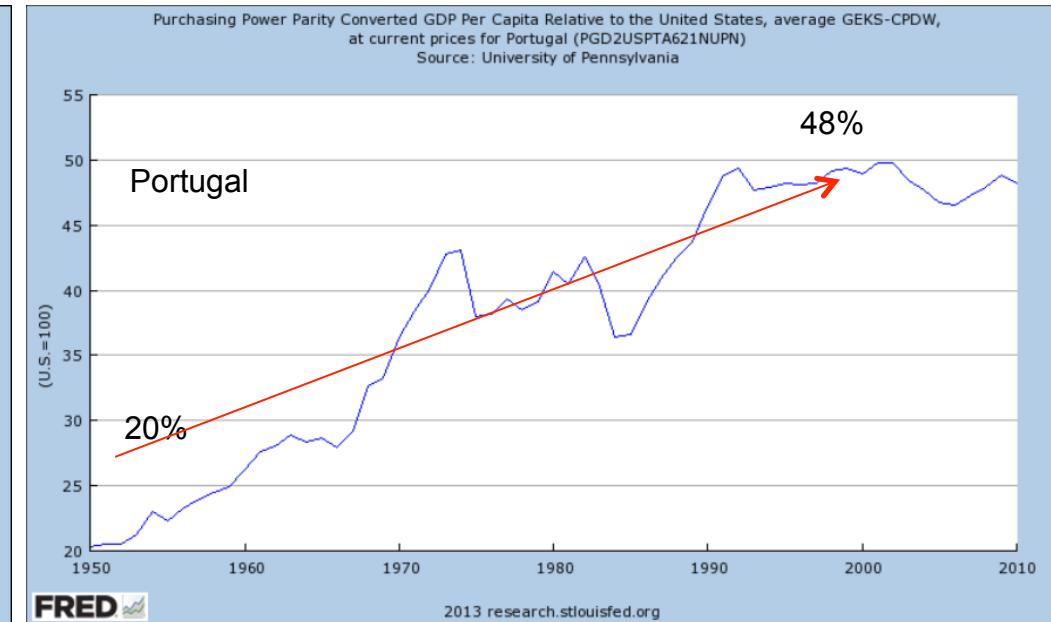
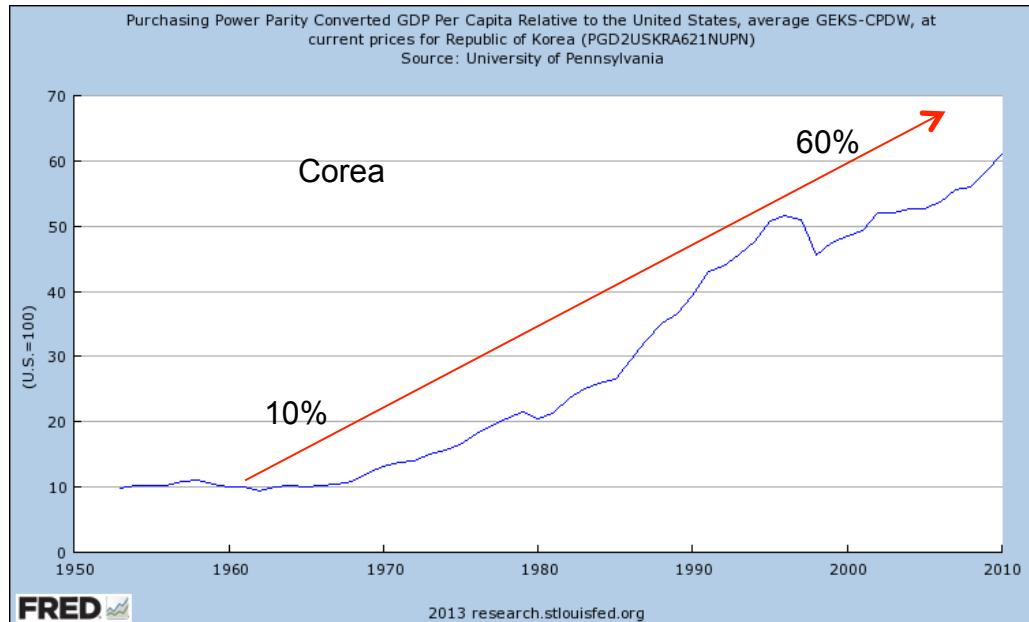




Adrian Magendzo W.

Entrepreneurship Policy

Countries that were able to develop and started even lower than us



Jamaica: US\$5.600 / US\$59.200 = 10%



Can we make the jump?

A bobcat is captured in mid-air, leaping from a rocky ledge. The cat's body is extended horizontally, with its front paws reaching forward and its back legs pushing off. It is positioned in the center-left of the frame. The background is a blurred landscape of green hills, blue sky, and white clouds, suggesting a natural, outdoor setting. The lighting is bright, highlighting the cat's golden-brown fur and the texture of the rocks.

The World Bank (2012) estimated that out of 101 countries with middle income economies in 1960, only 13 of them became high income countries (>40% of USA). Equatorial Guinea, Greece, Hong Kong SAR (China), Ireland, Israel, Japan, Mauritius, Portugal, Puerto Rico, Republic of Korea, Singapore, Spain, and Taiwan.

Productivity is key to growth

$$\frac{\Delta Y}{Y} \approx \alpha \frac{\Delta K}{K} + (1 - \alpha) \frac{\Delta L}{L} + \frac{\Delta A}{A}$$

Product Growth Capital Growth Labor Growth Total Factor Productivity

PTF

- Technology
- Efficiency
- Climate



Escape Velocity

1) Right and sufficient **Human Capital**.

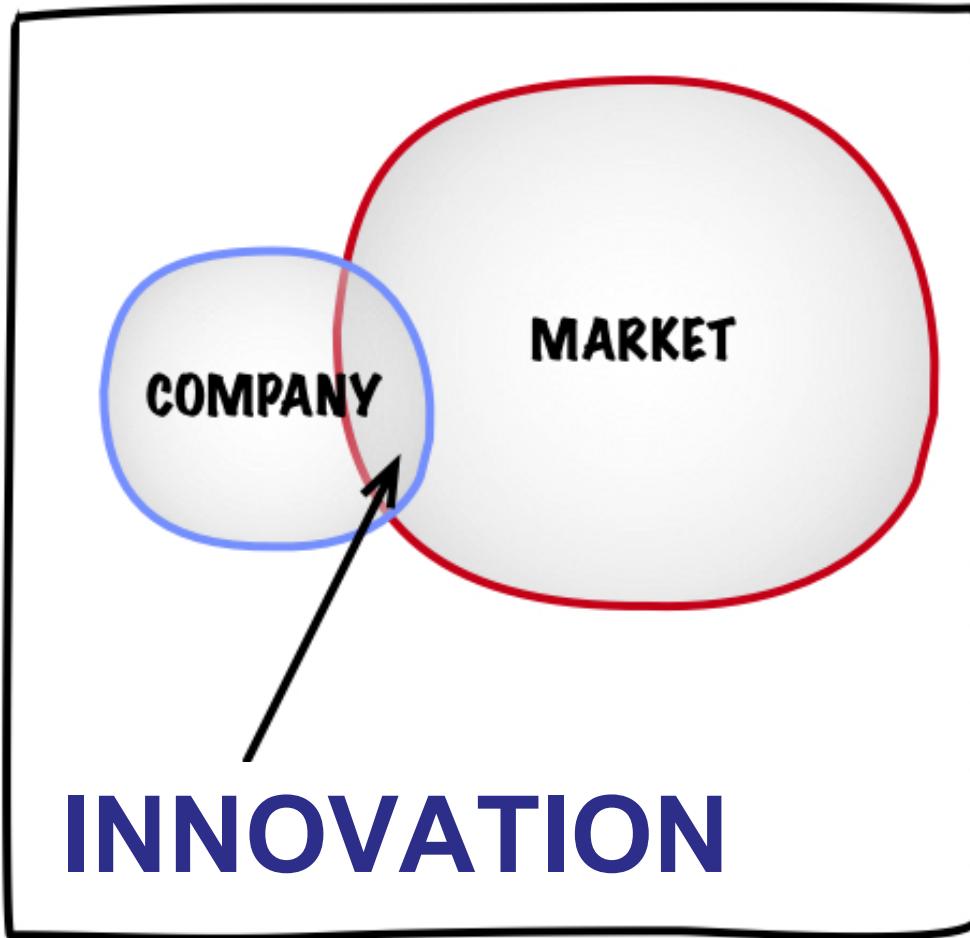
3) Infrastructure

5) Demography

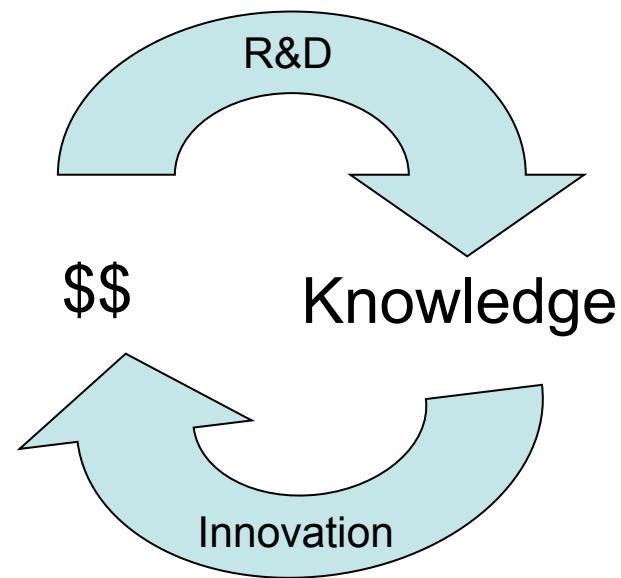
2) **Technological Innovation** and the ability to step up in the value chain. Countries that overcame the middle income trap did it through Innovation.

