

Developing Behaviorally-Informed, Demand-Driven Digital Services for MSEs in Colombia- English Transcript

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00:16

Hey everyone! Thanks a ton for joining us today. I'm super excited to kick off this session called "Developing Behaviorally Informed, Demand-Driven Digital Services for Medium and Small Enterprises in Colombia." We've got a fantastic group of partners and speakers here who have worked together to come up with some innovative strategies to tackle a major challenge we're facing in helping micro and small businesses grow and thrive.

00:53

"Alright everyone, our session today is split into three parts. First up, we'll dive into the key takeaways and challenges that we've all spotted with our partners and panelists through different studies and projects across Colombia and Latin America. We're especially going to focus on how micro and small businesses can tackle the issues they face with going digital, including using digital financial services. In the second part, we'll have a quick chat about the specific needs we've pinpointed."

01:29

For financial service providers looking to offer products and services specifically designed for small and medium-sized businesses, we'll also look at how income fluctuations—a big issue for these businesses—often result in them being left out of traditional financial services and restrict their access to digital solutions. Finally, we'll introduce a solution to these challenges that marks a big step forward in promoting digital and financial inclusion for small and medium enterprises.

02:04

"Hey everyone, thanks for being here! I'm excited to introduce our panel speakers for today. We have Veruschka Zilveti Velasco, the country manager at Fundación Capital; Hans Frech La Rosa, a researcher at the Common Sense Lab at Duke University; Luz Gomez, the vice president at the MasterCard Center for Inclusive Growth; and I'm Luz Magdalens Salas, the vice president of ANIF. Without further ado, let's kick things off with Veruschka. If you could share your screen, that would be great. Thanks! Sorry, Veruschka, could you do that?"

02:56

"Looks like we're having some trouble with the audio. Can you hear me now? Yes? Great, thanks! Perfect! So, let's move on to the next topic. We're going to discuss the challenges of digitalization and share some lessons from a project we worked on. Next slide, please. In Colombia, micro and small businesses make up about 99% of all companies. They create over 70% of jobs in the country and contribute 40% to the GDP. Despite all this..."

03:42

A key part of the national economy, but according to the multi-dimensional index, only 32% of micro and small businesses are considered strong. This is due to several challenges that hold them back, like limited access to credit and proper resources. They also struggle with income volatility, making it tough to manage their cash flow, and most of them don't keep good accounting records.

04:15

They usually keep financial records by hand, which makes it tough to get credit. There's a lot of informal transactions in their work environment, and they struggle with weak marketing strategies and sales channels. Plus, their businesses are mostly not digitalized. A lot of these issues could be solved just by promoting the digitalization of micro and small enterprises. Also, there are challenges with accessing proper financial services, which ties back to digitalization.

04:57

It helps you reach more new customers and markets, and it also connects you with new suppliers that might offer better deals. Plus, it gives you more control over your inventory, staff, and especially your finances, which can make it easier to get credit. On top of that, digitalization opens up access to innovative funding sources that come with better terms, especially since the fintech industry is always changing. Keeping this in mind, what's next?

05:32

Thanks to Foundation Capital and the MasterCard Center for Inclusive Growth, we launched a digital initiative to help micro and small businesses access and use digital tools. This initiative aims to boost their productivity, aid in economic recovery, and enhance their financial health and security. We ran this program in Colombia and Mexico from 2020 to 2023, and it produced impressive results. In Colombia alone, we reached 36,000 entrepreneurs.

06:12

They gained access to over 70 handpicked digital tools that were useful for their businesses, and by the end of the program, 7,700 of them started using these tools every day. Also, 87% of the participants were using mobile wallets, with 54% using them to receive payments, which made it easier to track business transactions. Nearly 40% kept their financial records in a digital system, which definitely helps them access credit under better terms. So, how did we manage to make this happen?

