

## *Chapter 3*

# **Promoting start-ups in Chile**

This chapter presents an overview of policies to promote start-ups in Chile. Support for start-ups has shifted from a pilot phase to a more structured one in co-ordination with the national transformation strategy. Chile is strengthening the financing chain for start-ups, especially in early stages and is introducing new support services to entrepreneurs, including mentoring networks and collaborative workspaces. The country has also introduced conditionalities and incentives to encourage entrepreneurship in the regions within the country, to attract citizens who have studied abroad to return to Chile to do business, and to support social inclusion through entrepreneurship. It has taken steps to improve the legal framework for starting businesses, including a law to enable people to start a business in one day.

## Introduction

Chile's experience in supporting start-ups goes back to the 1990s, when it introduced incentives to bolster venture capital in the country. Since then, its policy approach has shifted as the country seeks to complete the financing chain at the start-up and growth stages. In 2010, the launch of the Start-Up Chile programme marked a milestone in policies to promote start-ups in the country, and in the region. The programme's media coverage helped to establish Chile's position in the global debate on start-ups. The implementation of the programme also provided valuable lessons regarding policy design and management (OECD, 2013). When Start-Up Chile was introduced, creating and promoting the growth of start-ups was an objective, an aspiration for the country (OECD, 2013). Chile has yet to fully map out the start-up scene in the country, but there has been a change in the country's image, and start-ups are emerging and expanding nationwide. Between 2010 and 2016, Chile has refined its pro-startup policies and instruments. In 2014, the country's strategy to promote start-ups moved from a pilot phase to a more structured one, under the 2014-18 entrepreneurship policy.

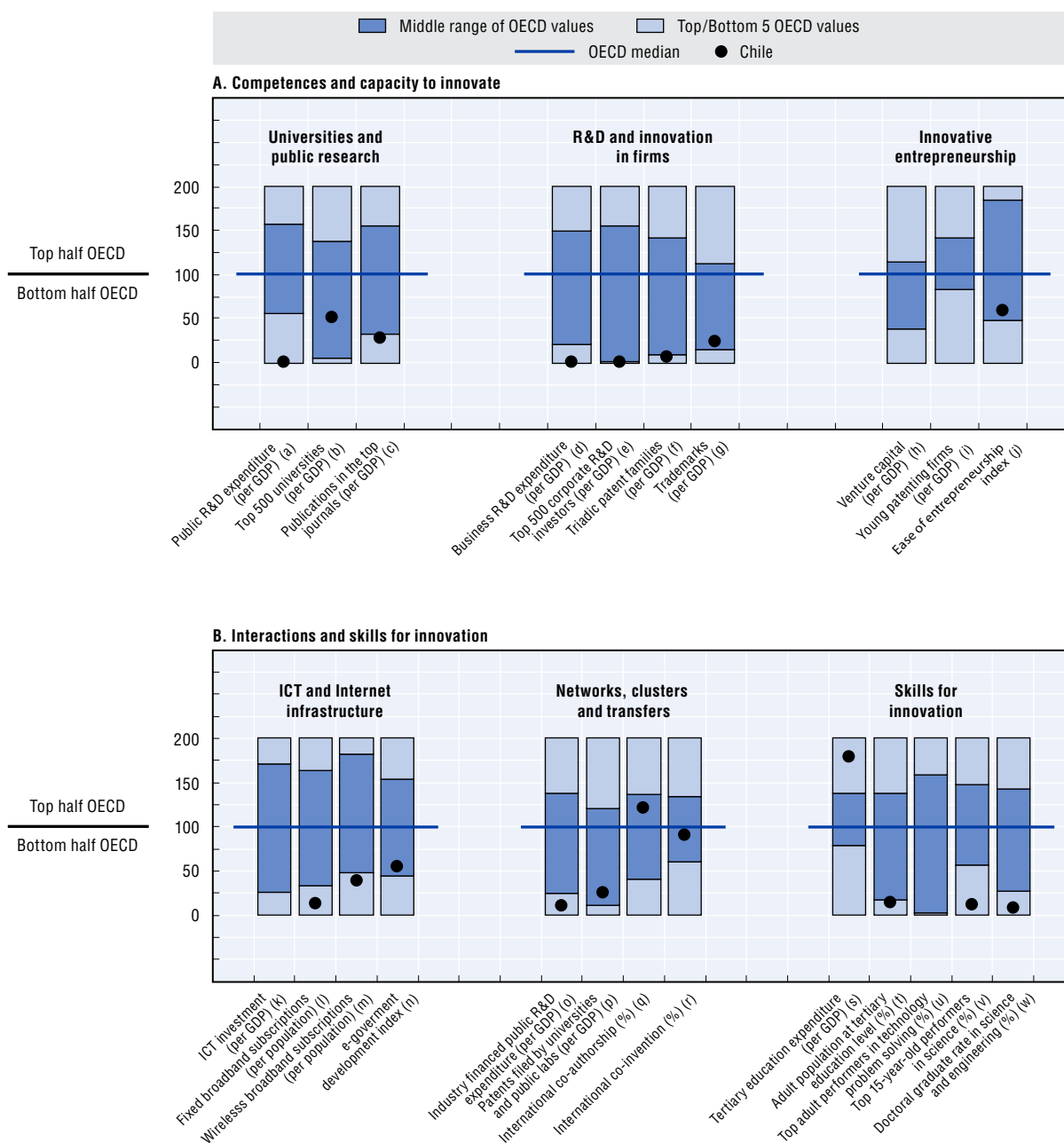
This chapter presents an overview of policies to support start-ups in Chile, focusing on changes that have taken place between 2012 and 2016 and identifying challenges for the future.

## Start-ups in Chile: The current situation

Chile's science and innovation performance remains below the OECD average (OECD, 2014; Figure 3.1), and start-ups are not emerging and growing naturally. In addition to the barriers they would face in any country, start-ups in Chile and Latin America face systemic difficulties resulting from the low propensity for business risk within society and among investors, the low density of the science and technology system, and barriers related to logistics, regulations and standards. All these factors hinder the emergence and growth of start-ups. However, Chile's market-oriented, innovative start-ups give a very different, more dynamic picture of the country. Although start-ups are a new phenomenon and Chile's business ecosystem is not nearly as dynamic as those of the world's most advanced countries, they are a reality, and one that is growing.

It is not easy to gauge the size and dynamism of Chile's start-ups, for want of comparable data across countries. Since 2010, however, public policy has prioritised start-ups, which has helped generate data on them. According to end-2015 estimates by the Production Development Corporation (CORFO), Chilean start-ups included one unicorn (i.e. a start-up worth at least USD 1 billion), four centaurs (worth between USD 100 million and USD 1 billion) and 36 little ponies (worth between USD 10 and 100 million) (Figure 3.2). These figures are comparable with those of more developed start-up ecosystems, such as that of Singapore, which has around 1 000 start-ups, including 2 unicorns, 12 centaurs and 27 little ponies (CORFO, 2015a). Chilean start-ups operate in various areas. Several have emerged in the field of technologies applied to education, some of which have been successful and have internationalised and recorded large turnovers (Gal&Leo, Puntaje Nacional, Papinotas, Poliglota, Musiglota and U-Planner). Other areas in Chile with a large number of start-ups are financial technology, the sharing economy, agribusiness and biotechnologies (Box 3.1).