4) Right business environment

Where it happens



R&D is not Innovation

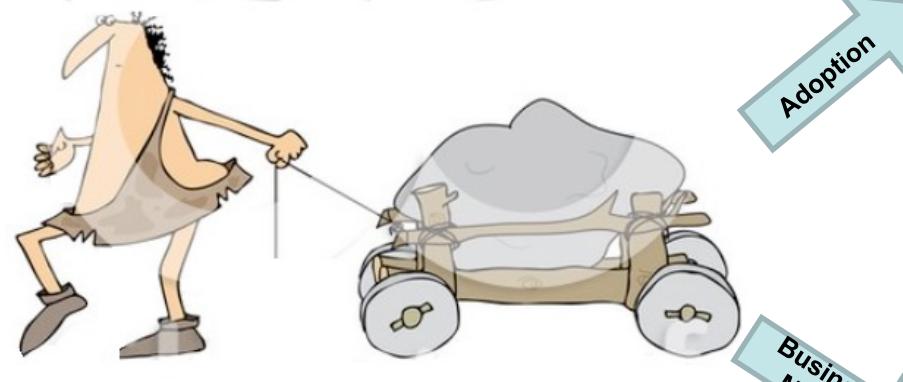


Innovation is value Creation



R&D

Transfer



Invention

Adoption



Corporate entrepreneurship



Start-Up
Innovation
Creates Value



Innovation in four categories according to the challenge.

- **Level the field:** Challenge to adopt best practices. Basic digital adoption, communication, accounting, etc. Low commercial impact. Extensionism.
- **Efficiency:** Challenge is to do be more efficient. Very important but short term advantage, Technological Absorption. Incumbents Win.
- **Sustaining**: Challenge is to retain or include higher demanding customers through products and services that are more convenient, simple or lower cost. Incumbents Win.
- **Disruptive:** Challenge is to market a new product or Service that targets a market segment not served by incumbents. Disrupts the market and may leave incumbents out of the game. Start-Ups Win.

Efficiency
Implications
ROA

Commercial
Implications
ROI



Garajes Famosos

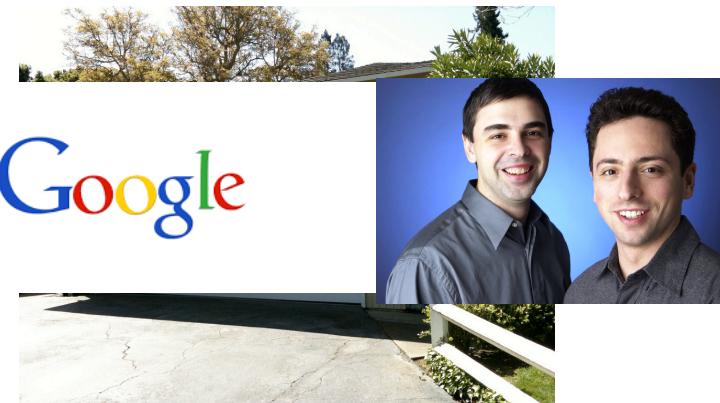
Jeff Bezos

1995



10704 NE 28th in Bellevue, Washington.

Larry Page and Sergey Brin 1998



232 Santa Margarita Ave in. Menlo Park, California.

Steve Jobs
Steve

1976



2066 Crist Dr. in Los Altos, California

Walt y Roy Disney

1923



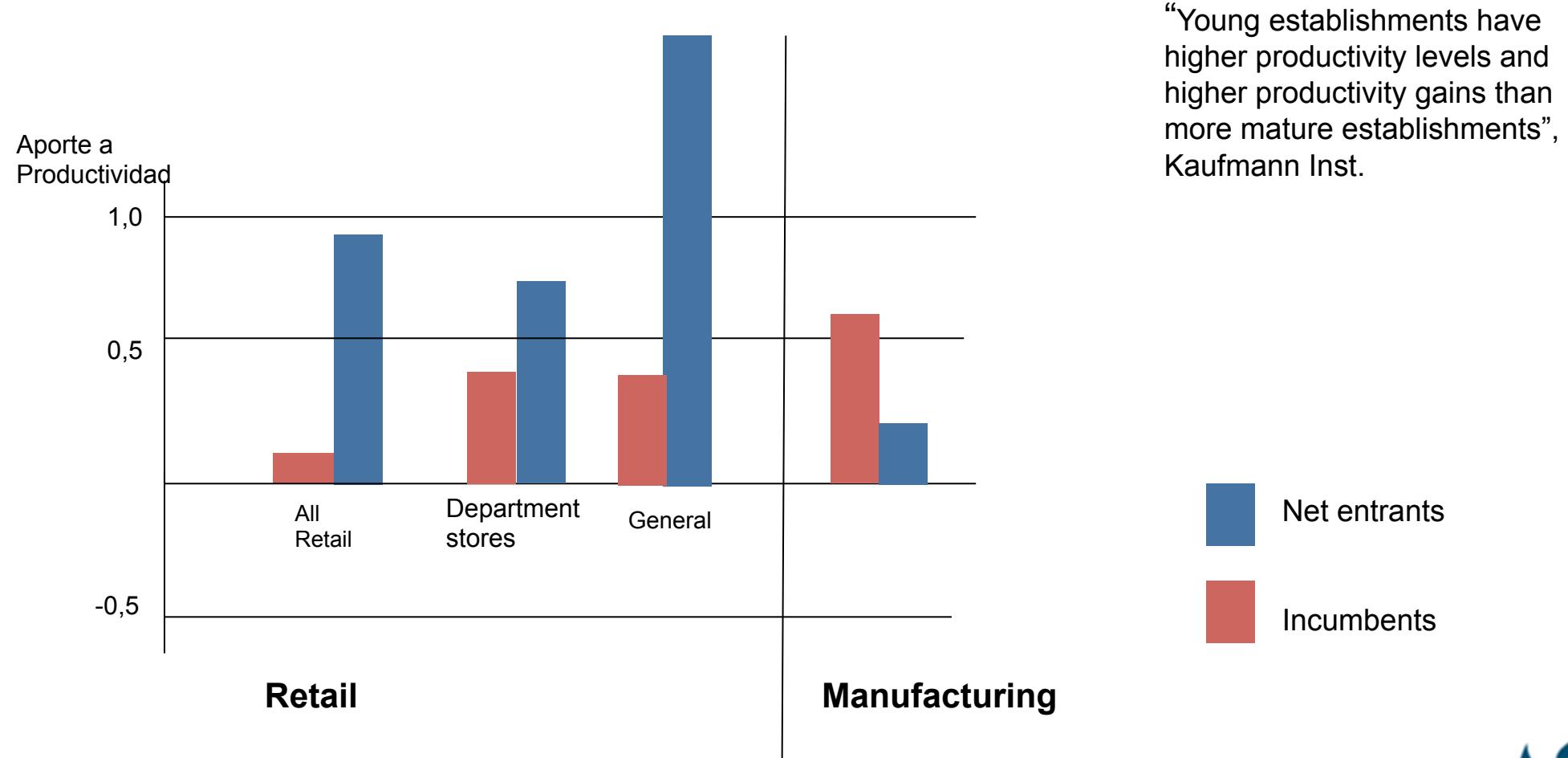
4651 Kingswell Ave. in Los Angeles, California





Why is it important to support entrepreneurs?

Why? Entrepreneurial “CHURNING” → productivity gains.

