

Chapter 6

Promoting start-ups in Chile

This chapter presents an overview of public policies recently introduced in Chile to promote start-ups. The chapter highlights the growing role of innovation policies in the country and the increase in the innovation budget. Like Brazil, Chile began to promote start-ups before other countries in the region. Chile has accumulated institutional knowledge in developing programmes to support start-ups. Its experience shows how important it is to have a chain of instruments targeted to the different stages of business development, from seed to expansion. Lately Chile has placed a growing emphasis on start-ups, reforming its existing support systems to match the country's new vision focused on expanding the country's role in the global economy.

Increasing importance of innovation policy

Since the mid-2000s, innovation has been a priority on Chile's development agenda. The country increased its innovation budget and diversified its range of innovation policy instruments (IDB, 2010; OECD, 2012). The innovation budget has increased from about USD 300 million (CLP 140.57 billion [Chilean peso]) in 2005 to about USD 1 billion (CLP 504.83 billion) in 2013. Support for innovation in Chile includes grants for training human resources and direct and indirect support for firms, such as non-repayable grants and tax incentives for research and development (R&D). The institutions in charge of innovation policy are the Ministry of Economy, which sets strategic lines; the Chilean Production Development Corporation (CORFO), which is responsible for designing and implementing programmes to promote production development and innovation; and the National Research, Science and Technology Commission (CONICYT), which manages grants to boost human resources for innovation and scientific and technology research programmes.

During the last decade, Chile has strengthened its institutional framework for innovation. In 2006, Chile created the National Innovation Council for Competitiveness (CNIC). The CNIC is responsible for formulating the country's long-term innovation strategy. In parallel, Chile also created the Committee of Ministers for Innovation, chaired by the Minister of Economy. The committee is responsible for formulating innovation policy, co-ordinating its implementation among government ministries and monitoring its progress. At the same time, the government introduced a mining tax to fund innovation activities. For 2012, the Innovation Fund for Competitiveness (FIC) had a budget of USD 264 million (about 0.1% of gross domestic product [GDP]).

Support for start-ups is an integral part of Chile's innovation and productive development strategy. Since the 2000s, the country has created various new instruments and has accumulated learning in designing and implementing innovation policies. Venture capital was developed in Chile mainly as a result of a strategic decision by CORFO, which has helped create private venture-capital funds since 1998, matching private funds up to three times. Since 2004, CORFO has also provided seed capital and support to start-ups through business incubators.

In 2010, based on its previous experience Chile reviewed the orientation of its support to start-ups. It has: *i*) broadened the programme's scope, raising the budget and the number of beneficiaries; *ii*) simplified the definition of "start-ups" so that innovative elements can be more easily identified and assessed in proposals; *iii*) simplified procedures and the bureaucratic requirements

to improve the public sector's capacity to respond to the demands of new entrepreneurs; *iv*) invested in a culture of entrepreneurship within the country; and *v*) placed emphasis on creating a critical mass of new entrepreneurs in Chile also by attracting foreigners wishing to set up new businesses in Chile. To increase the co-ordination between the different programmes, in early 2012 CORFO set up a new department responsible for programme co-ordination.