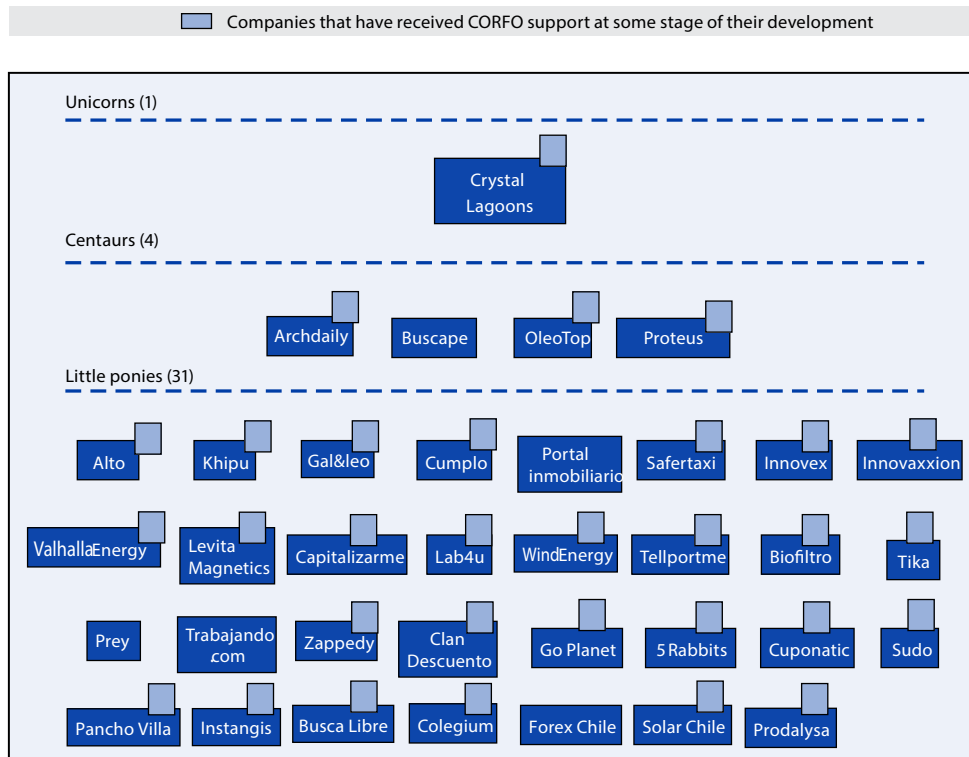
Figure 3.1. **Comparison of science and innovation performance in Chile, 2014**  
(normalised performance index relative to median OECD values)  
(OECD median = 100).



Note: The indicators are adjusted to the size of the country (GDP or population size). The values for Chile are compared with the median value for OECD countries, i.e. the middle-ranked country of all the OECD countries for which data is available. For more details on the methodology used, see the STI country profiles in OECD (2014).

Source: OECD (2014) *Science, Technology and Industry Outlook 2014*, [http://dx.doi.org/10.1787/sti\\_outlook-2014-en](http://dx.doi.org/10.1787/sti_outlook-2014-en), based on OECD (2014), *Main Science and Technology Indicators (MSTI) Database*, June, [www.oecd.org/sti/msti.htm](http://www.oecd.org/sti/msti.htm).

Figure 3.2. Unicorns, centaurs and little ponies in Chile, 2015  
(estimated figures as of end-2015)



Note: The term "unicorns" refers to start-ups valued at more than USD 1 billion; "centaurs" refers to those valued at between USD 100 million and USD 1 billion; "little ponies" refers to those valued at between USD 10 million and USD 100 million.

Source: Authors' work based on CORFO data (November 2015).

### Box 3.1. Start-ups in Chile: Some examples

#### BioFiltro

BioFiltro is an innovative company that treats wastewater and develops technology for sustainability. The company took part in the second-generation of Start-Up Chile in 2012 and created the innovative BIDA® system that has patents in more than 35 countries. The company has internationalised, with subsidiaries in Chile, New Zealand and the United States and more than 130 plants around the world.

#### Proteus

This pharmaceutical start-up developed the first anaesthesia in Chile following the discovery of an essential microalga for producing the anaesthetic neosaxitoxin. Proteus obtained its first patent in 2008 thanks to financing from Chile's Production Development Corporation (CORFO). The company's market value places it in the centaur category, and it has contracts with major companies, including German firm Grünenthal.

#### Karün

Founded in 2012, this start-up designs and manufactures spectacles using plastic recycled from fishing nets, which provides a flexible but sturdy material. The company combines craftsmanship and laser cutting technology to produce original products. Karün has received the international B-CORP certification for its sustainability work and has raised around USD 500 000 from investors and USD 175 000 from crowdfunding in Chile.

Source: Authors' work based on the companies' websites.

## Chile is structuring and strengthening its policy for start-ups

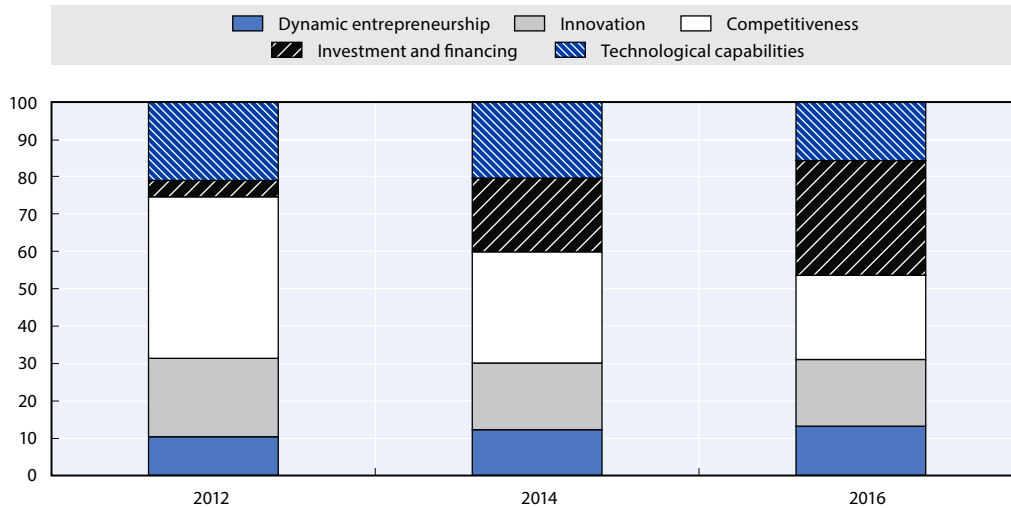
Chile's experience in supporting the creation of companies with high growth potential goes back to 1998, when CORFO took the strategic decision to promote the forming of private venture-capital funds through the F1 credit facility (on a 1:1 basis with private-sector contributions, a ratio that increased to 2:1 for the F2 lines and 3:1 for the F3 lines). In 2000, it introduced a fund to support incubators, and since then it has reformed the fund several times based on performance assessments. In 2004, it created the first seed-capital fund for new enterprises in order to close the early-stage funding gaps (OECD, 2013).