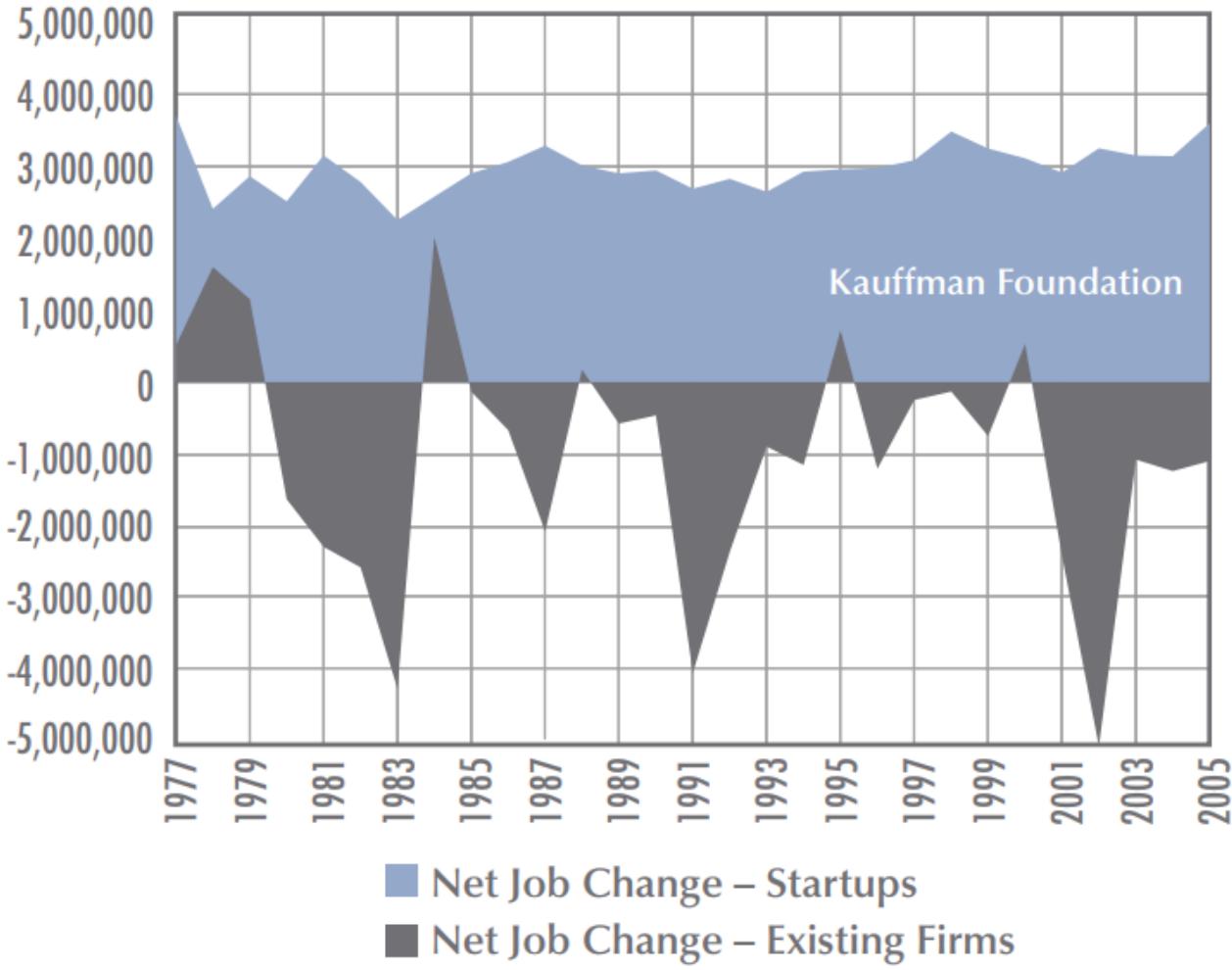


“Young establishments have higher productivity levels and higher productivity gains than more mature establishments”, Kaufmann Inst.

Net entrants
Incumbents



Start-Ups generate more new Jobs.



- 5% of new companies create 67% of new Jobs in the US.
- 1% of new companies create 40% of new Jobs in the US.

Source: Business Dynamics Statistics, Tim Kane

Q2

Kauffmann Foundation, 2008



Entrepreneurs who are they?



Some Definitions

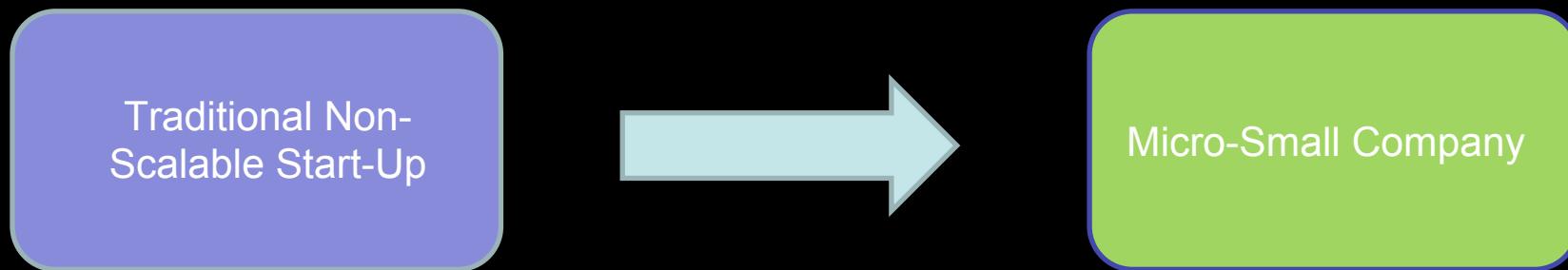
“Entrepreneurship is the pursuit of an opportunity without regard to resources currently controlled.”
Howard Stevenson, Harvard University.

“An entrepreneur is someone who creates a new company from scratch,” Brad Feld, TechStars.

“Someone who sees an opportunity to create value and is willing to take a risk to capitalize on that opportunity; some elements of this are opportunity spotting, risk taking, and value creation.” John Hagel III, Harvard Business review.



Typical Micro and Small Enterprise



- Product is known
- Customers are known
- Founders don't want to eat the world
- Team are the founders and few employees.
- Initial investment by owner and FFF
- Growth is financed by revenue flow and bank.

- Graduates when it has positive cash-flow.
- Gives a life to its owners

Don't require venture capital.

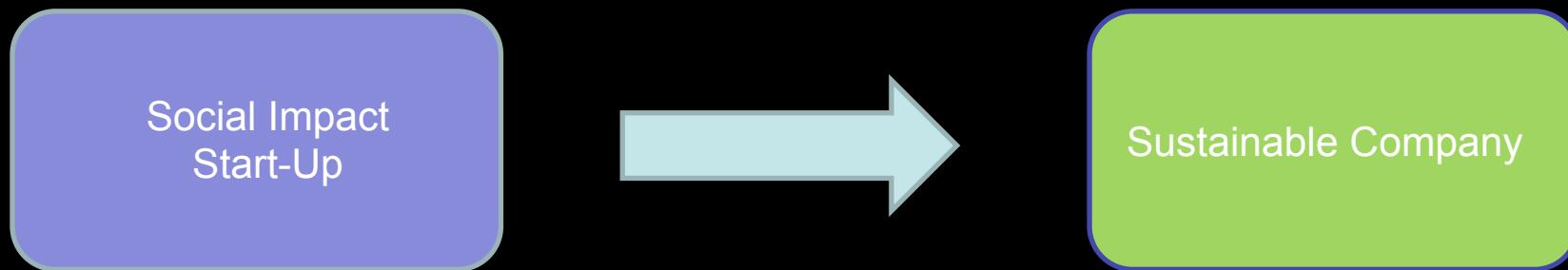
Intervention

- Small Seed Capital
- Technical Advice, marketing, finance and accounting, legal, etc.
- Co-Work space

Examples

- Cleaners
- Coffee Shops and restaurants
- Grocery stores and small supermarkets
- Individual consulting companies
- Graphic designers
- Small farmers

Social Entrepreneurship



- Double or triple bottom line
- Very difficult for sustainability
- Innovative business models are very important

Sustainable Company

- Graduates when it is sustainable.
- Social Impact and Profitability

Usually requires grants or corporate financing as social responsibility, Impact Funds