06:58

The main reasons we were able to achieve these results were first, offering a wide range of digital solutions that cater to the diverse needs of micro and small businesses, which vary based on factors like how long they've been around, where they're located, and how developed they are. We also focused on providing clear and practical information about these solutions to make it easy for them to adopt. Another key factor was combining advanced technology with a personal touch.

07:40

To encourage Strivers to adopt digital solutions, we mixed various online channels with personalized support from our team. One key channel is our Facebook Community called "Growing My Business," where we share practical info on digital solutions that are useful for businesses and tips on how to use them. We also provide relevant insights to help with business growth and connect people.

08:15

"There's a chat platform created by Found Capital where we shared similar info about digital solutions. We also used Red Noles, a web platform from Found Capital that acts like a hub for digital solutions aimed at micro and small businesses. It helps users easily find digital solutions that meet their specific needs, like financial services and suppliers, based on where they are. Plus, it offers personalized support."

08:55

We got support mainly from our digital ambassadors, who are local leaders teaching their peers about useful digital tools for their businesses and how to use them. We also teamed up with partners from the public and private sectors, as well as international cooperation agencies already working with micro and small enterprises. They helped us encourage the adoption of digital tools among the participants in their programs, and we learned a lot from that experience.

09:34

We're coming together through this program, which is the foundation of a new initiative we've just kicked off. Luis Gomez will fill you in on that in a few minutes. Now, I'll hand it over to L Salas. Thanks a lot, Veruschka! I'm really happy and excited to share some findings from the Small Firm Diaries study and discuss the main challenges we faced. But first, let me explain that these findings...

10:18

The project is an important global research initiative led by NYU's financial access initiative. Basically, the goal of the study is to get a grip on the financial challenges small businesses face in Colombia and a few other countries. Colombia was one of the seven countries included in the study, and we wanted to identify the main barriers that small firms in these places encounter when trying to grow.

10:52

One of the biggest hurdles for these types of businesses is getting access to funding. What we want to do is learn from the study's findings. By understanding the financial situations of these small firms, we can better tackle the gaps in financial inclusion. Let me give you a bit more info about the small firm study; like I mentioned, it was a global effort.

11:29

This initiative is all about understanding the financial lives of small businesses. As I mentioned before, the main goal was to boost the growth potential of these firms in Colombia and other countries by using digital tools tailored to their specific needs. What we'll learn from this study, which we'll explain more later, is that having the right information is crucial for narrowing the gap between supply and demand.

12:04

We looked at small businesses in seven countries, including Colombia. We studied the financial situations of almost 800 firms across these countries. Basically, the study collects detailed weekly financial data from these businesses. In this slide, I want to point out that in Colombia specifically, we had around 122 firms.

12:45

The data we gathered in Colombia was from May 2021 to May 2022. We visited these companies weekly and collected information not just about their financial status, but also about their relationships with employees, competitors, suppliers, and more. All this info helped us understand the main challenges they faced in growing. One of the first things we noticed was the high volatility in their cash flows, as shown in these charts.

13:23

We're looking at the ups and downs in revenue and expenses for these businesses over the year. What we noticed is that both types of firms deal with a lot of volatility, especially in their revenue and operating margins. This is a major takeaway because these fluctuations can really impact the companies.

14:04

Income volatility impacts their everyday decisions, making it tough for these businesses to reliably meet their financial commitments. This uncertainty is one of the key challenges we're tackling in this project. We also began looking into what kinds of investments they should consider and when to make them.

14:42

The text looks at how people deal with formal financial services and loans. When they need financing, we want to know how they plan to use that money and where it's coming from. From what we see in this study and others, most of their investments—what they call investments or how they use loans—are mainly for buying raw materials and covering operating costs. In fact, over 80% of the time, they're using their funds to finance working capital rather than making capital investments.

15:14

Money or resources that help them grow and boost productivity isn't usually their biggest need for capital. When they find themselves needing working capital or investing in their business, we see that 80% of the time they turn to informal lending, while only 20% go for formal lending. However, this situation shifts a bit when they use the funds for capital.