In 2010, the government launched Start-Up Chile. The programme had an immediate impact. It was a key turning point in the country's support for start-ups and led to the structuring of start-up policy as part of the country's production development strategy. Start-Up Chile's initial objectives were as follows: i) to position Chile as a benchmark in innovation and entrepreneurship in Latin America; ii) to promote a culture of entrepreneurship; iii) to place greater emphasis on innovative entrepreneurship; and iv) to create a critical mass of new entrepreneurs in Chile in order to attract foreign talent to open new businesses in the country. To achieve these goals, the programme provided non-repayable seed capital of USD 40 000 to new entrepreneurs, access to basic infrastructure for initial operations, and simpler visa procedures for foreign beneficiaries. The programme also provided training activities and opportunities to network with investors and local entrepreneurs.

In 2012, Chile began to redefine the criteria for supporting start-ups, gradually replacing experimental initiatives with a more structured, integrated approach to national production-development policy. Also in 2012, CORFO created an Entrepreneurship Division to structure and monitor support for start-ups. The country has also identified new priorities for start-up promotion under the 2014-18 entrepreneurship policy (which has been included as one of CORFO's five strategic lines of action) and has allocated resources for policy implementation. Chile's support for start-ups had therefore moved from a pilot phase to a more structured phase in 2014. CORFO has increased the share of its budget allocated to supporting dynamic enterprises (i.e. businesses that could achieve turnover of at least USD 1 million in two years and could grow at rates above 20% in the following three years) from 10.5% in 2012 to 13% in 2016. Investment and financing was the budget line that increased the most in its share of the total budget (from 4.3% in 2012 to 30.6% in 2016) (Figure 3.3).

CORFO monitors and assesses programmes and applies the lessons learned to its policies to support start-ups (Box 3.2). One of the main lessons learned from the first assessments of Start-Up Chile was that programmes to support innovative entrepreneurship must take regional factors into consideration. If Chile designs and implements national policies without taking the regions into account, it may not fully mobilise the entrepreneurial talent living outside the capital. From 2016, in line with the national development goal of supporting inclusive growth, the new instruments and conditions seek to create the right environment for start-ups and innovation opportunities to emerge in the regions beyond Santiago's metropolitan area.

**Figure 3.3. CORFO budget by strategic line, 2012-16**  
(percentage of the total innovative-entrepreneurship budget, by strategic line)



Note: "Investment and financing" includes support for venture capital.

Source: Authors' work based on official CORFO data updated in 2016.

### Box 3.2. Conducting assessments to draw lessons and reform policies: Chile's experience

Chile's experience in promoting innovative entrepreneurship dates back to the late 1990s. The country has learned how to manage policy implementation through monitoring and evaluation. Assessments are effective when they are part of the policy cycle and when there are existing mechanisms to incorporate the results of assessments into future programme design and management. In 2007, for instance, CORFO assessed the seed-capital programmes it introduced in 2004. The assessment revealed that it is not efficient to have two financing lines: one for founding start-ups and one for growing them. CORFO therefore decided to reform the instrument to create a single system with two phases, called the *Subsidio Semilla de Asignación Flexible (SSAF)*, or Flexible Seed Grant.

In 2011, CORFO also assessed the support programmes for the venture-capital industry. These assessments led to the creation of the Early Stages Fund and the Development and Growth Fund, thus distinguishing between the different operating mechanisms according to the phase of development.

In late 2015, CORFO carried out an assessment of the Start-Up Chile programme. Based on the weaknesses it found, CORFO changed the programme's objectives and launched new lines of support. As a result, in 2016, Start-Up Chile created incentives for start-ups to maintain their operations in Chile, introduced measures to support start-ups established outside Santiago's metropolitan area, and created two new lines: joint investment for start-ups in the growth phase and pre-incubation for female entrepreneurs.

Source: OECD (2013), *Start-up Latin America: Promoting Innovation in the Region*, <http://dx.doi.org/10.1787/9789264202306-en> and CORFO data for 2016.

## Chile is modernising its policy mix for start-ups

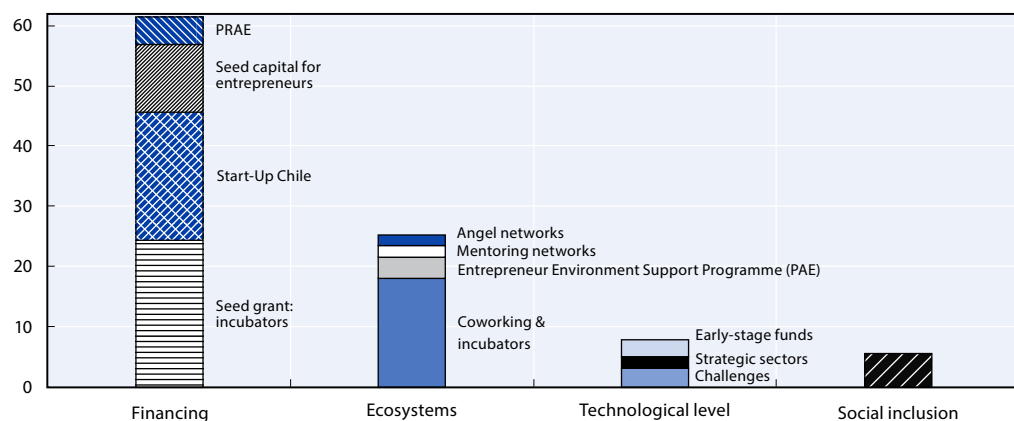
By structuring start-up promotion policies, Chile is modernising and expanding its policy mix. The 2014-18 entrepreneurship policy is formulated in four main branches, in line with the national production-development strategy (Figure 3.4):

- financing for start-ups, which was allocated 61% of the total budget for entrepreneurship in 2016
- promotion of the development of ecosystems (25% of the total 2016 budget)
- support based on technology intensity (8% of the total 2016 budget)
- support for entrepreneurship for social inclusion (6% of the total 2016 budget).

The first review of policies to support start-ups in Latin America highlighted that Chile was seeking to expand the financing available to cover all stages of a business's development, from seed to expansion (OECD, 2013). Today, one of Chile's strengths is that it has instruments designed for each stage of a start-up's development (Figures 3.5a and b and Table 3.1). Between 2012 and 2016, Chile has introduced the following main changes:

1. It has bolstered the chain of financing, especially in the early stages, but venture capital and angel investors are still weak links in the financing chain.
2. It has introduced new instruments in its services to entrepreneurs, including mentoring networks and collaborative workspaces. It has also reformed support for intermediaries (incubators and accelerators) to make it more flexible and results-oriented.
3. It has included conditionalities and incentives to encourage the creation of start-ups in the regions, to attract Chileans who have studied abroad back to the country to do business, and to support social inclusion through entrepreneurship.
4. It has taken steps to improve the legal framework for starting businesses, including a law to enable people to start a business in one day.