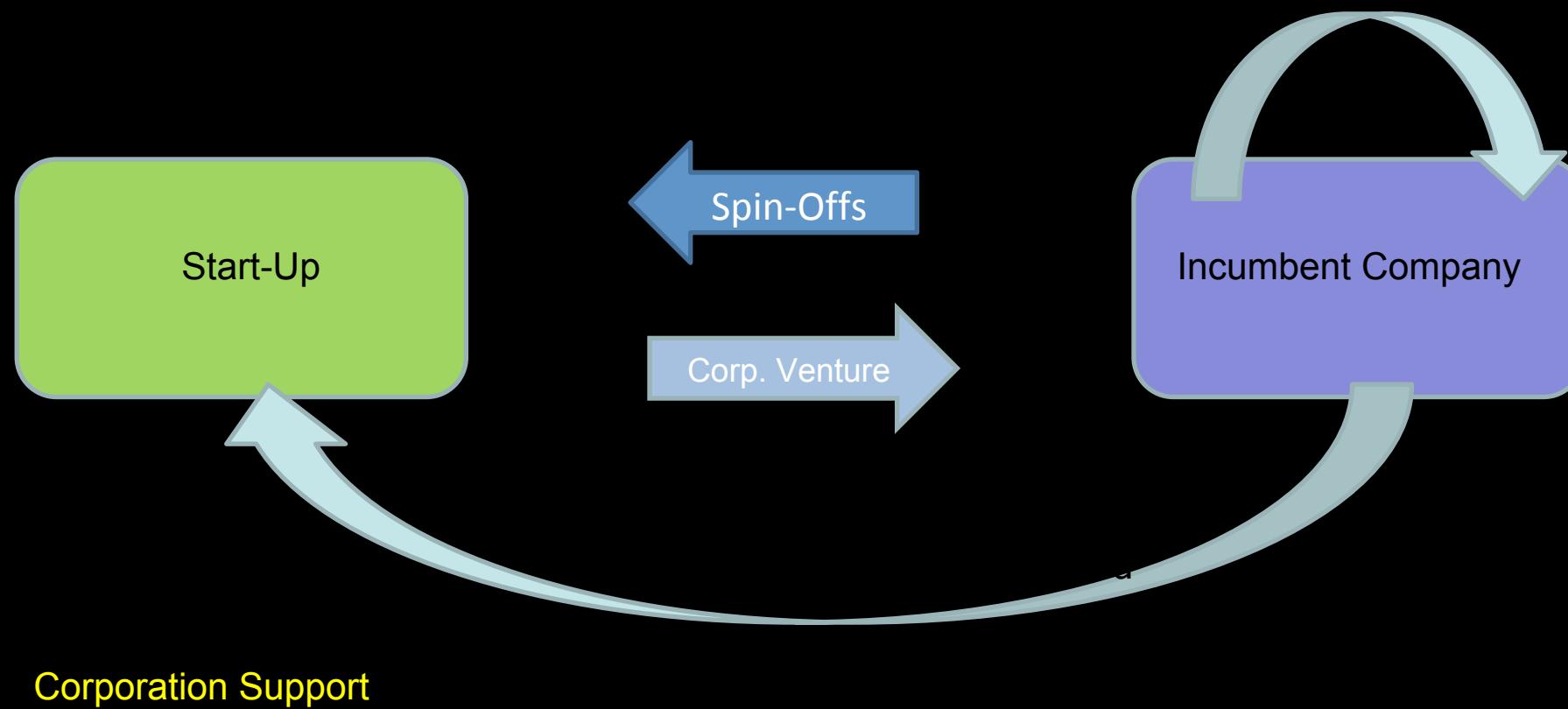
Intervention

- Grants
- Social entrepreneurship incubators
- Networks and government goodwill
- Corporate Social Responsibility

Examples

- B companies
- Social entrepreneurs farmers

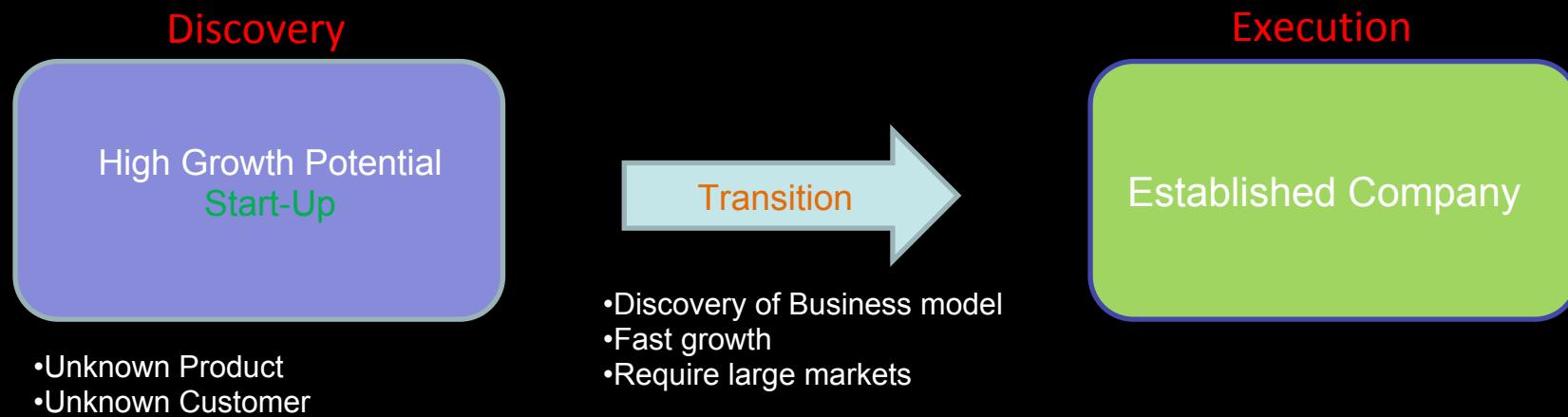
Open Innovation



Intervention

- Skills for corporations
- Corporate Venture Capital
- Corporate Accelerators
- Open Innovation Strategies