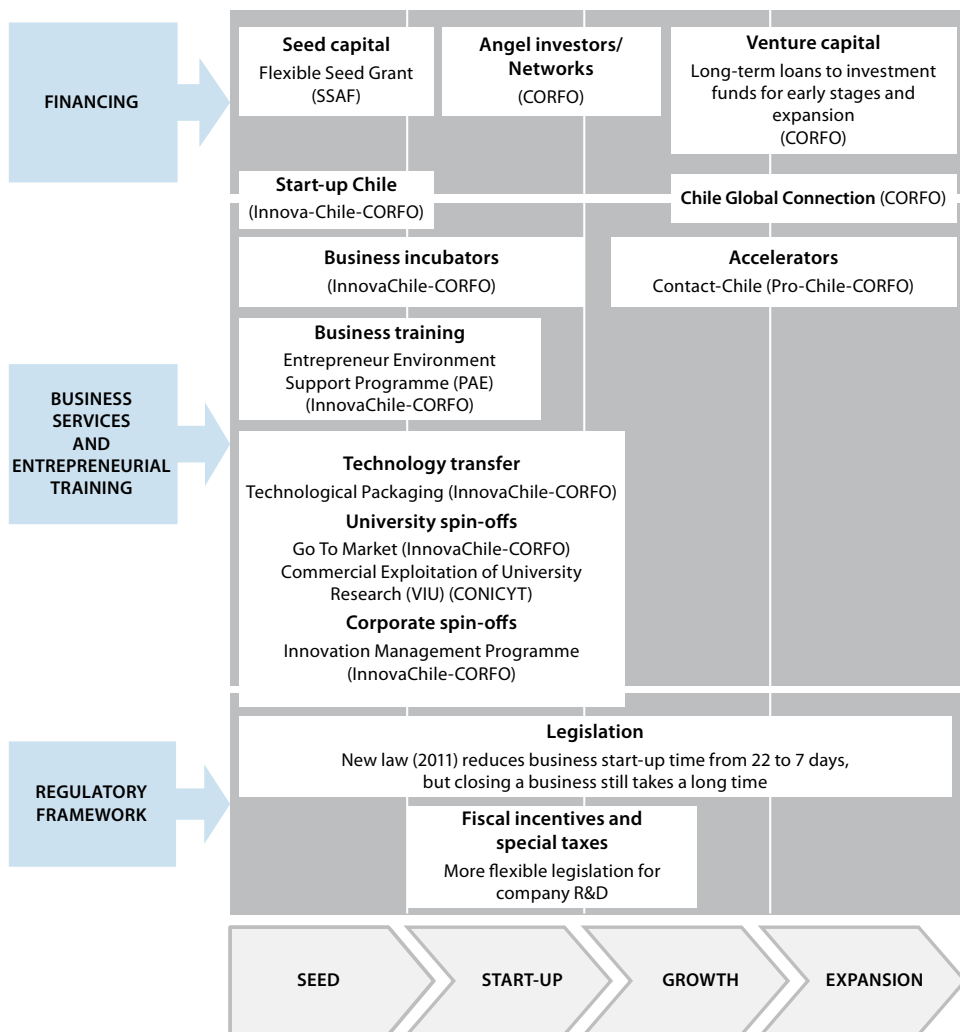
Growing support to start-ups

The institutional structure to support innovative start-ups has evolved since the 2000s. Previously, the most active institution in supporting start-ups was the *Fundación Chile*; now, the foundation is part of a more complex institutional ecosystem that also includes CORFO, which provides seed capital and support to angel-investor and venture-capital networks, and support initiatives for entrepreneurial training. At the same time, the regulatory framework has been improved by reducing the number of days needed to start a business (see Figure 6.1).

Chile has a fairly wide range of financial instruments to support start-ups. CORFO provides seed money for the creation of new firms, and its budget in this area has risen steadily in recent years (see Figure 6.2). One instrument recently introduced was the *Subsidio Semilla de Asignación Flexible* (SAAF). In this flexible seed-grant scheme, CORFO (through its InnoVaChile programme) allocates resources to new entrepreneurs through certified intermediary incubators. These support the entrepreneur, providing advisory services and offering additional financing directly or by channelling resources from angel investors. The second-tier operation seeks to make the process smoother, increase the ability to select potentially successful projects and provide incentives to make incubators more effective.

In 2010 Chile introduced the Start-Up Chile programme to provide seed capital of USD 40 000 for new entrepreneurs and access to basic infrastructure for initial operations. Foreign entrepreneurs can also obtain a work visa more quickly. The programme aims to increase the critical mass of new entrepreneurs in Chile and attract talent from abroad. Since its launch, Start-Up Chile has received more than 5 600 applications and helped the creation of around 500 start-ups. The programme also provides training activities and networking with investors and local entrepreneurs. Entrepreneurs supported by Start-Up Chile have raised additional capital of around USD 13.4 million. The programme hopes to attract 1 000 start-ups to Chile by 2014.