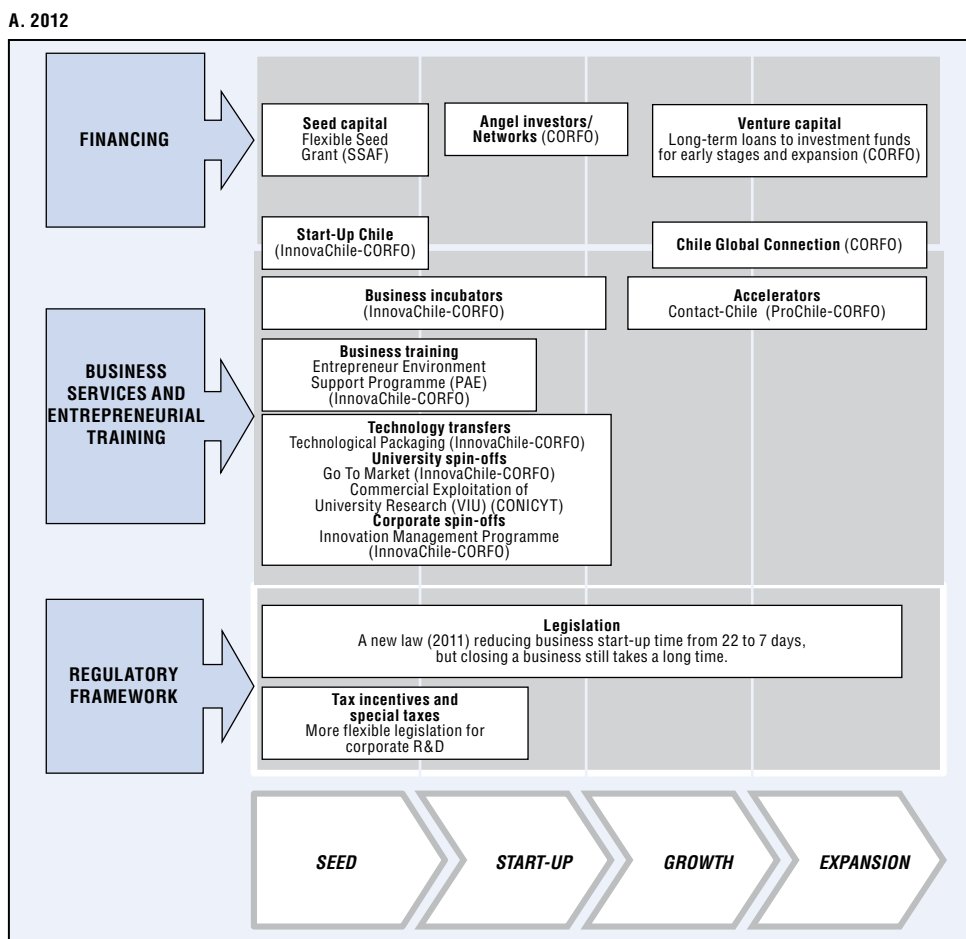
Figure 3.4. Budget for start-ups, CORFO 2016  
(percentage assigned to each instrument)



Notes: Start-Up Chile includes The S Factory (TSF). "Social inclusion" includes support for the development of social and inclusive enterprises and funds from the SSAF scheme for social enterprises. PRAE (Programas Regionales de Apoyo al Emprendimiento) refers to regional entrepreneurship support programmes. "Technological level" means instruments to create technological developments, attract global talent and connect with university R&D.

Source: Official CORFO data in 2015.

Figure 3.5. Policy mix to support start-ups in Chile, 2012 and 2016

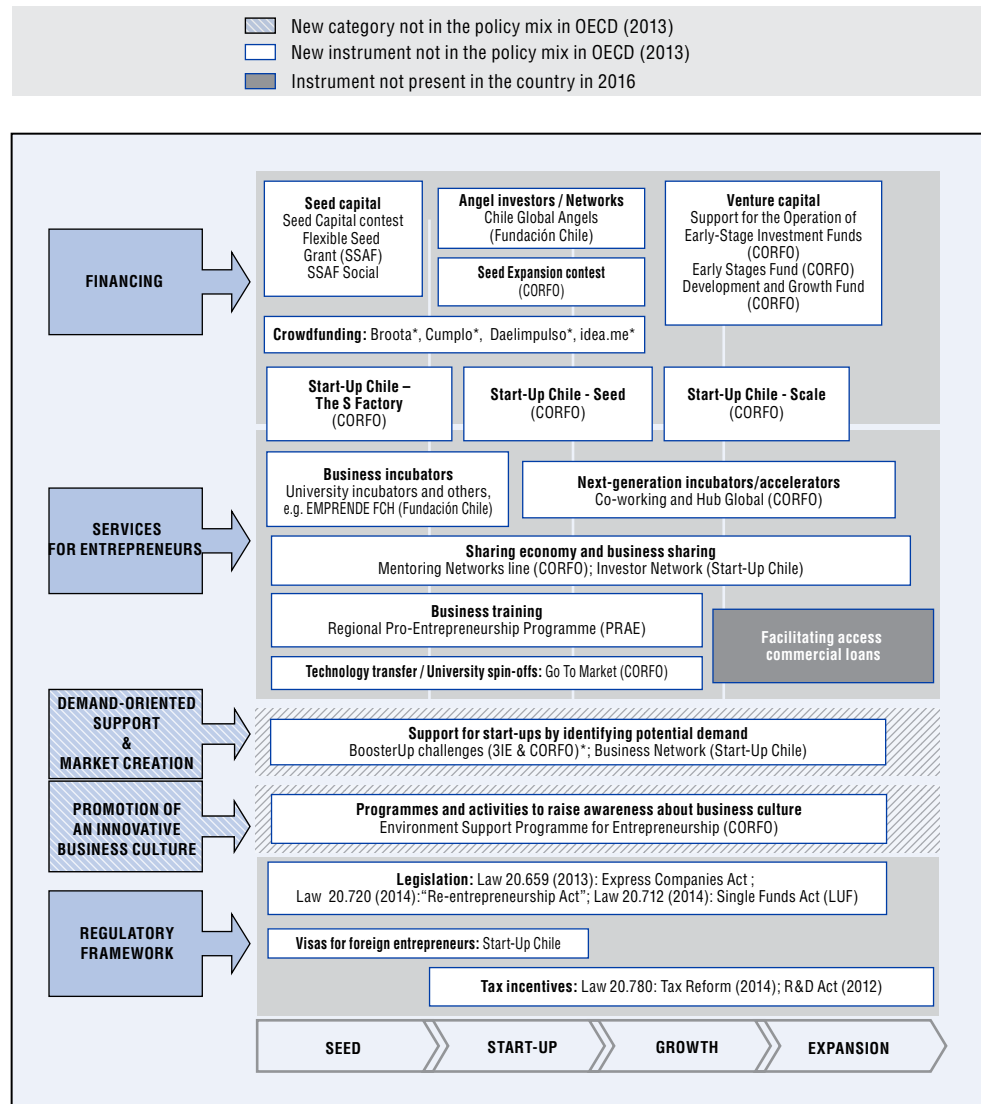


Source: OECD (2013), *Start-up Latin America: Promoting Innovation in the Region*, <http://dx.doi.org/10.1787/9789264202306-en>.