Dynamic or High Potential

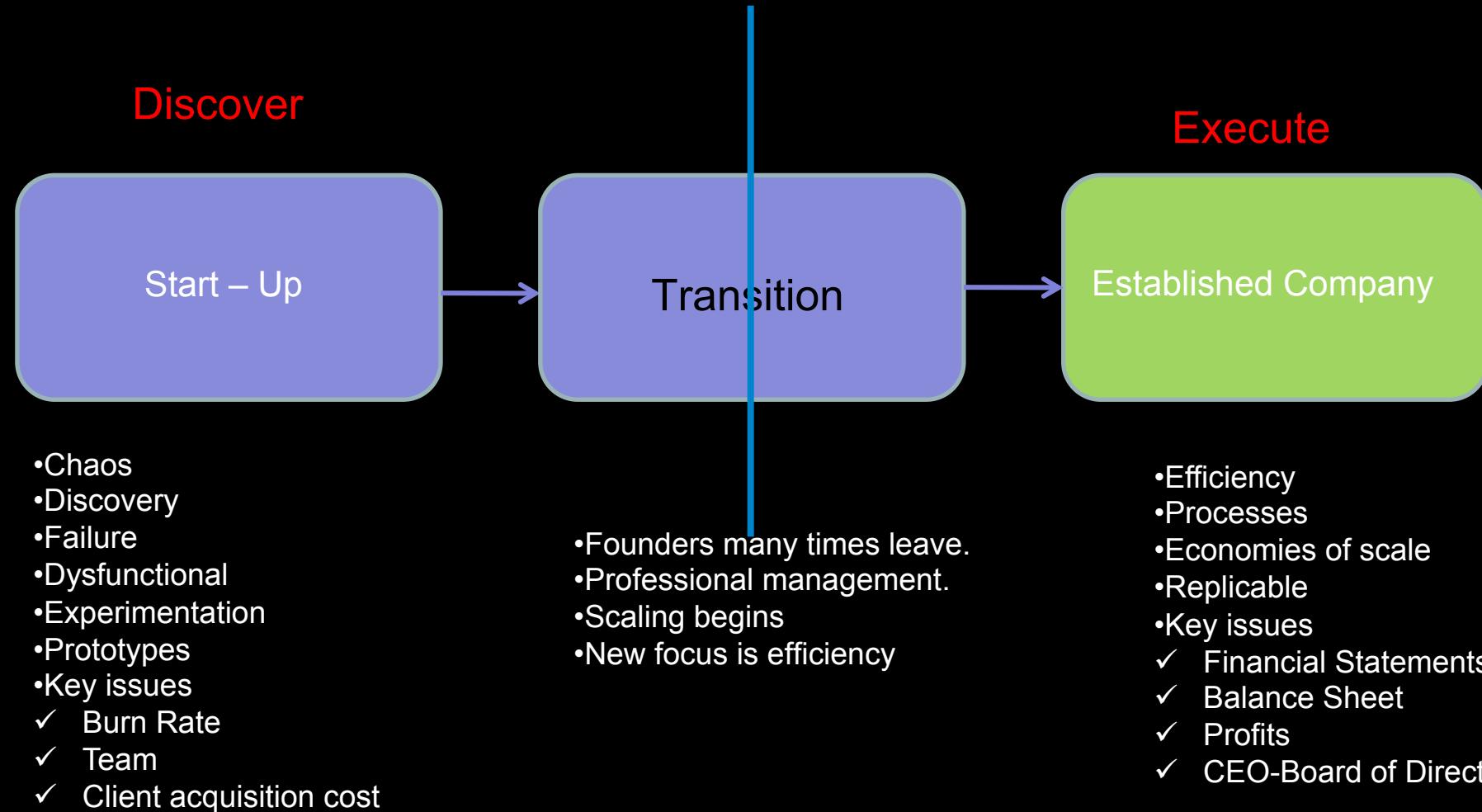


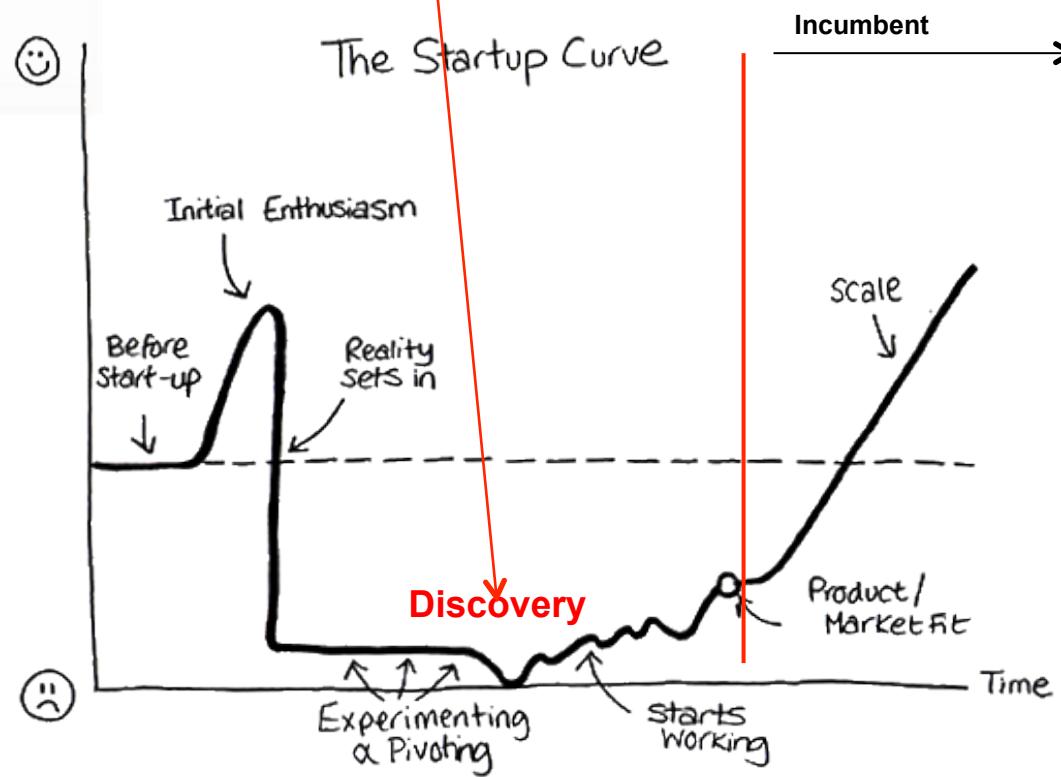
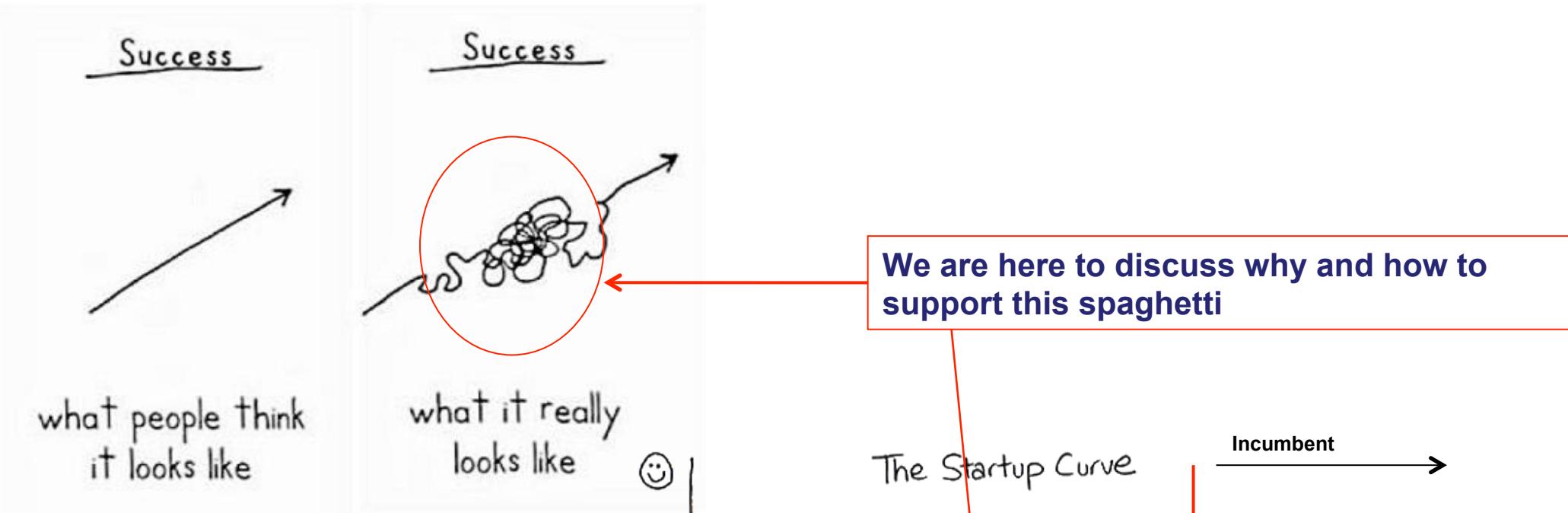
Typically requires some type of venture capital

Intervention

- Mentorship
- Tech Transfer and seed capital funds
- Angel and risk capital funds
- Experimentation and prototyping
- Internationalization capabilities

Start-Ups v/s Incumbents





Serendipity is in the essence of Start-Ups



Incumbents are like farmed land. No weeds allowed. They look for efficiency.



Start-Ups are like the rain forest. Weeds are desirable. They are part of serendipity.



Important conclusions about Start-Ups

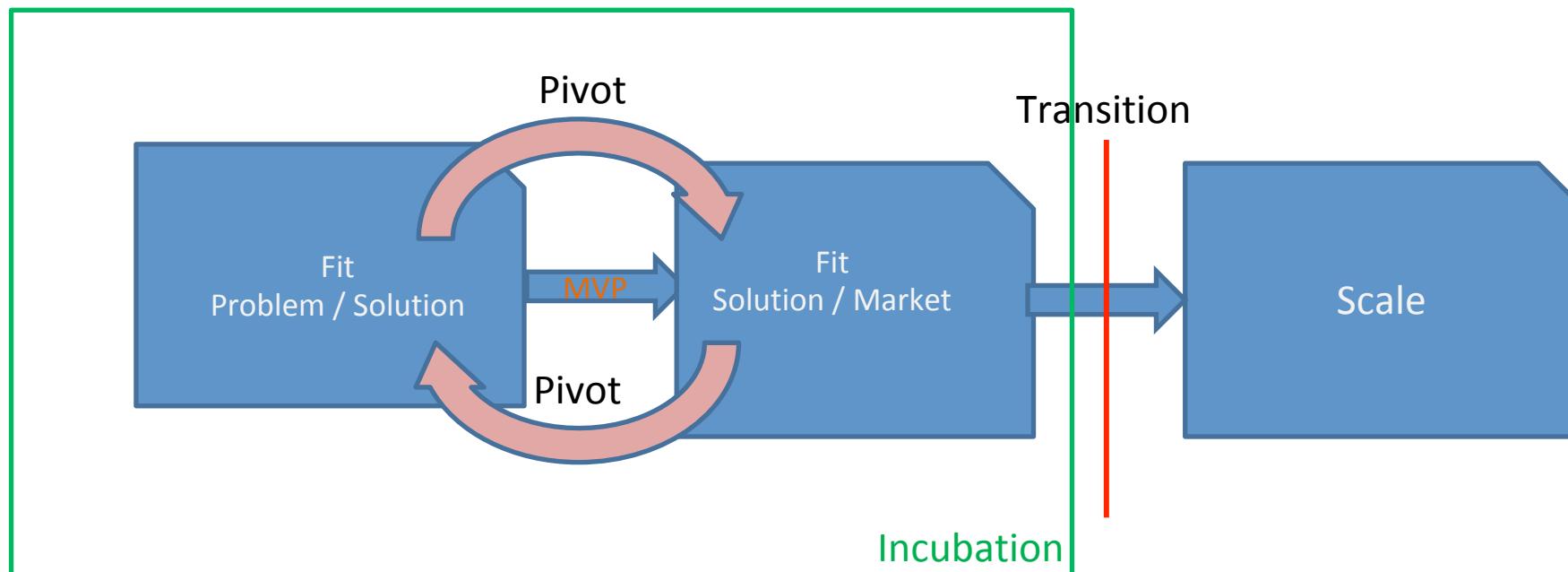
Temporal organization used to discover a scalable and repeatable business model

Start-Ups are **not** small versions of established companies. Start-Ups **discover**, established companies **execute**.