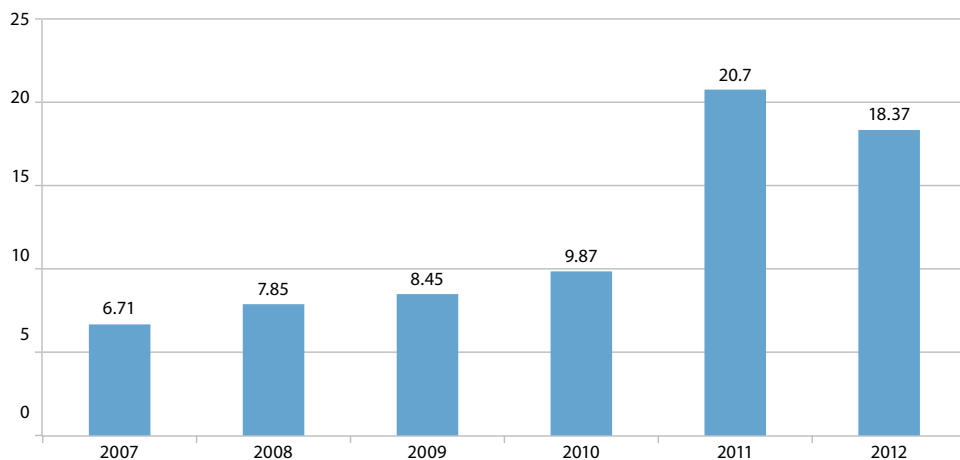
Figure 6.1. Chile: Targeted policy tools to promote start-ups, 2012



Note: The diagram is based on the available information about programmes in place in November 2012.

Source: Based on official information from Chile and interviews conducted in Chile with experts and policy makers.

Figure 6.2. Resources allocated to seed capital in Chile, CORFO, 2007-12
(Millions of USD)



Note: Total seed capital comprises all programmes active each year, as well as Start Up Chile since 2010.

Source: Based on CORFO data, updated in October 2012.

CORFO has played a key role in supporting start-ups' growth and expansion, financing venture capital and the development of angel-investor networks. Since 1998, CORFO has financed venture-capital funds, 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 quasi-equity it provides for investment funds operating in early stages and that which it provides for those in the expansion stage. Chile's venture-capital industry mobilises less money than that of more advanced countries, but establishing venture-capital funds has enabled stakeholders in Chile's national productive system to discover this industry, its fund managers and its business sector (see Box 6.1). Chile's venture-capital industry is worth around USD 850 million, just under half of which is venture capital and just over half of which is private equity. The industry has 37 investment funds and 24 fund managers (ACAFI, 2011), with 29 of the funds having received public finance through CORFO's venture-capital programmes. The leverage ratio of these long-term loans can be up to 2:1 during the early stages of development, and may increase to up to 3:1. CORFO has injected USD 295 million into private-investment funds, which have invested about USD 390 million in 135 companies. Micro and small firms have received 58% of that investment, with medium-sized firms and large firms receiving the rest (CORFO, 2012).¹

Box 6.1. Support for the venture-capital industry in Chile: CORFO and Austral Capital

Since the early 2000s CORFO has contributed to the creation of Chile's venture-capital industry as part of its industrial and innovation policy. In 2007, CORFO provided a loan with a leverage ratio of 3:1 to create Austral Capital Partners. Austral Capital invests in export-oriented entrepreneurs with high growth potential. Although the fund does not focus on a specific sector, it tends to privilege innovative projects in knowledge-intensive areas. It also manages other specialist funds, such as the renewable-energies fund. Austral Capital Partners has five employees, two of whom are devoted to identifying investment opportunities. In addition to financial resources it also provides contact networks and experience in project management. Unlike other venture-capital funds, Austral Capital does not wait for entrepreneurs to apply for financing, but actively seeks out entrepreneurs for investment opportunities.