Figure 3.5. Policy mix to support start-ups in Chile, 2012 and 2016 (cont.)

B. 2016



Note: Items marked with an asterisk (\*) are private initiatives. The diagram shows information available on some programmes as of May 2016.

Source: OECD (2013), updated and expanded based on official information from Chile in May 2016.

Table 3.1. Selected instruments to support start-ups in Chile, 2016

Instruments	Beneficiaries	Type of support		Maximum amount of support	Introduced in	
<b>FINANCING FOR ENTREPRENEURS</b>						
Seed Capital contest	Early-stage dynamic start-ups	Seed capital co-financing	75% of the total cost	Up to CLP 25 million	2010	
Seed Capital Expansion contest	Expanding enterprises		70% of the total cost	Up to CLP 100 million	2014	
Regional Pro-Entrepreneurship Programmes (PRAEs)	Enterprises in priority sectors in the regions		75% of the total cost	Up to CLP 25 million	2010	
Start-Up Chile	The Startup Factory (TSF)	Start-ups led by women, at the idea or prototype stage	Integrated (co-financing, training, mentoring and linkages)	90% of the total cost	Up to CLP 10 million	2015
	Seed	Early-stage start-ups (at least a prototype or minimum viable product)	Integrated (co-financing, training, mentoring and linkages)	90% of the total cost	Up to CLP 20 million	2010
	Scale	Expanding start-ups	Integrated (co-financing, training, mentoring and linkages)	70% of the total cost	Up to CLP 60 million	2015
<b>SUPPORT FOR THE ECOSYSTEM AND SERVICES</b>						
National incubators programme	Incubators	Co-financing	Line 1- Launch: 75% of the total cost. Line 2- Operation: 65% of the total cost. Line 3- Operation: 55% of the total cost	Up to CLP 200 million per line	2014	
Co-working support	Co-working spaces	Co-financing	75% of the total cost	Co-working line: up to CLP 164 million Hub Global line: up to CLP 200 million.	2015	
Support for mentoring networks	Mentoring networks	Co-financing	75% of the total cost	Up to CLP 164 million	2014	
<b>SUPPORT FOR PRIVATE CAPITAL</b>						
Early-Stage Fund / Early-Stage Technology Fund	Investment funds for early-stage businesses	Credit line available for investment funds	200% of the fund's completed and pledged investments.	---	2012	
Development and Growth Funds	Fund managers / investment funds for expansion-stage businesses	Credit line available for investment funds	100% of the fund's completed and pledged investments.	---	2012	
Support for the Operation of Early-Stage Investment Funds	Fund managers	Co-financing	75% of the project's total cost	Up to CLP 80 million	2015	

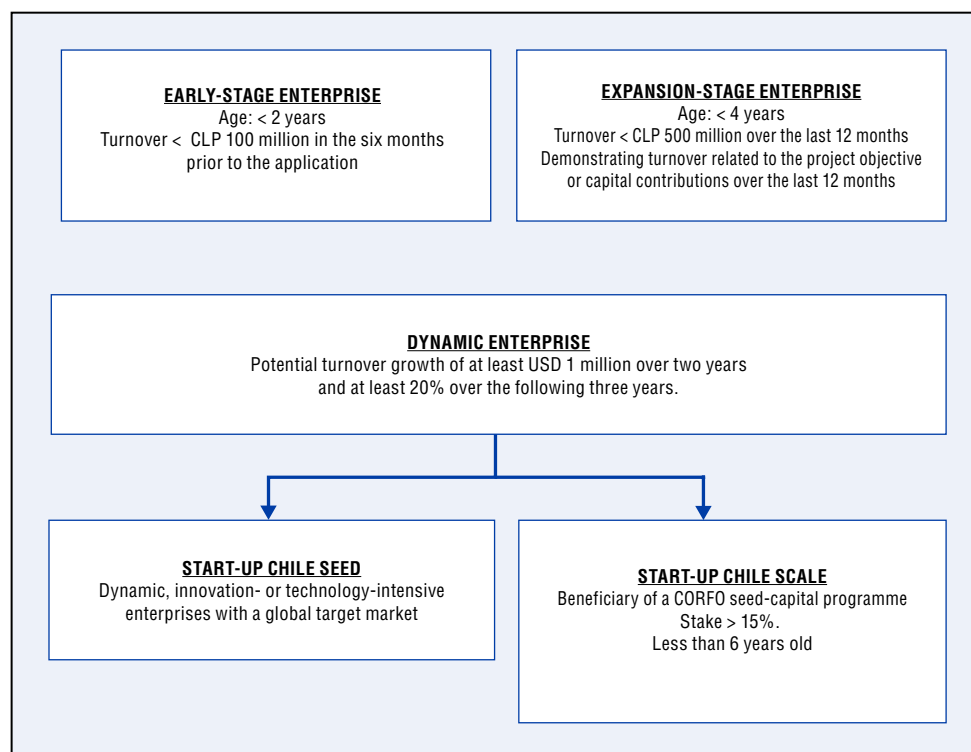
Note: CORFO is the institution in charge of all the above programmes.

Source: Authors' work based on CORFO data updated in 2016.

Although it is too early to fully assess the impact of the various programmes to support start-ups, the country is visibly more buoyant than it was in 2012. As of early 2016, the Chilean ecosystem for start-ups included more than 1 000 start-ups supported by public policy and 34 facilities across the country specialising in start-ups (co-working spaces, incubators and accelerators). According to CORFO data, the first five years of the Start-Up Chile programme saw the mobilisation of capital amounting to USD 420 million and the creation of more than 5 000 jobs.

By structuring public policy and fine-tuning the policy mix, Chile has also made progress in how it defines and identifies start-ups for the purpose of public policy. Chile prioritises dynamic enterprises, i.e. those with high growth potential, and adapts its instruments to the age and nature of businesses (Figure 3.6).

Figure 3.6. Definitions of start-ups for public policy in Chile, 2016



Source: Authors' work based on CORFO data, updated in 2016.

The following sections describe the main changes in the policy mix to promote start-ups in Chile, with special emphasis on the most recent reforms. The changes described are grouped into five action areas: i) closing the funding gap; ii) facilitating linkages and providing services; iii) creating markets; iv) transforming mindsets; and v) reforming legal frameworks. Of particular note are the reforms made to financing and services to meet the needs of entrepreneurs in the regions.