15:51

In 60% of the cases, people rely on informal lending, while only a small percentage use formal financial products. This really highlights the big gap that we see. As experts in financial inclusion, you're probably aware of this disparity between supply and demand. Now, let me outline three main implications of income volatility we found in this study. One key point is that income volatility can really impact...

16:34

Entrepreneurs often worry about whether they can keep up with regular payments, and that's one of the big reasons they hesitate to approach banks or formal financial services for business loans. They're especially scared of missing payment deadlines. We highlight

this concern both with numbers and personal stories in our study, especially during those tough times we talked about.

17:15

The graph I showed earlier highlights the times when their income was low. Another reason for this is that, and I'll share some more information shortly, but because of the high volatility they face, their main focus is usually on keeping things stable. They have to cover their daily expenses and stabilize their businesses before they can even think about investing in growth or boosting productivity. So, that's the second point.

17:55

The takeaway from this high volatility is that daily decisions often revolve around keeping the business steady. That's another key point about high volatility. Lastly, as I tried to show in the chart on the right side of the slide, when they need financing, they usually look for funds related to working capital, which is their main source.

18:32

"This is about informal lending, which really highlights the big gap between the availability of financial services and what people actually need in terms of accessible and flexible options. Now, let's talk about flexibility. It's something that micro and small businesses really want, especially those that go through a lot of ups and downs. They need that flexibility to stabilize and grow their businesses."

19:08

One of the main things we discovered in our study is that when we asked entrepreneurs about their short- and medium-term goals, they tend to focus more on stability than on growth. For instance, in Colombia, about 58% of businesses prioritize stability over growth, while only 42% say their main goal is to increase profits or the number of products they sell, or to diversify.

19:49

They're looking at products or expanding their locations for their businesses or employees, but that's not their biggest issue. The main challenge, especially in Colombia, comes from a mix of growth and instability—73% of small businesses are dealing with this. Ultimately, what we do with the study's data is create profiles. We think this is important because it will be a key resource for analyzing the project.

20:28

We need to cater to the needs of small and medium enterprises. To do that, we've identified five distinct profiles based on their behaviors and the challenges they face with things like digitalization, access to credit, and formalization. So, we've defined these five profiles: one is a low-risk operator or an emerging entrepreneur who's keen to start using digital tools but hasn't quite caught up with digital financial or non-financial products yet. They're resilient and adaptable.

21:05

An entrepreneur or a traditional business owner with potential for going digital is already starting to use digital products or services but still needs some help figuring them out. Then there's the digital innovator, who's an entrepreneur with more experience in digital technology. We think this is important because, as I mentioned earlier, the world of micro and small enterprises in countries like Colombia, and really around the globe, is totally different.

21:44

We face different challenges and behaviors, and we really think it's important to understand these profiles. This way, financial service providers can create customized solutions that meet the unique needs of each group. By pinpointing and separating these needs, we can help small and medium enterprises in Colombia thrive in the digital economy. So, with that in mind, here are the main results.

22:23

I'd like to welcome Hans Fred L Roa to share some insights about their experience in the Common Sense Lab in Behavioral Sciences and how it addresses income volatility challenges for small and medium enterprises. Thanks, Hans, and I appreciate you introducing some results from the W Diaries and discussing the findings from the digital experience. As L mentioned earlier, the goal of this Drive Columbia initiative is to partner and collaborate effectively.

23:01

There are various types of organizations that use different approaches and frameworks that can work well together to tackle the challenges faced by microenterprises. At the Common Sense Lab at Duke University, we focus on a behavioral science perspective on income volatility. You might be thinking about how the income of these small businesses can vary from month to month—how their earnings can rise while their expenses drop, leading to a lot of fluctuations overall.

23:31

From one week to the next, we've been noticing in the research that volatility is not just a financial issue, but also a behavioral one. It affects how people make decisions and can influence their financial choices, which in turn impacts their overall financial health and stability. One of the first things we discovered is...