In 2008, Austral Capital Partners opened a small office in California with the support of CORFO to help attract co-investment and help the firms that it finances penetrate foreign markets. This has helped attract major venture-capital investors like Sequoia, Madrona, Motorola Ventures and Xseed. So far Austral Capital has invested in 12 companies: 9 in ICTs and services and 3 in biotechnology. Investments range from USD 400 000 to USD 5 million per project, averaging USD 3.2 million. Austral Capital is also working to develop an entrepreneurial culture in Chile, supporting initiatives such as Geek Fantasy Camp. Austral Capital organises this annual event in conjunction with the Pontifical Catholic University of Chile, bringing together students and people from business to encourage innovative entrepreneurship by sharing experiences and fine-tuning projects.

Austral's experience confirms the importance of having qualified investment managers and the need to interact intensively with companies. It also shows how vital it is to identify when projects need greater investment and when investment is not viable and should be stopped.

Source: Based on interviews conducted in Chile with experts and policy makers and on Miranda (2012).

Since 2006 CORFO has supported the establishment of angel-investor networks, co-financing up to 70% of the setting up and operation of these networks through non-repayable grants. CORFO's support for angel investors is for a maximum of USD 160 000 for the first year and USD 200 000 per year for the next six years. As of 2012, five angel-investor networks have been created and have invested around USD 15 million in 40 firms (see Box 6.2).

Box 6.2. Angel investors in Chile

Southern Angels has operated in Chile since 2006, making it the oldest angel-investor network in the country. Its 30 investors invested USD 6.5 million in 20 firms as of 2012.

Chile Global Angels is part of the *Fundación Chile* platform to support start-ups. It has 27 investors who since 2009 have invested between USD 100 000 and USD 800 000 in 12 firms, mainly in the areas of information and communications technologies (ICTs), biotechnology, computer games, energy and medical services. Chile Global Angels recently partnered with regional actors, such as Peru Capital Network (PCN), to arrange its first co-investment in a new innovative company.

The ProyectaChile network was launched in 2011 and consists of ten investors; as of November 2012 its total investment was USD 0.5 million.

In Chile, there are also university angel-investor networks. *Ángeles de Chile*, for instance, is linked to the Entrepreneurship Centre of the University of Chile's Faculty of Economics and Business. The network has around 30 investors, who have invested around USD 0.9 million in five firms. The Catholic University also has an angel network investing in two firms. Despite these first steps, Chile's angel-investor industry is still in the early stages of development. The country's current networks are well behind more advanced countries in terms of volume of operations and resources.

Source: Based on interviews conducted in Chile with experts and policy makers.

Chile also offers support to entrepreneurial skills development. CORFO's Entrepreneur Environment Support Programme (*Programa de Apoyo al Entorno Emprendedor*, PAE) co-finances training (up to 70% of the total budget for a maximum of USD 140 000). These programmes have received growing support in recent years, receiving more than USD 8 million in 2012. CORFO also supports technology transfer by financing technological packaging through the Innovation Management Programme (*Programa Gestión de la Innovación*), which supports innovative domestic companies and entrepreneurs. This programme aims to promote innovation-management and offers capacity-building and business consultancy services. CONICYT's VIU programme (*Valorización de la Investigación en la Universidad*) to promote the commercial exploitation of university research focuses on pre-doctoral and post-doctoral students preparing their thesis who wish to turn their ideas into a private or social enterprise, under the supervision of the lecturers and/or with the support of their university. The programme offers grants of up to CLP 2 million (around USD 5 000) during the initial phase so that the chosen researchers and their academic supervisors can develop their business plan. In the next phase, the

projects whose business plans have the greatest development potential, receive an additional grant of up to CLP 24 million (around USD 50 000) to create and start up their business.

Chile is showing a growing interest in helping its start-ups expand internationally. It has thus recently focused more on fostering business accelerators than on business incubators. ContactChile, for instance, operates as an accelerator aimed at helping start-ups expand internationally by providing them with finance, access to networks and technical support. The Global Connection programme introduced in 2012 supports Chilean entrepreneurs in their international expansions, helping them take part in the very best foreign business accelerators. The programme covers up to 90% of the total project cost up to a maximum of USD 40 000 and is aimed at Chilean companies that are less than four years old. Similarly, CORFO's Go To Market programme supports entrepreneurs and researchers who work in technology-intensive sectors or who conduct R&D that has the potential to be commercially exploited in Chile and abroad. The programme enables beneficiaries to hire a foreign training provider while conducting their projects to enhance opportunities for technology transfer and the commercial exploitation of research.