### Chile is strengthening the financing chain and focusing on expanding early-stage financing

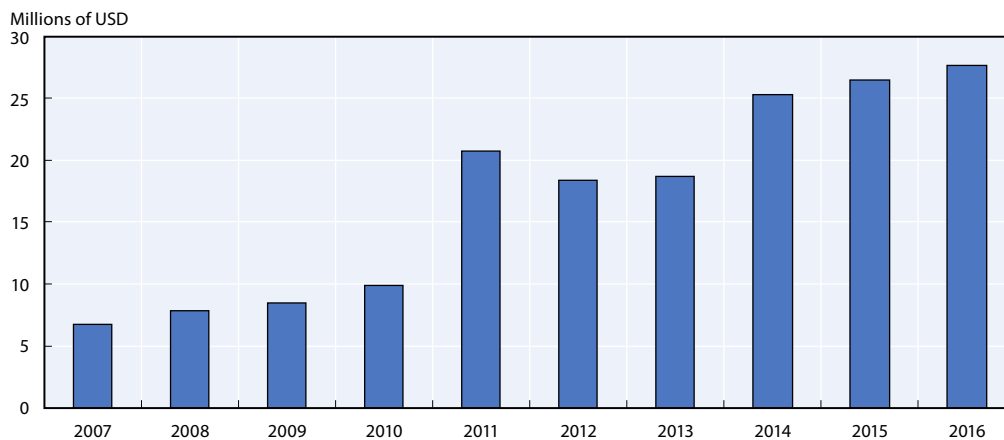
Over the years, Chile has sought to complete the financing chain so that it extends from the seed to the expansion stage of start-ups. It has also stepped up support at the seed stage, and the country has various seed-capital instruments as part of Start-Up Chile and other programmes (Figure 3.7). Since 2010, the Capital Semilla (Seed Capital) contest has been supporting the founding of companies with a high growth potential. The programme co-finances the implementation of projects for up to CLP 25 million (Chilean pesos, about USD 35 000), or 75% of the total cost of the project. The Flexible Seed Grant (SSAF) scheme also includes a category for supporting start-ups. The SSAF is an indirect support instrument introduced in 2013 that assigns resources to new entrepreneurs through certified incubators acting as intermediaries.

Start-Up Chile operates with a similar setup and currently runs three financing lines:

- **The S Factory (TSF):** a pre-acceleration line for teams with at least one woman founder. TSF's main aim is to support technology firms owned by women. Participating businesses receive support to transform an idea or concept into a prototype or a minimum viable product in three months of pre-acceleration. They receive non-repayable co-funding for up to CLP 10 million (about USD 14 000) or up to 90% of the total project cost. TSF makes two calls for applications every year, with 20 to 30 start-ups selected from each call.

- **Seed:** an acceleration line for start-ups that already have a functional prototype. The business selected receives equity-free, non-repayable capital contributions to the tune of CLP 20 million (about US 30 000) for up to 90% of the total cost. The programme lasts six months and has two annual calls for applications, with 80 to 100 start-ups selected from each call. It also offers an additional incentive of CLP 5 million (about USD 7 600) to beneficiaries who expand their businesses into the regions and to Chilean students studying abroad.
- **Scale:** a fund for start-ups operating in Chile that have benefited from one of the CORFO seed-capital programmes (SSAF, Capital Semilla or Start-Up Chile Seed). The focus is on start-ups in the expansion phase that have momentum (increase in turnover, clients, investment) and are seeking to scale up in Latin America or further afield. The selected companies receive non-repayable capital contributions to the tune of CLP 60 million (about USD 90 000), equal to 70% of the co-funding. Two calls for applications are made every year under the programme, with 15 start-ups selected from each call.

Figure 3.7. Resources assigned to seed capital by CORFO in Chile, 2007-16  
(millions of USD)



Note: Total seed capital comprises all programmes active each year. Since 2010, the figures also include the Start-Up Chile line.

Source: OECD (2013), *Start-up Latin America: Promoting Innovation in the Region*, <http://dx.doi.org/10.1787/9789264202306-en>, updated; and CORFO data for 2016.

Since it was introduced in 2010, Start-Up Chile has become a comprehensive, integrated programme to promote start-ups, providing financing and services to entrepreneurs. Initially, Start-Up Chile sought to change the country's entrepreneurship mindset from a traditional one to a technology-based approach, geared towards the international market and a global impact. To achieve this objective, it worked to increase the number of start-ups in the country attracting foreign entrepreneurial talent. Start-Up Chile provided seed capital for the founding of new start-ups, access to basic infrastructure for initial operations, and simpler visa procedures for foreign beneficiaries. By monitoring Start-Up Chile's implementation, CORFO has been able to identify the programme's strengths and weaknesses and use that information to improve its design. Between 2010 and 2015, Start-Up Chile received more than 10 000 applications and supported 1 309 start-ups in 77 countries (mainly in Chile, the United States, Argentina, India and Brazil), more than half of which are still operating as of 2016. According to CORFO estimates, the start-ups that it supported that still operate have created more than 5 000 jobs (about five per start-up), while private co-investments have more than quintupled CORFO's initial investment. One of the major challenges that Chile has identified is the ability to hold on to talented entrepreneurs. More than 65% of the businesses that Start-Up

Chile has supported are located abroad, and those that begin in Chile tend to leave the country quickly. The monitoring of the programme's results found that the new goals for Start-Up Chile in 2016 include creating incentives for the development of the regions, attracting Chilean entrepreneurs who have studied abroad and retaining successful foreign entrepreneurs who have received support from Start-Up Chile.

Crowdfunding is still in its infancy in Chile. As of 2015 there were five platforms in the country: debt-based platforms Cumplo and Becual, equity-based platform Broota, and rewards-based platforms Dale Impulso and Fondeadora. As of 2015, crowdfunding platforms had funded 1 500 projects (start-ups as well as artistic and social projects), raising around USD 55 million (MIF, 2015). Public policy faces the challenge of creating synergies with these new forms of financing and developing legislation to enable and regulate them.

Public policy has supported the development of the venture-capital industry in Chile since the late 1990s. CORFO has financed venture-capital funds in Chile since 1998, sometimes providing as much as three times the private sector's investment. In 2012, CORFO changed its lines of support for venture capital, differentiating between the capital it provides for investment funds operating in the early stages (on a 2:1 basis) and that which it provides for those in the expansion stage (on a 1:1 basis). In 2015, CORFO also introduced the Support for the Operation of Early-Stage Investment Funds programme, aimed at fund managers considering including activities related to business acceleration, such as collaborative workspaces. The programme provides up to CLP 160 million (around USD 221 000), with a fixed component equal to 75% of the project cost (up to a maximum of CLP 80 million) and a variable component for the second year of operation based on activities during the first year. CORFO also has other support programmes for the venture-capital industry. In 2012, it launched the CORFO Venture Capital for Innovative Firms programme to provide long-term loans to the managers of investment funds that invest in firms with high growth potential. The credit line is equal to 200% of the fund's investments. Since 2011, the Fénix Mining Exploration Fund has supported the mining industry by providing long-term loans to investment funds for investment in young exploration and mining firms. Also in 2011, CORFO launched its Venture Capital for Direct Investment in Investment Funds programme (K1) to encourage private investment in small and medium-sized enterprises that are less than seven years old and are registered as a corporation or joint-stock company.

Through its Investors Club formed in January 2016, Start-Up Chile aims to support the development of an ecosystem for early-stage investment (venture capital) and to support start-ups looking for capital. To date, the club has more than 70 members (angel investors, venture capital, family offices and private equity).