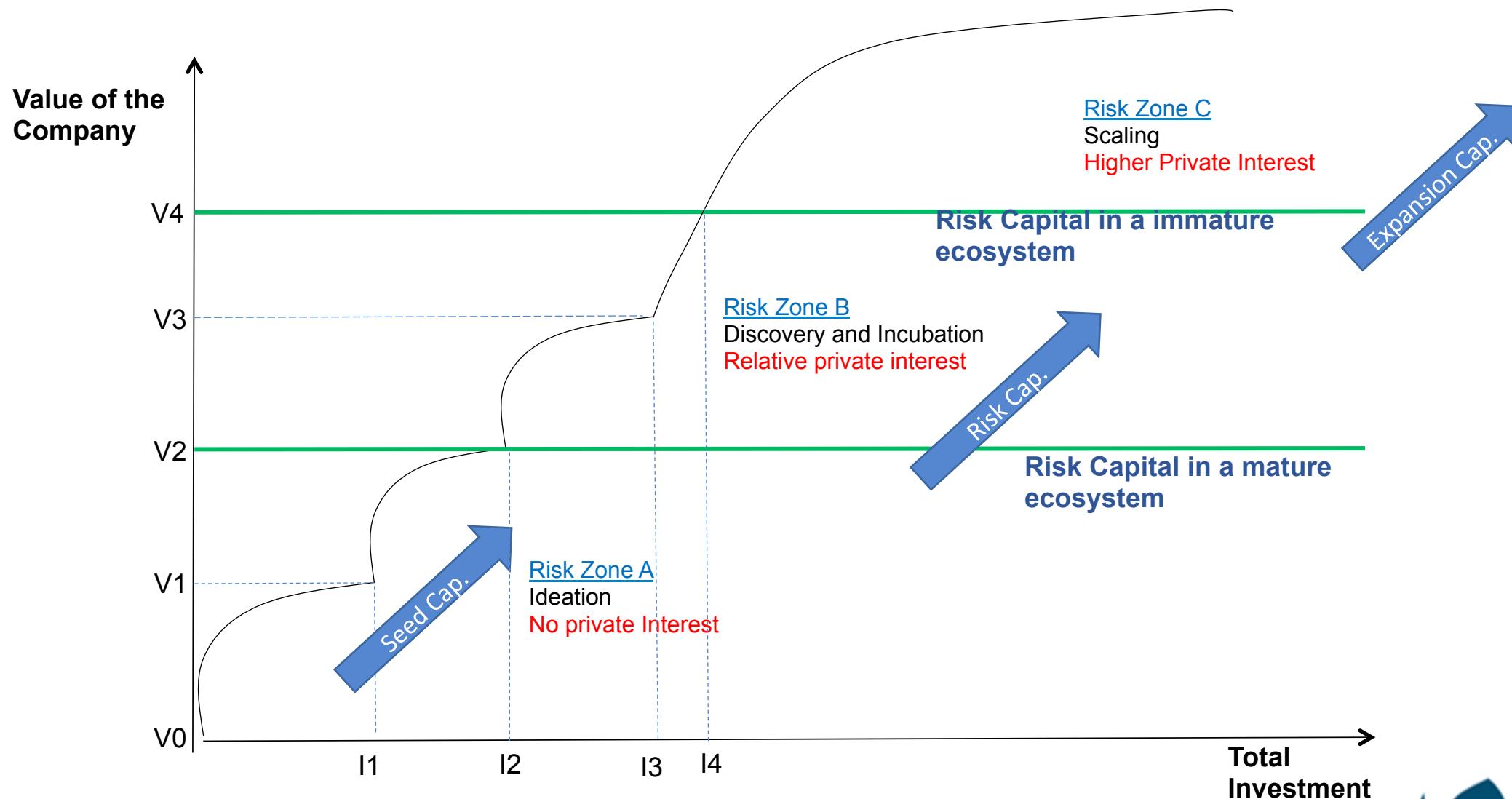
Start-Ups are not the typical **SME**



Start-Ups are vehicles to look for a Product-Market Fit



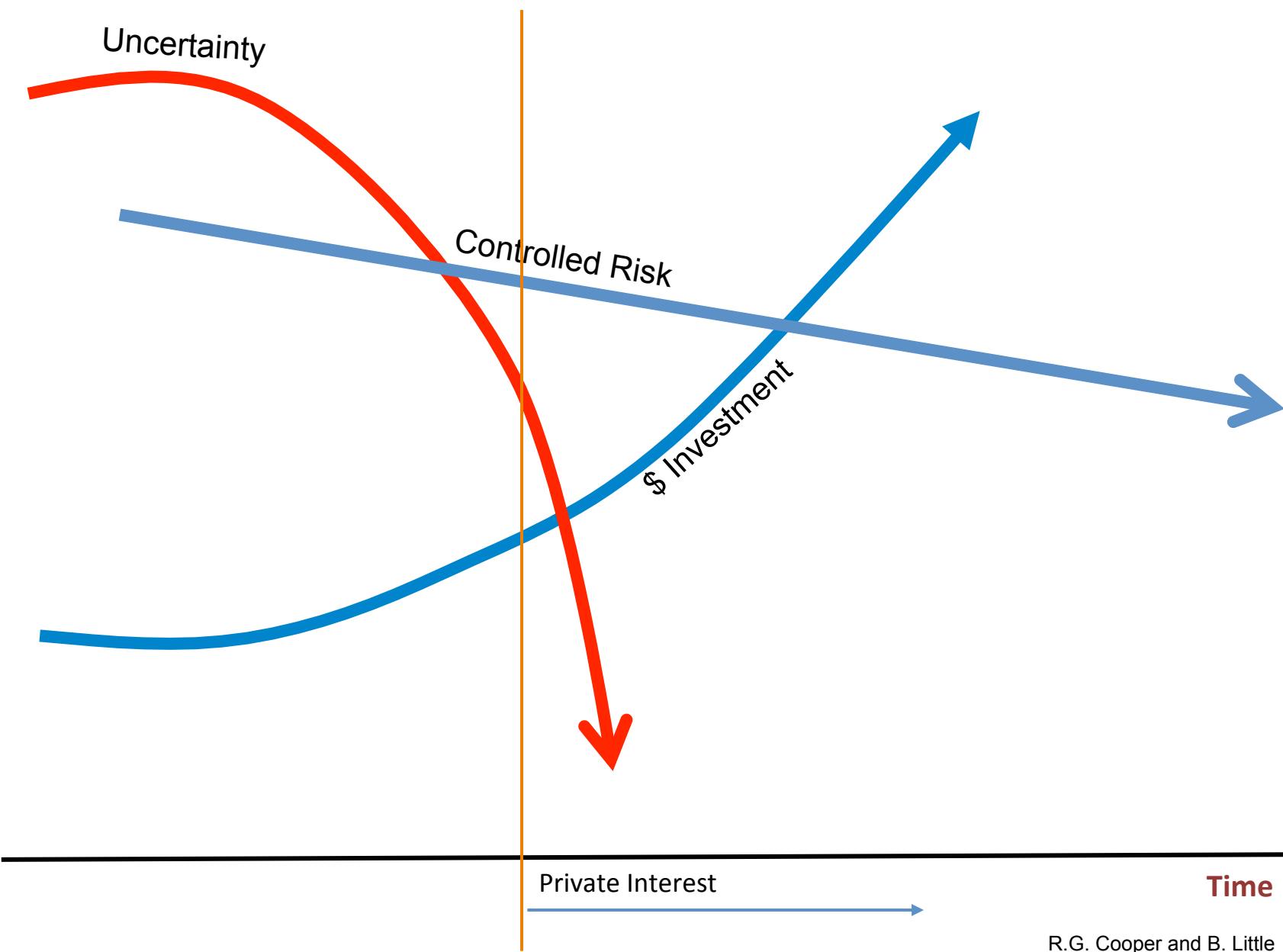
[Eric Ries, Lean Start-Up](#)