Notwithstanding the progress, there are still many regulatory barriers to starting up and re-starting a new business, although the situation has improved since the late 2000s. The Law 20 494 of 2011 simplifies the procedures needed to open a business and reduces the number of days from 22 to 7. However, many of the representatives of the private sector still complain of overlapping regulations and of the excessive amount of complex bureaucracy to set up and run a company. The government is currently running a pilot project co-ordinated by the Ministry of Economy to simplify procedures and set up a one-stop shop for information dissemination to potential entrepreneurs.

Evaluations have contributed to improve policy design and impact

Since 2007, Chile has carried out different evaluations of the initiatives to support start-ups. The recommendations made following the evaluations of first- and second-tier CORFO seed capital lines have helped streamline and simplify this financing system. As per the recommendations, the two lines of seed capital were replaced by the single, flexible, two-stage Flexible Seed Grant (SSAF) system. As a result, an initial investment is made when the project is

approved, then a second investment is made once the project has been shown to be feasible. Stage-one investments are lower, so that resources are prioritised towards projects with the greatest potential impact. Also, operating costs not previously considered can be covered, such as proofs of concept, market validation and intellectual property management.

The system of incubators has also been modified based on the results of an evaluation carried out in 2006, six years after the system was introduced. A major weakness of the incubators was that there were no performance-based criteria for the allocation of resources. As in other countries, the incentives encouraged incubators to increase the number of projects they took care of, rather than to prioritising the selection of projects with high potential impact. Between 2009 and 2010 changes were made to redirect incentives by introducing performance-based evaluations. To make the incubators more effective, the SSAF was introduced and a shift was made towards a second-tier system in which CORFO (with its InnovaChile programme) allocates resources to potential entrepreneurs through registered incubators that are graded based on their performance. The incubators thus play a greater role, managing InnovaChile's resources, but at the same time they are expected to achieve results in terms of quality and performance. In addition to allocating InnovaChile's resources, incubators must also provide support and advisory services and allocate additional resources to start-ups or facilitate third-party investment, including angel investors.

CORFO's programmes for the venture-capital industry were evaluated in 2011. These assessments led to the creation of the Early Stages Fund and the Development and Growth Fund, thus distinguishing between operating mechanisms according to the phase of development. Measures are also being taken to simplify the methods for evaluating the proposals, with greater priority being given to projects with a global outreach. CORFO aims to expand its evaluation system so that it will systematically cover all programmes by 2013. To facilitate evaluation, recently beneficiaries of public incentives were required to provide information for up to three years after receipt of the last public investment.

Main challenges ahead

Chile has accumulated experience in innovation policies and in supporting start-ups since the mid-2000s. There is a general consensus among Chilean specialists and entrepreneurs that one of the main challenges for the country is to increase the quality and the quantity of proposals for start-ups. There remains a strong aversion to risk and a low propensity for entrepreneurship in Chile. Investing in promoting and spreading a culture of entrepreneurship and co-ordinating government efforts abroad to open up markets are essential to increase the number of entrepreneurs in Chile. Also, increasing the supply of skilled human resources, especially in technical, scientific and engineering fields, is vital to spawn dynamic enterprise in innovative sectors with a high potential. Consolidating R&D programmes in national priority sectors and creating professional and intra-regional innovation networks also seem essential to produce an ecosystem in which starting and developing new businesses is possible and profitable. As in other countries in the region, venture capital needs to broaden its scope and value to fund larger projects. Other essential tasks to make entrepreneurship a viable, attractive option in Chile include strengthening the industry of angel investors and venture capital.

Note

1. Small firms are defined as those with annual sales of less than CLF 25 000 (Unidad de Fomento) (around USD 1.1 million), and medium-sized and large firms as those with annual sales of between CLF 25 000 (USD 1.1 million) and CLF 150 000 (USD 6.8 million).