Despite these initiatives, the industry is still in its infancy in Chile, where there are still structural and cultural barriers holding back private investment in start-ups (OECD, 2013; Echecopar et al., 2015). As of 2014, CORFO was providing 74% of total investment. Data published by the Chilean Association of Investment Fund Administrators (ACAFI) shows that the venture-capital industry in Chile mobilises much smaller amounts of investment than in more advanced economies. In 2015, investments totalled USD 396.1 million, with the 33 funds averaging USD 12 million each. All the funds receive public support through CORFO. In 2014, Chilean investment funds invested around USD 60 million in 28 new enterprises, up 27% on the figure for 2013, and about five times more than they invested in 2004 (Figure 3.8). The venture-capital fund with the largest investment was Austral Capital (USD 32.8 million), followed by Negocios Regionales (USD 32 million) and Chiletech (USD 30.9 million) (ACAFI, 2015a). In terms of funds raised, between 2011 and 2015 Chile was ranked third in Latin America with USD 119 million, behind Brazil (USD 1.33 billion) and Mexico (USD 356 million) (LAVCA, 2016).

Figure 3.8. Venture capital in Chile, 2014



Note: Current USD for each year. 84% of the specified amounts invested is considered venture capital. The data include investments from four private-investment funds that are not considered venture capital (ACAFI, 2015b). Source: Authors' work based on CORFO (2015b), *Informe Público de Capital de Riesgo. Resultados Acumulados al 31 de Diciembre de 2014*, and on ACAFI (2015b) *Anuario de Fondos de Inversión*, December 2014.

Angel investors remain a weak link in the financing chain for start-ups in Chile, and have lost ground since 2012. Of the seven networks that once existed, five no longer operate, and in 2013 CORFO suspended applications for the Support for Angel Capitalist Networks financing line. Nevertheless, some angel-investor networks remain active, including Fundación Chile's angel-investor network Chile Global Angels, which runs the "¡Despega!" (Launch!) initiative. Through this competition, angel investors in the Chile Global Angels network provide financing and mentoring services to the winning project. In 2015 the competition attracted more than 140 applications and was won by chemical firm Dentoxol, which produces an innovative medical product. Dentoxol received USD 22 000 from angel investors.

### **Chile is modernising its services for start-ups and is looking to tap into the sharing economy**

As it seeks to support start-ups, Chile is modernising and improving its support services for entrepreneurs. It is reforming the system for incubators and accelerators, as well as experimenting with new mechanisms that are more flexible and dynamic and that require less paperwork in order to better respond to the needs of entrepreneurs. In 2015, for instance, Chile launched the Support for Operating Collaborative Workspaces for Entrepreneurship programme, which funds some of the operating expenses of collaborative workspaces up and down the country. Chile also began to co-fund mentoring networks in 2014 through non-repayable capital contributions covering 75% of the cost of building mentoring networks in the country. This programme is linked to the Seed Capital contest, in which applicants can opt for an additional non-repayable CLP 500 000 capital injection if they request the support of a mentor through one of the networks. Thanks to this initiative, as of November 2015 there were 500 mentoring networks in Chile spread across seven networks. By 2016, CORFO hopes to have 1 000 mentors so that no seed enterprise is without a mentor.

In 2014, the focus shifted away from the global impact – which had been the main criterion during the first phase of support for start-ups in 2010 – and towards the market impact of start-ups, irrespective of whether their impact is national, regional or global. This change overcomes the weakness of prioritising the acceleration phase over the creation phase (OECD, 2013). CORFO supports university tech spin-offs through the Go to Market programme. During the first phase, this programme provides financing for innovation workshops and covers the cost of presenting projects. During the second phase, it finances a one-month stay in the country or market chosen for the sale of the product, as well as the development of a practical programme in that country or market.

In recent years, Chilean universities have increasingly been supporting start-ups, with some university incubators receiving international recognition. Two appear in the University Business Incubator ranking, an annual list of the top 25 university incubators in the world produced by UBI Global, a consultancy that specialises in analysing university business incubators. The International Business Innovation Institute (3IE) at Universidad Técnica Federico Santa María is ranked 17th and Chrysalis at Pontificia Universidad Católica de Valparaíso is ranked 24th. At Pontificia Universidad Católica de Chile (UC), the science and technology research agency DICTUC focuses on the development of technological spin-offs. DICTUC created SIRVE, an anti-seismic technology firm, in 2003; it also created Eduinova, a company dedicated to research and development on educational innovation and technology, in 1995. Universidad de Santiago de Chile has the INNOVO centre, an incubator specialising in tech firms that has given rise to several successful spin-offs, including VoZE, a firm that began operating in 2013 and designed Chile's first prototype electric vehicle, the first series of which will be launched in 2016.

### **Chile is supporting regional and social inclusion through new conditionalities in its policy mix**

Promoting equal opportunity is becoming a priority also in policies to support start-ups. This new focus comes from two main considerations. First, given the desire to strengthen the connection between actions to support start-ups and national production-development strategy, priorities have converged. Second, the policy to support start-ups in Chile, as outlined in the 2014-18 Chile Entrepreneurship Policy, is the result of a cumulative process of learning how to design and manage policies. Start-Up Chile's first assessments revealed the limits of a pro-startup policy that fails to take the regions into account (information published by CORFO in 2016). Start-ups in regions outside



Santiago's metropolitan area are faced with a wider gap in terms of access to funding and services. Furthermore, because there was not a regions-based approach, there was a disconnection between production development priorities in strategic industries (often located outside Santiago's metropolitan area) and pro-startup measures, which, at the user level, focus mainly on the capital.

In response to the need for greater inclusiveness, Chile introduced new incentives. The main reforms recently introduced involved the launch of four new programmes:

1. Regional Pro-Entrepreneurship Programmes (PRAEs). Introduced in 2014, the PRAEs co-finance start-ups with high growth potential, specifically, those with the potential to record growth above 20% during the first three years. CORFO provides non-repayable contributions covering up to 75% of the total cost of the project up to a maximum of CLP 25 million (USD 34 000). Applications are submitted via one of CORFO's approved sponsors.
2. The SSAF-Social programme. Introduced in 2014, SSAF-Social provides resources to new entrepreneurs through certified incubators with a proven experience in supporting social-innovation enterprises.
3. The S Factory (TSF) programme for gender inclusion. Created in 2015 as part of Start-Up Chile, TSF is a pre-accelerator for high-impact start-ups run by women. The programme provides entrepreneurial training, workspaces and mentoring services, as well as 90% co-financing for up to CLP 10 million (around USD 15 000) for each project.
4. The Environment Support Programme for Entrepreneurship and PAEI-Regional Innovation. Introduced in 2015, this programme aims to create a more business-oriented culture and raise business skills in the regions. It co-finances programmes that have a substantial regional impact and that promote entrepreneurship and innovation. CORFO subsidises up to 70% of the project costs, up to a maximum of CLP 50 million.

Start-Up Chile is also introducing reforms to improve regional inclusion. It has opened regional offices in Valparaíso and Concepción, and in 2015 it began to offer the Go-Regional incentive, which consists of a CLP 5 million (USD 6 800) non-repayable contribution – in addition to the CLP 20 million (USD 27 500) under the Start-Up Chile Seed programme – for start-ups to set up base in the regions (Go-Regional incentive). As of 2016, after two editions of Start-Up with this additional incentive, 23 start-ups have benefited from the Go-Regional incentive by moving into the regions: 15 in Valparaíso, 8 in Concepción.