Adrian Magendzo



Uncertainty ≠ Risk



Challenges



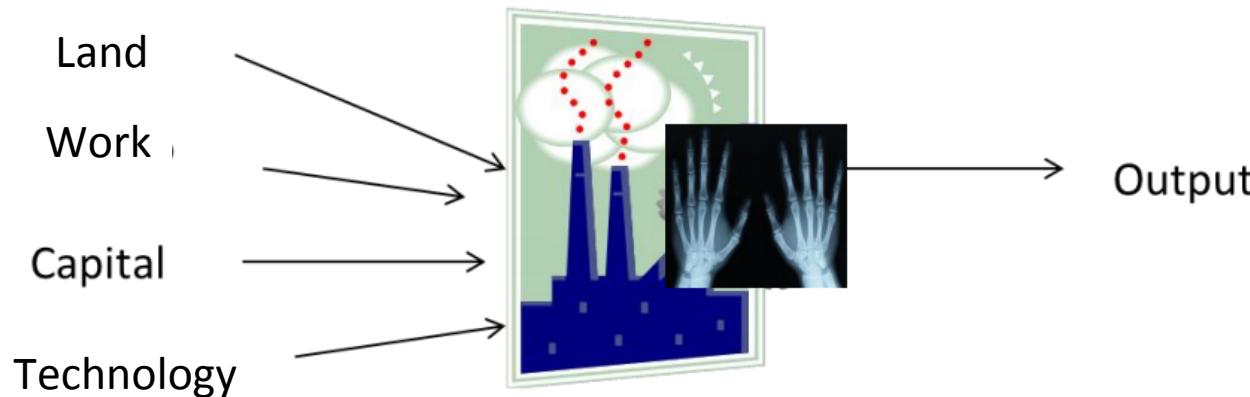


CULTURE

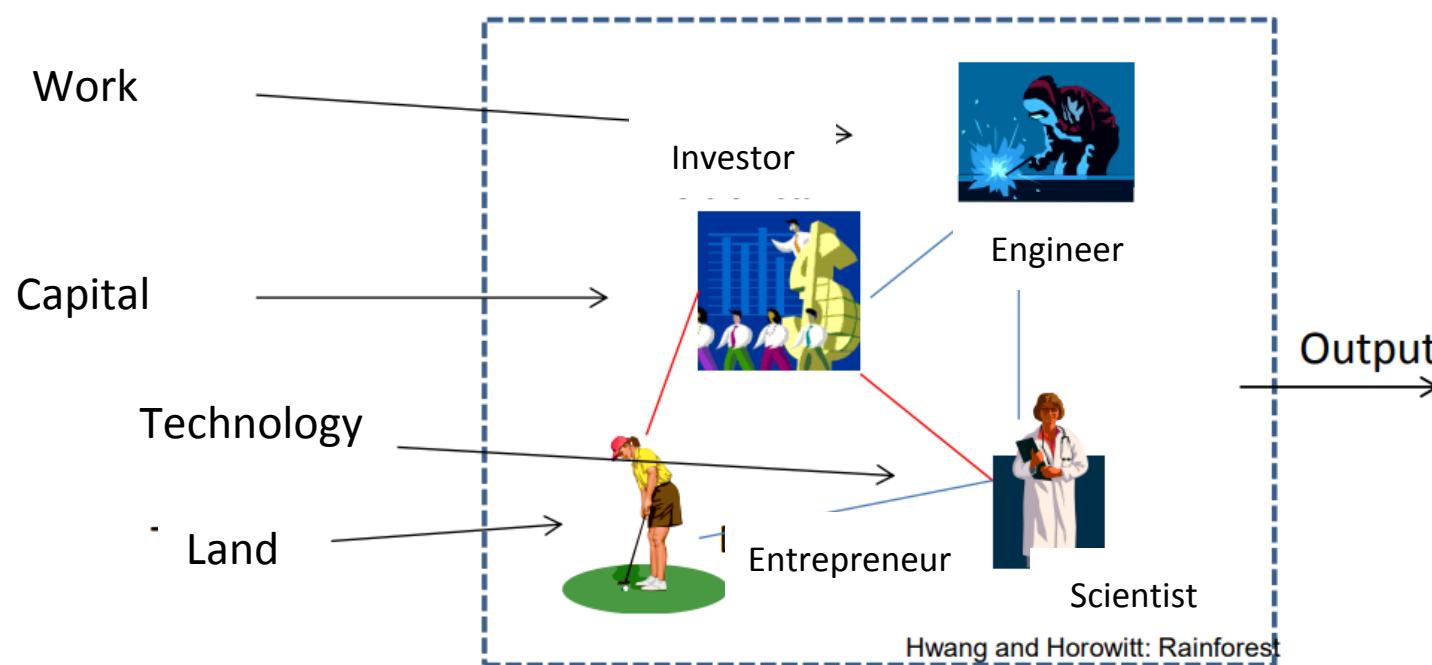


Inputs are not enough. A Culture that facilitates interactions is essential

Classic economic model. The invisible hand



In reality it happens in an environment of interactions and trust



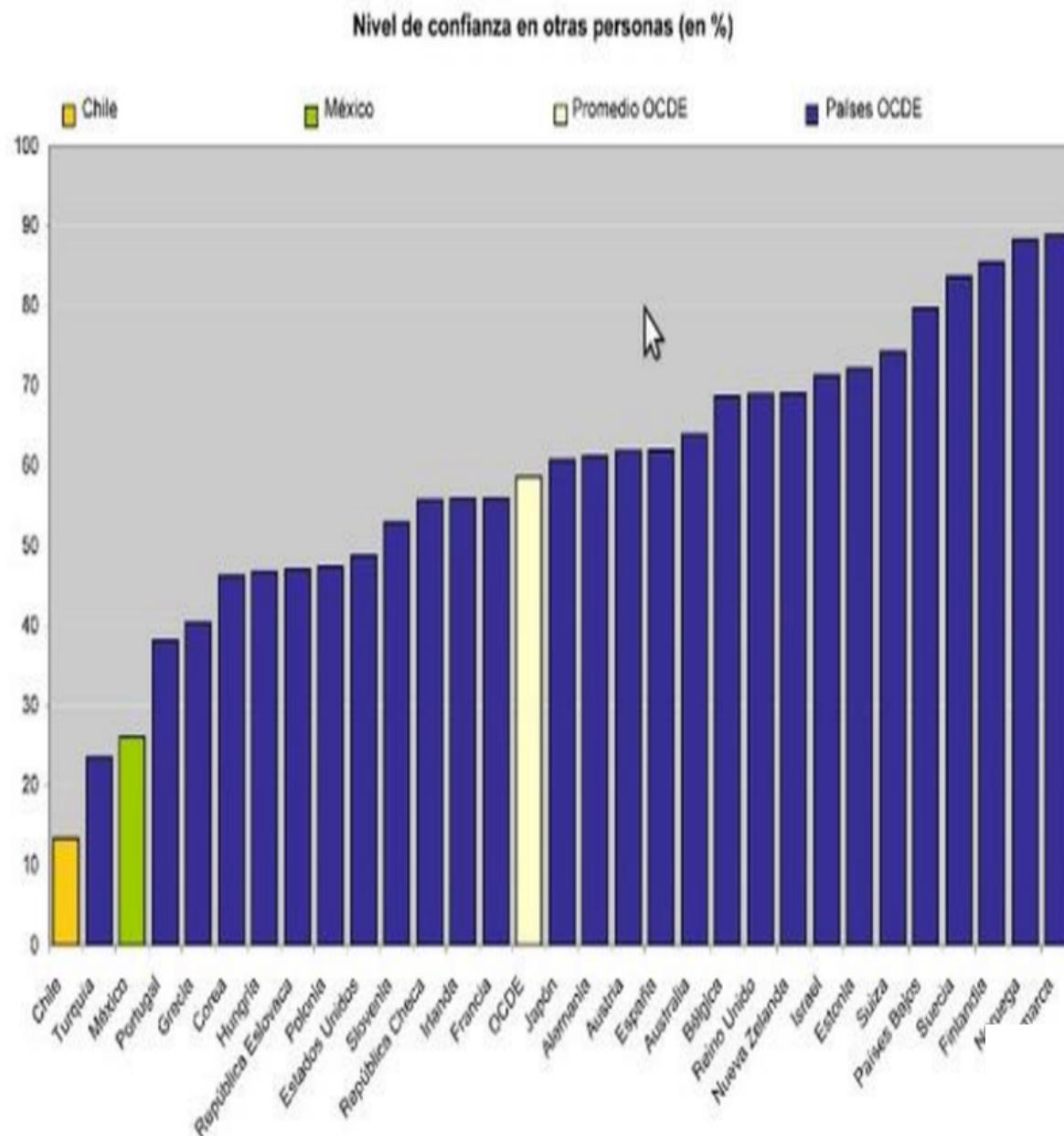
Innovation happens when there is a culture that facilitates free and systematic interactions between different types of people, resources and talents.

Those who do it are heroes

Failure is part of the game.



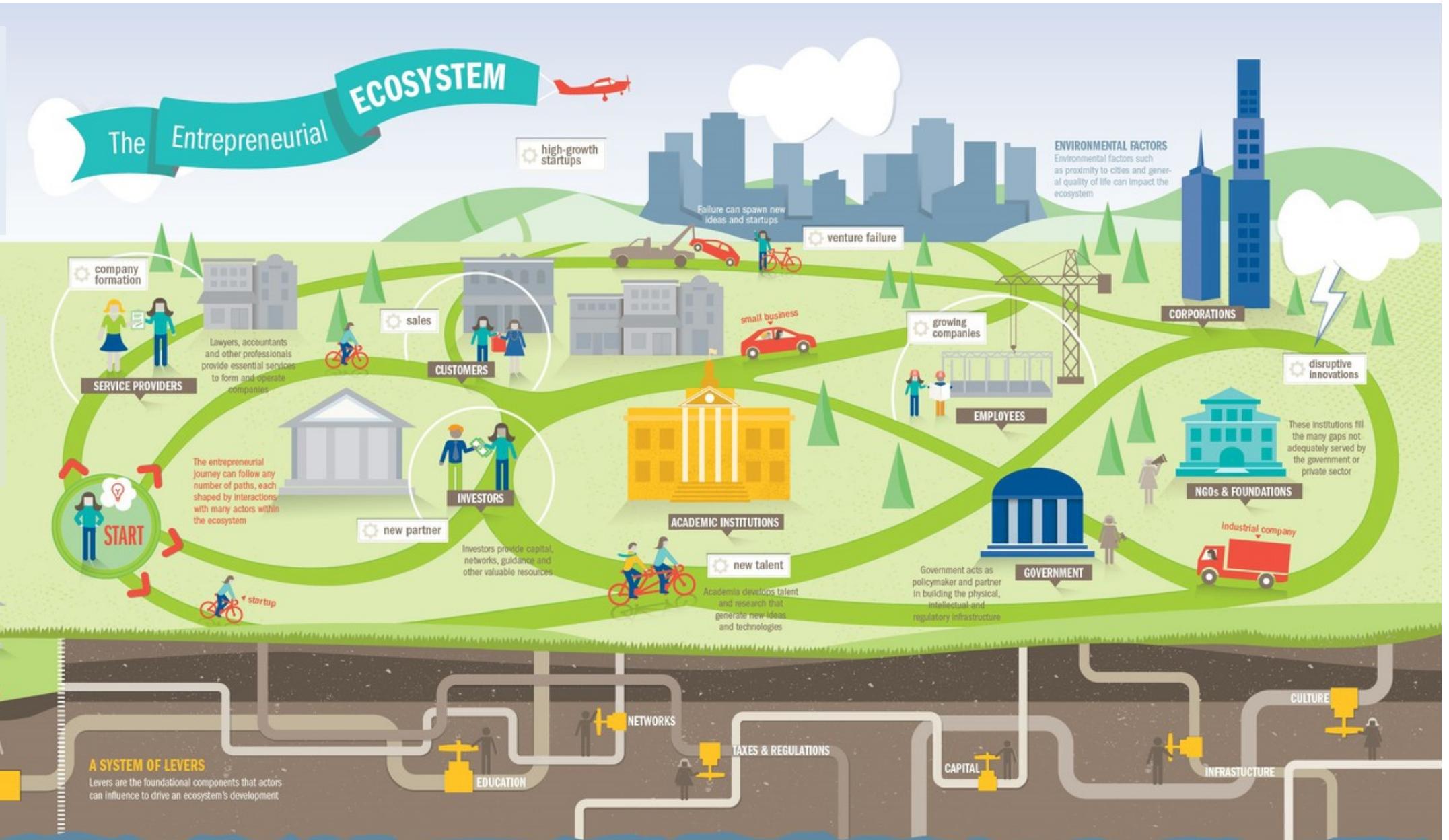
Trust in other people (%)



OECD, 2011

A photograph of a forest scene. In the foreground, there is a small, shallow stream or a swampy area with green, overgrown banks. A narrow, light-colored path or trail cuts through this area. The background is filled with tall, thin pine trees standing in a dense forest. The sky is bright and clear.