24:01

Research on uncertainty, especially around income, has found that when people deal with income ups and downs, it makes them feel like they have less control and predictability. We feel less in charge of our finances and budgets, and it's harder to guess what our income and expenses will be next month. This uncertainty makes it way tougher to plan and make business decisions.

24:33

Low-income households and small businesses deal with these challenges. Research shows that they often focus on short-term expenses and immediate problems rather than making long-term plans. They're more likely to prioritize fixing issues that come up in the next month or so, and they save less money overall.

25:03

People are more likely to spend money quickly rather than invest it for the short term, which means they might not have much saved up. Even though having some savings could really help them deal with ups and downs in the future. Another thing we found in the research is that financial shocks are one of the main reasons for income volatility, and we're all kind of exposed to that.

25:32

Small businesses are really vulnerable to financial shocks, like losing income. A lot of these small businesses felt that hit during the pandemic when they had to shut down. People were spending less and going out less, which created a sudden drop in income for them. Their already shaky financial situation got even worse. They had to deal with all sorts of issues, like machines breaking down or power outages.

26:02

That creates an expense shock where you have to scramble to find money. Like L mentioned in the Diaries, these expense shocks and the need for cash usually push people towards informal lenders instead of formal ones, which brings its own set of challenges. From a behavioral standpoint, these financial shocks can trigger what's known as a scarcity mindset. That's when we feel like we're running low on a certain resource.

26:33

When we focus on what's scarce, like money, time, or space, it grabs all our attention and mental energy. This can be both good and bad. On the upside, concentrating on solving that specific scarcity can lead us to find solutions. But the downside is that we might overlook other important things because we're so fixated on that one issue.

27:02

When we're focused on one thing, we often ignore everything else happening around us. We tend to forget about long-term thinking and future planning because we're just trying to deal with the immediate problem. This can lead to people making riskier financial decisions, especially when they're trying to avoid losses.

27:27

They're worried about any more negative effects on their business, and they're also more likely to get into trouble. One reason is that they might end up taking out loans that are pricier but easier to get in the short term. While it seems simpler at first, it ends up costing them more in the long run, which can affect other parts of their business and financial situation. Lastly, we found another factor that...

27:59

Income ups and downs make people worry about their finances. Those who experience these fluctuations often can't predict their earnings and feel less in control, which leads to more anxiety about the future. This stress can take a toll on their health. Studies have shown that when paychecks fluctuate a lot or change suddenly, people tend to worry more, which can lead to sleep issues and increased stress.

28:31

Health problems linked to fewer leaves can ramp up anxiety and stress, which can end up being really costly. When an entrepreneur has to take time off to deal with health issues, it creates a cycle that makes it harder for them to tackle their challenges and find stability. We've also discovered that there's a chance to tackle these issues in LA.

29:07

"I've been working with independent workers, small businesses, and entrepreneurs for the past few years, and I've noticed there's a chance to improve how the products and services they use can help them tackle their challenges better. We need to address some of the behavioral barriers I've mentioned earlier. From our experience with various organizations in the area, we know they appreciate solutions that actually help them."

29:33

"We've got a chance to find a sweet spot between helping Micron's small businesses manage their income ups and downs and coming up with sustainable solutions for organizations so they can keep running and growing. Plus, we know that small and medium enterprises (MSEs) are really varied and constantly changing, with all these different types of small businesses out there."

30:04

Recognizing that the diversity in a unique place like Latin America is actually a chance to figure out how we can customize and improve legal solutions to better benefit SMEs. Plus, one of the big perks of this initiative is that by collaborating with various stakeholders—like the organizations on this panel and local financial groups and associations—we aim to create networks that keep making a difference.

30:37

In the long run, what we really want to change from the common sense lab perspective is to shift the way we help people with their financial challenges. Instead of just throwing more information at them, we recognize that many people are already overwhelmed with their limited attention, time constraints, and various struggles. So, we aim to go beyond just informing them and actually create real change.