The Support for Operating Collaborative Workspaces for Entrepreneurship programme also has a regional focus. Created in 2005, the programme supports the opening of collaborative workspaces – co-working spaces, laboratories and accelerators – in regions with few incubators or accelerators. It covers 75% of the project costs in the form of a non-repayable capital contribution, up to a maximum of CLP 200 million (USD 145 000). The first stage of the programme focused on turning the cities of Antofagasta, Valparaíso and Concepción into new innovation hubs. By the end of 2015, Chile had 30 collaborative workspaces for entrepreneurship in the regions. One example is the CoWork Espacio Atacama centre in Antofagasta, which was formed by a partnership between CORFO; Chrysalis; the Pontificia Universidad Católica's business incubator in Valparaíso in partnership with Fundación Mi Norte; Universidad Católica del Norte; and Corporación Incuba2. The centre has air-conditioned rooms for meetings and spaces for training, and it provides mentoring, training, legal and accounting services.



Policies to support the opening of regional start-up centres are beginning to bear fruit. It is still too early to assess their impact, since the instruments to support start-ups in the regions began operating only as recently as 2014, but there are signs that they have had positive results. According to CORFO estimates in 2015, the concentration of businesses located in Santiago (rather than in the regions) has fallen from 75% to around 50%. Temuco, for instance, is positioning itself as a dynamic cluster of tech enterprises. Start-Up Chile has 39 start-ups in the regions: 22 in Valparaíso, 15 in Concepción, 1 in Maule and 1 in the Los Lagos Region. Of these, 24 have benefited from the Go-Regional incentive introduced in 2015.

### Chile is seeking to open up markets for start-ups

Start-Up Chile facilitates market access for start-ups by connecting large firms with its portfolio of start-ups through the Business Network programme (Red de Empresas). More than 70 organisations in Chile and abroad participate in the programme, which was launched in 2016. The Business Network establishes linkages between large firms and start-ups so that the start-ups can offer solutions to problems identified by large firms, thus benefiting both parties. Universidad Técnica Federico Santa María's International Business Innovation Institute (3IE) runs a programme to accelerate technology start-ups called Booster UP, which receives support from CORFO. The programme selects start-ups that propose innovative solutions to challenges put forward by the industry in the intelligent-expertise priority areas identified in the national production-diversification strategy (e.g. logistics, smart mining, and the winemaking industry). In the fourth edition of Booster UP, held in 2015, the winning start-ups put forward solutions in smart industries in various sectors: food and wine, mining, logistics and inventory, seismic technology and energy efficiency.

### Chile is making it easier to start a business and is facilitating re-entrepreneurship

Chile has been reforming its regulatory framework for starting and winding up businesses. In 2014, the country introduced three reforms to deal with some of the weaknesses identified in the OECD study (2013):

1. Law 20 659/2014 (*Ley de Empresas en un Día*, or Express Companies Act) simplified procedures for incorporating, amending or dissolving commercial companies.
2. Law 20 720/2014 (*Ley de Re-emprendimiento*, or Re-entrepreneurship Act) facilitated swifter negotiations between creditors and debtors for unsuccessful enterprises and made it easier to start a new business thanks to the rapid discharge of the debtor.
3. Law 20 712/2014 (*Ley Única de Fondos*, or Single Funds Act) sought to make investment in the country's investment funds bigger and more diverse, introducing tax incentives for foreign investment in Chilean investment funds, creating a single tax, and simplifying tax payment procedures.

While it is too early to assess the impact of the reforms, these simplifications, alongside existing incentives such as Law 20 570/2012 (*Ley de Incentivos para la Innovación*, or Innovation Incentives Act), are expected to create a more business- and investment-friendly legal framework.

## Conclusions and challenges for the future

Chile has a long tradition of promoting innovative entrepreneurship, having gradually learned how to design and co-ordinate better public policies. Since the country first introduced measures to promote innovative entrepreneurship in the late 1990s, it has

learned the importance of having appropriate instruments to accompany businesses throughout the various stages of their development, from the transformation of an idea into a concrete project and the translation of that project into a business plan, to the eventual launch of the company. The need for the financing chain became apparent when Chile first tried to foster start-up development by supporting venture capital despite the lack of seed capital and the huge barriers that hindered the creation of new enterprises. Subsequent attempts to complete the financing chain have allowed Chile to develop a set of comprehensive measures to support entrepreneurship from the seed to the expansion stage. These attempts have also highlighted the importance of piloting new policies and monitoring their implementation to assess their impact in a timely manner.

Chile has shown its capacity to innovate and anticipate trends in the region. In the late 1990s it began to promote venture capital, and in 2010 it introduced the widely publicised Start-Up Chile programme, which helped transform the start-up scene, showing that start-ups also exist in Latin America. More recently, the country has focused on next-generation support instruments like crowdfunding, the sharing economy and mentoring networks. Chile has also shown that it can monitor programmes, assess outcomes, and react quickly to reform incentives. For example, based on its assessments of businesses supported under Start-Up Chile's first call for applications, Chile has included incentives to promote start-ups at the regional level.

As outlined in this chapter, Start-Up Chile is not the only instrument for start-up promotion in the country, but the programme and its communication strategy have been particularly significant, leading to greater optimism and an overhaul of public policies to pave the way for new types of businesses. Start-Up Chile has inspired many other countries, which have introduced programmes with similar strategies and objectives. Traditional production-development policies need a fresh approach if support for start-ups is to be successful. Start-ups are much more dynamic, fast-paced and changing, so policies must be agile and keep pace with market developments. For this reason, one of the under-acknowledged impacts of pro-startup policies is that they can contribute to the creation of dynamic, collaborative management practices in public institutions, and that this new mindset, geared towards short- and medium-term results, can have knock-on effects on other departments.

With traditional sources of growth based on natural resources being exhausted, Chile faces the challenge – today, more than ever – of diversifying its economy by transforming its productive structure and creating business-development opportunities centred around innovation, science and technology. Such opportunities are essential to transform growth and make it more inclusive and sustainable to respond to its citizens' expectations, especially those of young people. Support for start-ups is therefore an important component that Chile needs to build upon and appropriately structure in order to maximise results and impacts. Chile's main start-up policy challenges include:

- Creating an environment that is more attractive to productive investment and business development and, more importantly, mobilising private resources in addition to public investment, especially in the form of venture capital and investment funds.
- Consolidating and simplifying the policy mix to promote start-ups. Although trials are necessary to identify good practices, it is also important to simplify the system of incentives to make the policy more entrepreneur-oriented and easier to communicate so that it can be implemented more smoothly.
- Creating synergies between the national smart-specialisation strategy and the business ecosystem's potential across the country.

- Increasing the survival rate of start-ups and finding mechanisms to channel benefits towards Chile, even when companies need to operate in other countries because of the nature of their business.
- Structuring the monitoring and assessment processes to improve the quality of information used for decision-making, and introducing monitoring for start-ups that do not receive public support so that they can be used as control groups when assessing results.

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