)

Location: Colombia

Sample: 475 entrepreneurs

Target group: Entrepreneurs Small and medium enterprises

Outcome of interest: Earnings and income Business investment

Intervention type: Business skills training Cash transfers Coaching and mentoring Unconditional cash transfers

Partner organization(s): Bavaria Foundation, Centro de Formación Empresarial, Endeavor Colombia

Small and medium enterprises (SMEs) are thought to be important drivers of growth in developing economies, but entrepreneurs in these countries face many barriers, including poor access to training, finance, and business networks. In Colombia, Fundación Bavaria's "Destapa Futuro" (Open the Future) program identifies promising enterprises and provides them with a suite of financial, technical, business, and training resources.

Policy issue

Small and medium enterprises (SMEs) are thought to be important sources of innovation and employment in developing countries, due to their flexibility in responding to new market opportunities and their potential for growth. However, entrepreneurs face a number of barriers to expanding their businesses and employing more workers, including constrained access to credit, lack of management skills, and unfavorable government regulation. Business training, capital, and mentorship are possible tools that could help SMEs overcome these barriers, but existing evaluations of business training programs and capital injections for entrepreneurs have found mixed results. Additional research is needed to understand how training programs should be designed and delivered in order to best help entrepreneurs develop their operations and foster economic growth.

Context of the evaluation

Fundación Bavaria, a foundation started by one of the largest beverage companies in Colombia, works to foster entrepreneurship in Colombia through an intensive, year-long program called "Destapa Futuro" (Open the Future). The program uses a competitive process to identify entrepreneurs with promising business plans or small start-ups and provides them with business training, capital, technical advice, and the opportunity to network with investors. Since 2005, Bavaria has spent close to $10 million on the program, trained thousands of entrepreneurs, and financially assisted more than 200 businesses.

Destapa Futuro targets relatively experienced and educated entrepreneurs. The average participant was 36 years old, had 16 years of education, and had four years of experience as an entrepreneur. Seventy-three percent were male. During the fifth round of Destapa Futuro in 2010-2011, these participants received business training from two organziations that support

entrepreneurs, the Centro de Formación Empresarial (CFE) and Endeavor Colombia.



Two women working on sewing project in workshop in Latin America.

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Details of the intervention

Researchers evaluated Destapa Futuro's impact on business outcomes, the difference between the two organization's different training strategies, and the relative impact of receiving prizes in cash or in kind. In order to participate in the program, entrepreneurs completed an online application, which included questions on business characteristics, leadership potential, experience in business administration, and potential social impact. From the database of 8400 applications 475 candidates, half of them with business plans and the other half with existing start-ups, were selected and ranked.

This pool of 475 entrepreneurs was divided into three groups:

- The top 25 entrepreneurs all received the Endeavor training. Because their participation in the training program was not randomly assigned, they were not part of the study sample.
- The following 100 entrepreneurs were randomly assigned to receive training from either Endeavor or CFE.
- The remaining 350 entrepreneurs were randomly assigned to either the CFE training group or the comparison group, which did not receive any training.

Both the Endeavor and CFE trainings included modules on financial management, marketing and business plan development. Endeavor offered an in-person training,delivered in two two-day sessions. All classes had a maximum of 20 entrepreneurs per

trainer. In addition to lectures, each entrepreneur participated in several one-on-one discussions with program coordinators, trainers and mentors.

CFE used a combination of online learning and in-person classes. In the online component, which consisted of four modules over one month, participants were assigned to groups of 18-21 students. They completed online modules with homework assignments, participated in online forums, and collaborated via email and phone. The entrepreneurs who completed homework and participated in forums were eligible for the in-classroom training, which consisted of four days of classes with the same tutor assigned during the online training.

After the CFE and Endeavor trainings were completed, the 100 entrepreneurs with the best business plans and course performance were selected to receive an additional coaching session in preparation for the business plan presentation that would determine the prize winners. The coaching session provided contestants with feedback on content and style of their presentations. After the presentations, the best 60 entrepreneurs were awarded a prize to fund their business.

In order to test how having the flexibility to choose how to spend the prize money affected business outcomes, half of the winners were randomly assigned to receive cash, and the other half received an in-kind prize. Cash prizes ranged from about 5,600 USD to 56,000 USD (10-100 million COP). Fundación Bavaria determined the nature of the in-kind prizes based on the entrepreneur's requests and available resources, and they included business equipment, marketing and advertising materials and other business investments. Forty winners were also randomly selected to receive mentorships with Bavaria executives, who listened to business plan presentations, gave advice, and suggested potential contacts.

Results and policy lessons

Study ongoing; results forthcoming.