31:11

The environment they're working in really influences how we design better financial products and services. This can simplify things and help make it easier for MSS to tackle the financial challenges they're facing. If we go to the next slide, I want to share a couple of examples of how we've successfully done this with other organizations in the region, so you can see the kind of impact this approach can have.

31:43

There are chances to work with financial organizations, and we can break down the redesign and innovation of financial solutions into a few main areas. One opportunity is to enhance what these organizations are already doing. For instance, in the example on the left with Mercado Libre, we helped revamp some of their communications for micro and small business users to make it easier for them to access better and more affordable options.

32:14

We're creating effective credit solutions by tapping into various funding sources, which gives Mercado Libre better insight into the financial situations of MSS. This helps improve credit access by enhancing risk profiling. The only tweak we made here was to adjust our communication to emphasize that MSCs were really close to finishing the setup for linking another account. We refer to this as completion bias when we're really focused on that.

32:46

When we're almost done with something, we tend to hustle a bit more and really feel the pressure to wrap it up. So, by talking about Communications like that, we got MSCs to connect another account, which gave Mercado a clearer picture of their finances and eventually helped them access credits to run their business better. This shift in how we communicated nearly doubled the impact compared to the usual business message, and it cost the organization next to nothing.

33:18

We basically doubled the impact by giving more small and medium enterprises access to extra funding. On the flip side, there's this platform in Chile called Gliber that mainly supports independent workers. We created a brand new feature they thought would help their users save more. With G, users got a digital account where they could receive their income and make payments all in one place. It was super easy and had no fees.

33:47

So, users figured out they didn't really have a way to save money. One thing we've learned is that if you separate your funds into different accounts, it can help people save more. So, we created an extra savings bucket that's linked to the same account—super simple to use and no fees. You just move money from one account to another, keeping things separate and tied to different savings goals. That's the most effective approach we came up with and tested.

34:15

Instead of just letting people create their own savings bucket if they wanted to, we set up a savings pocket automatically for some users. What we noticed was that this actually doubled the number of users who had access to it and eventually started using it. So, a little change—like making a feature available by default instead of adding an extra step—made a big difference.

34:46

"Creating this can boost the use of these features, which will ultimately help people manage their income better. That's our goal with Strife. We want to pinpoint opportunities to improve and redesign some of these financial solutions so they can benefit MSS more. Now, I think Luc is going to share some specific needs we've identified and how we plan to tackle them. Thanks a lot!"

35:18

"Go ahead, thanks a lot! So, first off, big thanks to our partners for sharing these really valuable insights. Lou, do you have a couple more slides you want to go through before we wrap up? Great! Just a quick rundown on the specific needs, because as Hans, Veruschka, and I mentioned in the study results, we have different challenges. We really want to focus your attention on two key points."

35:54

We're seeing some unique challenges for financial service providers. There's a big opportunity to improve financial services for small businesses and micro firms that hasn't really been tapped into yet. One major challenge for these providers is the lack of data for managing risk. There are other issues too, but since we're short on time, I'll just mention that. If you want more details, we can go over that in the presentation.

36:28

This ties back to making sure our product design is in sync. If financial service providers can pinpoint the cash flows we talked about and the variety Hans mentioned, we plan to offer different profiles based on what they've found. Foundation Capital has noticed various needs through digital means, especially for M's. With this info, we were able to share it with the financial service providers so they can take action.

37:09

We're looking to create products, especially financial ones, that meet specific needs. That's one of the challenges we want to tackle with this project. Lastly, we need to access the unavailable data about the different types of businesses and how they operate. As you saw in the small firm diaries, these businesses deal with a lot of ups and downs and completely different situations, but they also face some serious challenges.

37:43

So, like we talked about, they really need to share information. It's tough for them because they don't have proper credit histories, and the info they do have is from informal sources, which doesn't help with formal financial service providers. They've got data, but they need

to make it visible to these providers, and that's a big challenge for them. But here's what we do...

