

Executive summary

Sustainable, inclusive growth depends largely on a country's ability to translate productivity gains into better welfare for the population. Innovation and the creation of new firms are essential to drive this virtuous process of productivity gains. Start-ups bring new products and services to the market based on scientific discoveries and new applications of existing knowledge. They create new markets and business models and offer novel solutions to emerging problems. Start-ups also bolster competition for innovation and encourage the development of a dynamic business environment, and they have the potential to boost and diversify the economy. However, these enterprises must overcome major hurdles to get up and running and to expand, especially in developing countries. Start-ups do not emerge in a vacuum. They need entrepreneurial talent, technical skills, business management capabilities, services and legal frameworks that foster their creation and expansion. They also need investment in infrastructure. Public policies can adopt various courses of action to reduce the barriers encountered by those looking to create or expand start-ups, and governments can work with the private sector on actions to support the development of an ecosystem in which there are dynamic start-ups.

This report analyses the experience of Latin American countries in promoting start-ups, focusing on Chile, Colombia, Mexico and Peru. It is an update of the first diagnosis conducted in the 2013 OECD study *Start-up Latin America: Promoting Innovation in the Region*. The report shows that Latin American countries are structuring and strengthening their pro-startup policies. Countries are creating new institutions and support instruments and they are reforming existing programmes to make them more effective. Even though the region's macroeconomic climate is rather unfavourable, the start-up scene is revealing a more dynamic side of Latin America, where start-ups are a burgeoning reality and governments are looking to design and reform instruments to capitalise on the opportunities of entrepreneurship.

Some countries have better developed pro-startup policies than others, and each country has its own policy model. Chile has been consolidating its pro-startup policy as a pillar in its national production-development strategy. Colombia, meanwhile, has been boosting its ecosystem and developing an inclusive financial market for start-ups. Mexico has been strengthening its institutional framework, promoting an entrepreneurial culture and closing the finance gap for early-stage enterprises. Finally, Peru has made progress in consolidating the Start Up Perú programme and is introducing seed capital. Overall, instruments to promote start-ups became more modern between 2010 and 2016. The countries of the region have introduced new, more flexible mechanisms that are in line with the ones operating in more advanced ecosystems, including mentoring networks and collaborative workspaces to streamline the functioning of traditional incubators. They are also finding new ways of channelling resources towards start-ups, such as crowdfunding. Although the region has improved at promoting start-ups, venture-capital and angel investors are still weak links in the financing chain.

Latin America is learning lessons on how to manage policies to support start-ups. Countries in the region have learned that it is important to create synergies between pro-startup policies and strategies for production transformation and innovation, that the quality and density of the production and innovation ecosystem affect the success rate of start-ups, that mechanisms to promote start-ups should strive to ensure that production benefits all sectors of society in all parts of the country, and that the programmes need to be flexible and reactive to respond to market needs.

Start-ups will not be the ultimate solution for development in the region, but creating a startup-friendly environment, facilitating investment in start-ups, creating flexible, modern services for new entrepreneurs, and investing in measures to promote an entrepreneurial culture can help to diversify and transform the region's economies. Policies to promote start-ups do not need big investments to have an impact, but they do need to be flexible and co-ordinated, with the aim of establishing partnerships with the private sector and with universities, technology centres and regions across the country. The policies also need flexible instruments, as well as experimentation and policy dialogue among different countries so that they can learn from each other and adopt best practices.

The countries of the region are structuring their policies to promote start-ups. They share four pressing challenges:

1. **Map start-ups and measure their impact.** Start-ups are a recent phenomenon in the region. As countries consolidate their pro-startup programmes, they are tweaking the criteria they use to determine which enterprises are eligible to benefit from public programmes and their role in the national innovation system. It is important for countries to improve official company registries and use the broad scope of such records to generate data on the performance of start-ups, that they could then use to analyse the features of businesses that fail or cease trading. Countries could obtain additional data on the nature and behaviour of start-ups that import and export goods by combining the information in official company registries with the statistical records of customs agencies. Meanwhile, information and communication technologies, the platform economy and new policy tools provide opportunities to generate new data and to map the development of the start-up scene in Latin American countries. It is important for countries to monitor the implementation of programmes and conduct impact assessments at a reasonably early stage to ensure that they use their resources efficiently. Data from new sources, such as the platform economy, could also be used to map the profile of start-uppers in the region and to design indicators suited to the unique nature of start-ups, especially their closer connection with the innovative entrepreneurs who founded them. These sources would reveal what impact the profile of entrepreneurs (gender, age and education) and the environment in which they operate have on the founding and expansion of start-ups, and indirect pro-startup policies would therefore be better informed. Countries could also explore to what extent start-up policies change the organisational structure of traditional policies to support innovation and production development. Programmes to support start-ups might also be modernising and invigorating traditional systems by introducing new ways of planning, managing and implementing public policies and by requiring changes to the profiles of the people in charge.
2. **Simplify and consolidate support programmes and bring them more in line with the needs of the target population.** Although initial experimentation with different programmes and mechanisms are helping to determine what works best in each context, if there are too many instruments, they are not effective for defining a policy that is easy for entrepreneurs to use. It is also important to work towards completing the financing chain and improving service provision and legislation for these businesses, given their potential needs at the scale-up and expansion stages.
3. **Facilitate productive investment.** Although the situation has improved in recent years, the region still adopts a conservative approach and is averse to the risks associated with productive investment. Financial institutions, private investors and investment funds could make a decisive contribution to boosting investment in the region. If the region's capital and funds were steered towards productive

investment, they could create a more dynamic business environment. For this to happen, countries need to reform legislation and create tax incentives to enable and facilitate productive investment. They also need to change mindsets and focus on investment.

- 4. Increase regional co-operation.** The countries in the region can capitalise on and increase the impact of start-ups through greater regional co-operation. By co-operating with each other, countries can speed up the learning process and the transfer of best practices, as well as help regional initiatives achieve critical masses for market opportunities and financing. The community that supports start-ups in Latin America is young, and it already meets together and co-ordinates more than traditional areas of public policy. Countries could speed up learning processes and create good practices by improving the structure of these spaces for dialogue and by introducing peer review. Regional co-operation could also help close funding gaps and attract larger levels of investment, responding to the challenges that the countries face in terms of finance and target markets. Regional funds like the Pacific Alliance initiatives to promote start-ups and entrepreneurship are therefore important, and countries should do more to encourage such initiatives.



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