Annex 6.A1. Policy tools to promote start-ups in Chile

Table 6.A1.1. Chile: Targeted policy tools to promote start-ups, 2012

a. Financing

Instrument/ Programme	Type	Objectives	Beneficiary	Additional information	Maximum period
Seed capital (InnovaChile- CORFO)	Grant	Entrepreneurs wishing to create and implement a business idea	Operates through sponsors, which submit a joint application with the company	<ul style="list-style-type: none"> Grant of up to 75% 25% in monetary support Up to USD 77 000 	24 months
Flexible Allocation Seed Capital (InnovaChile- CORFO)	Grant	Innovative entrepreneurs with high-risk projects	Operates through business incubators (second-tier scheme) that receive funds to invest in high-risk innovative start-ups	<ul style="list-style-type: none"> Grant of up to 75% 25% in monetary support Up to USD 1.3 million per incubator 	9 years
Startup Chile Global Entrepreneurs Competition (InnovaChile- CORFO)	Grant	Attract investors from around the world to conduct business in Chile and thus generate externalities	Entrepreneurs from around the world who want to start a business in Chile	<ul style="list-style-type: none"> Up to USD 40 000 	1 year

Table 6.A1.1. Chile: Targeted policy tools to promote start-ups, 2012 (continued)

Instrument/ Programme	Type	Objectives	Beneficiary	Additional information	Maximum period
Venture Capital for Innovative Firms (CORFO)	Long-term loans to investment funds	Support start-up or expansion of businesses that have innovative projects with high growth potential	Operates through investment funds that invest in firms with assets not exceeding USD 4.3 million	<ul style="list-style-type: none"> The amount the fund invests in the firm depends on the project Capital investment to acquire shares 	
Direct Investment in Investment Funds (CORFO)	Direct contribution to investment funds	Develop the venture-capital industry Foster private investment in investment funds geared at firms with high growth potential in their expansion stage	Firms less than seven years old with annual sales of less than USD 171 million	<ul style="list-style-type: none"> The amount the fund invests in the firm depends on the project The fund acquires shares through capital investment 	10 years
Fénix Mining Exploration Fund (CORFO)	Long-term loans to investment funds	Develop the venture-capital industry in the mining sector to promote exploration and mining in Chile	"Junior" exploration and mining firms with annual sales of less than USD 8.6 million	<ul style="list-style-type: none"> Fénix fund: CORFO investment of USD 60 million and private investment of USD 30 million Each management organisation can receive USD 6.4 to 17.1 million for investment 	10 years
Angel Capitalist Networks (RCA) (InnovaChile-CORFO)	Grant	Organise, formalise and operate business angel networks to invest in emerging technology-based firms (R&D)	Individuals, businesses, foundations, or current beneficiaries of the network	<ul style="list-style-type: none"> Grant of up to 70% 25% in monetary support Up to USD 154 000 in the first year and USD 192 000 in subsequent years 	72 months

Table 6.A1.1. Chile: Targeted policy tools to promote start-ups, 2012 (continued)

b. Development of business skills

Instrument/ Programme	Type	Objectives	Beneficiary	Additional information	Maximum period
Business incubator (InnovaChile- CORFO)	Grant	Support business- incubator operations	New incubators or those previously funded by InnovaChile. Currently, the investment depends on the performance evaluation of each incubator	<ul style="list-style-type: none"> Grant of up to 65% 25% in monetary support Up to USD 422 000 a year 	6 years
Technological Packaging for New Businesses (InnovaChile- CORFO)	Grant	Packaging of high- tech firms with high growth potential	Operates through intermediaries (advisory body). Beneficiary firms must be no older than three years old	<ul style="list-style-type: none"> Grant of up to 80% 20% in monetary support Up to USD 38 000 in stage 1 and up to a total of USD 345 000 for two stages 	36 months, or 48 months in exceptional cases
Global Connection – International Acceleration of Technology Firms (InnovaChile- CORFO)	Grant	Support for international expansion	Firms that are less than four years old	<ul style="list-style-type: none"> Grant of up to 90% 10% in non-monetary support Up to USD 38 000 	9 months

Source: Based on official data and interviews with experts.

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