38:17

In this project, we're looking to tackle the second challenge, which is about designing products. As we've all pointed out at different times during the presentation, we need to create customized financial and non-financial digital services and products to deal with income volatility and support growth. With this project, we'll be able to promote the use of digital tools and really push for it.

38:49

"We're working on designing Pilot H in Pro for product innovation, and ultimately, we want to provide data to help improve liquidity management. Our partnerships with suppliers—and I saw a question about this in the chat—along with financial institutions, will help us find alternative tools that can assist these businesses in gaining better visibility with banks and financial service providers, as well as in managing their liquidity. So, with that said, I'm excited to hand it over to you."

39:31

Perfect, thanks a ton, Lia! And huge thanks to our partners for sharing all these insights so quickly. I've dropped a couple of links in the chat if you want to read more about some of these initiatives. Their contributions have been, and still are, super important for shaping what we're calling Strive, which is a global program run by the MasterCard Center for Inclusive Growth. We're really focusing this program on digitization for micro and small businesses, and helping them out.

40:06

"Let's tackle issues like income ups and downs that you've probably heard about. If you could move to the next slide... Our main goal, which I hope is coming across more clearly as we go through these presentations, is that we're starting this new initiative. We really want digital financial services to genuinely help small businesses. That means we need to focus on real results and make sure they match what businesses actually experience in the real world. We want to hear from those businesses."

40:39

Businesses themselves, and also using innovative tools like what you heard from Common Sense Lab about behavioral science—it's all about figuring out how to really improve financial well-being. You can move to the next slide. This is a cross-sector initiative. We just

launched it publicly a couple of weeks ago, but it's really a collaborative effort that involves the public, private, and social sectors. Together, we...

41:14

"We're not just going to give access to these digital tools we've been discussing and funding, but we'll also provide the training and support needed to help businesses navigate their digital transformations so they can stay effective and efficient. Our partners' expertise in these various areas is super important to make sure that small businesses have a smooth and successful journey. We've learned a lot since the pandemic started."

41:46

As you heard from Veruschka during our digital program, we're building on those lessons. If you could go to the next slide, that'd be great. Small businesses are a really important part of this, but we also need to focus on the providers of digital financial services and tools. Our partners have really emphasized this, especially Lou.

42:18

"ANIF and NYU agree that we shouldn't assume what small businesses need. We're building on the work from Small Firm Diary, and I shared a link in the chat to some of that initial work that Loose will keep developing. It's important for us to share this actionable data with providers so they can better understand and meet the unique needs of different small business segments. Loose also gave you a quick overview of some of that."

42:46

They're creating different types and profiles for micro and small businesses. If you check out the last slide, you'll see that we're aiming to rethink digital and credit solutions for small businesses. We'll be teaming up with Hans and the Common Sense Lab crew, along with Luz, ANIF, the NYU team, and Fundas Capital. They've been connecting with a wider community of financial service providers.

43:19

We're definitely going to use the MasterCard Network to rethink how we handle credit products for small businesses. We're looking at everything from creating toolkits and workshops to forming working groups. Our goal is to come up with solutions that really fit the changing needs of small businesses. It's a pretty ambitious vision that we're planning to push forward over the next couple of years, and we're really excited about it.

43:49

I'm really excited to see these efforts coming together! I'll share some info about the Strive Columbia initiative in the chat. We're looking forward to learning more, so please feel free to engage with us. Now, back to you, L, to wrap things up. Thanks, L, and thanks again to everyone! Our main goal with this project is to figure out what actions we should start taking to boost the digitalization of small and medium-sized businesses.

44:29

"To help them deal with the ups and downs of income, I'll wrap up this session. Big thanks to our panelist Hans, and everyone who joined us and listened in. Thanks, Diana, for your comments and questions! If you have any more questions, we're more than happy to follow up with calls or emails. Thanks, everyone!"