Everything happens in an Ecosystem

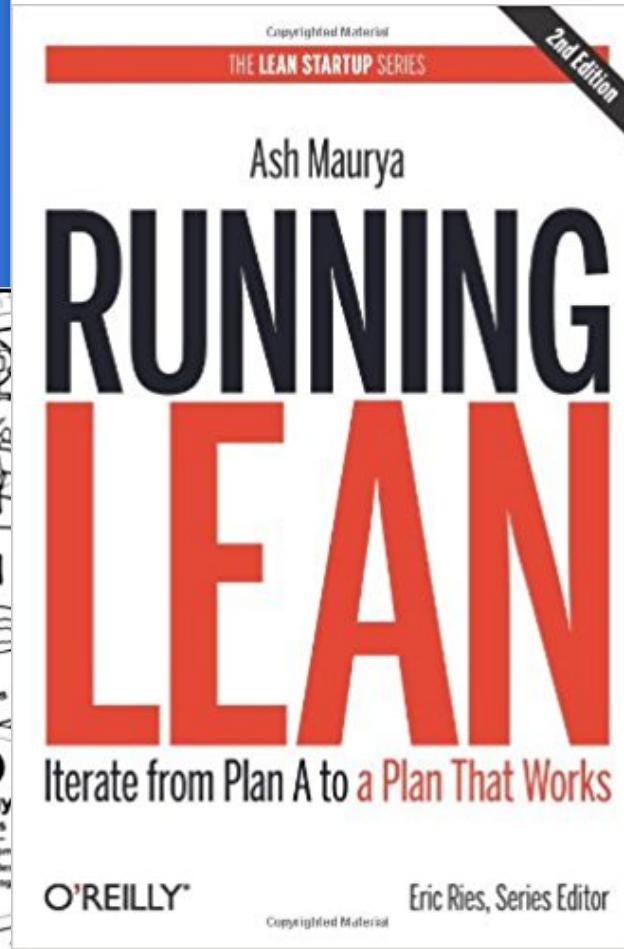
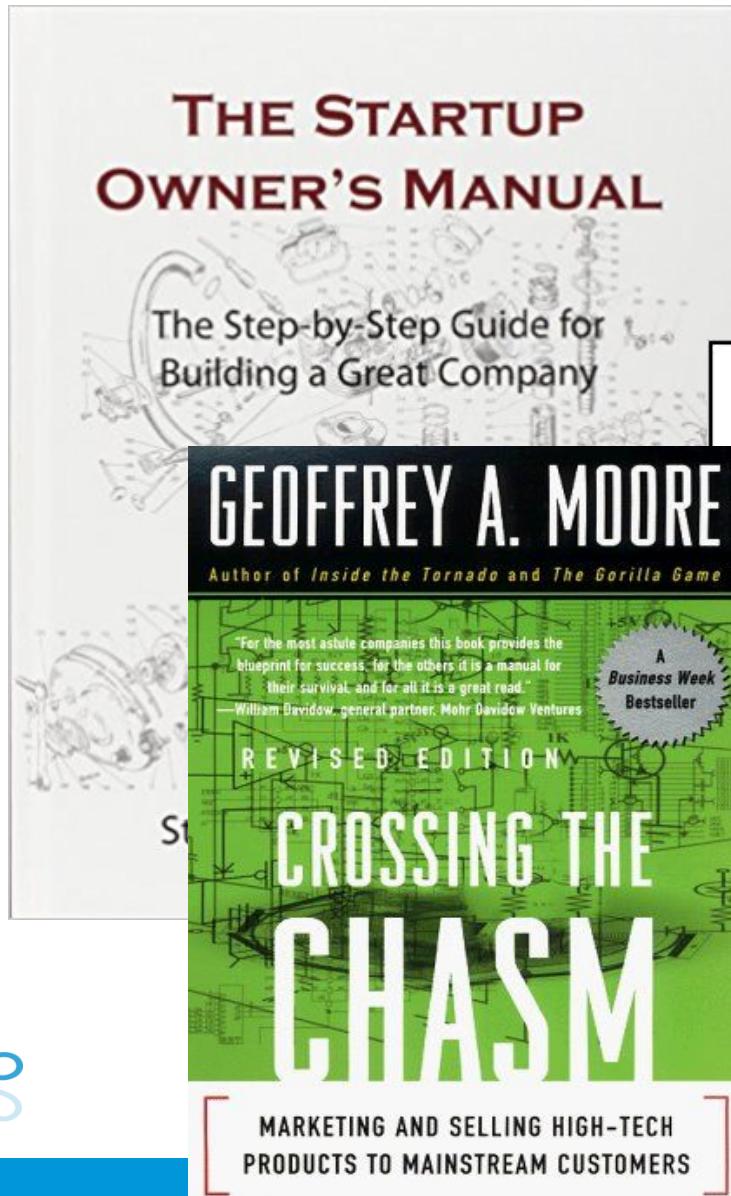


Human Capital



Human capital

A new science. If you don't have the language its hard



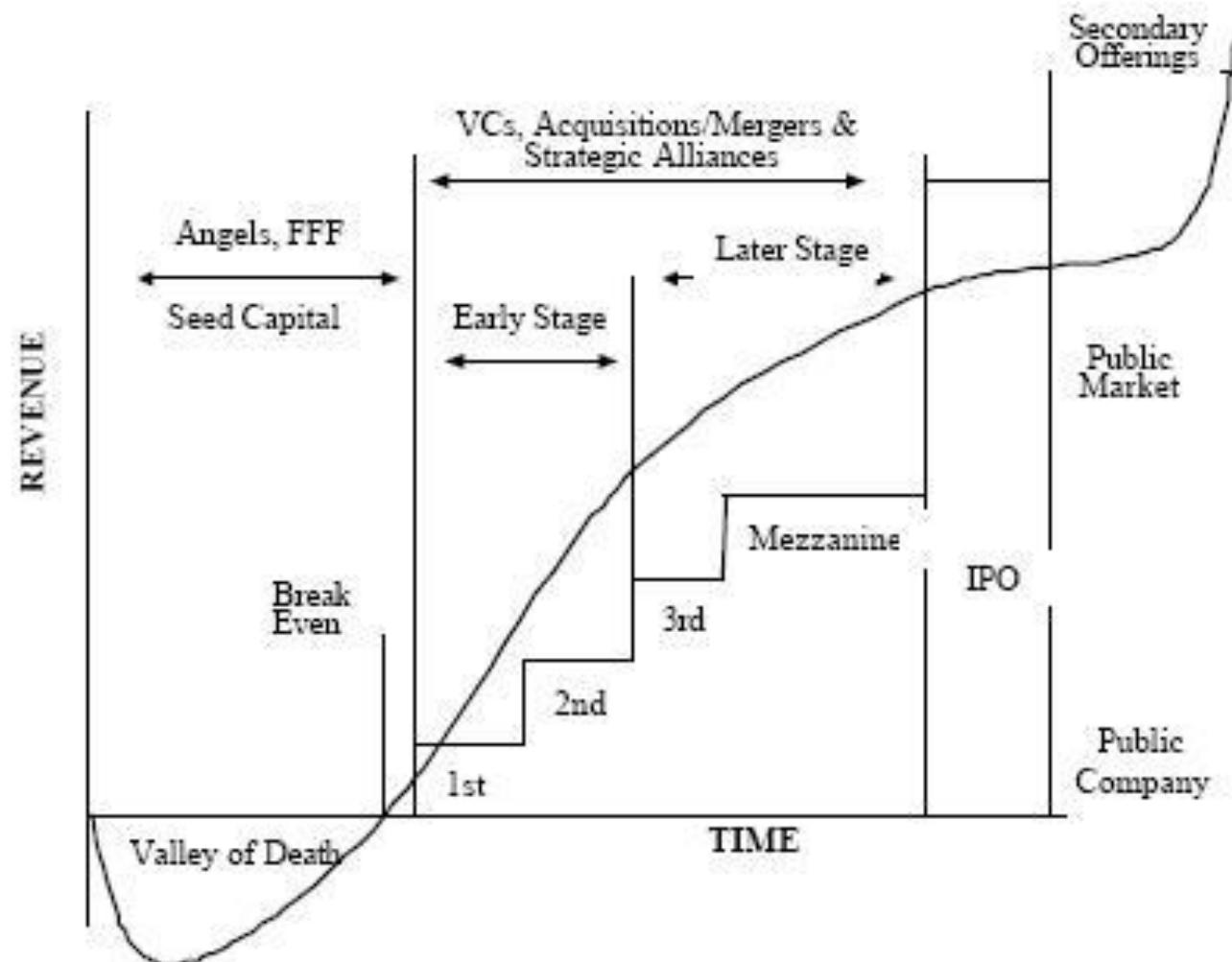
Early Stage Financing

Who would like to finance this?

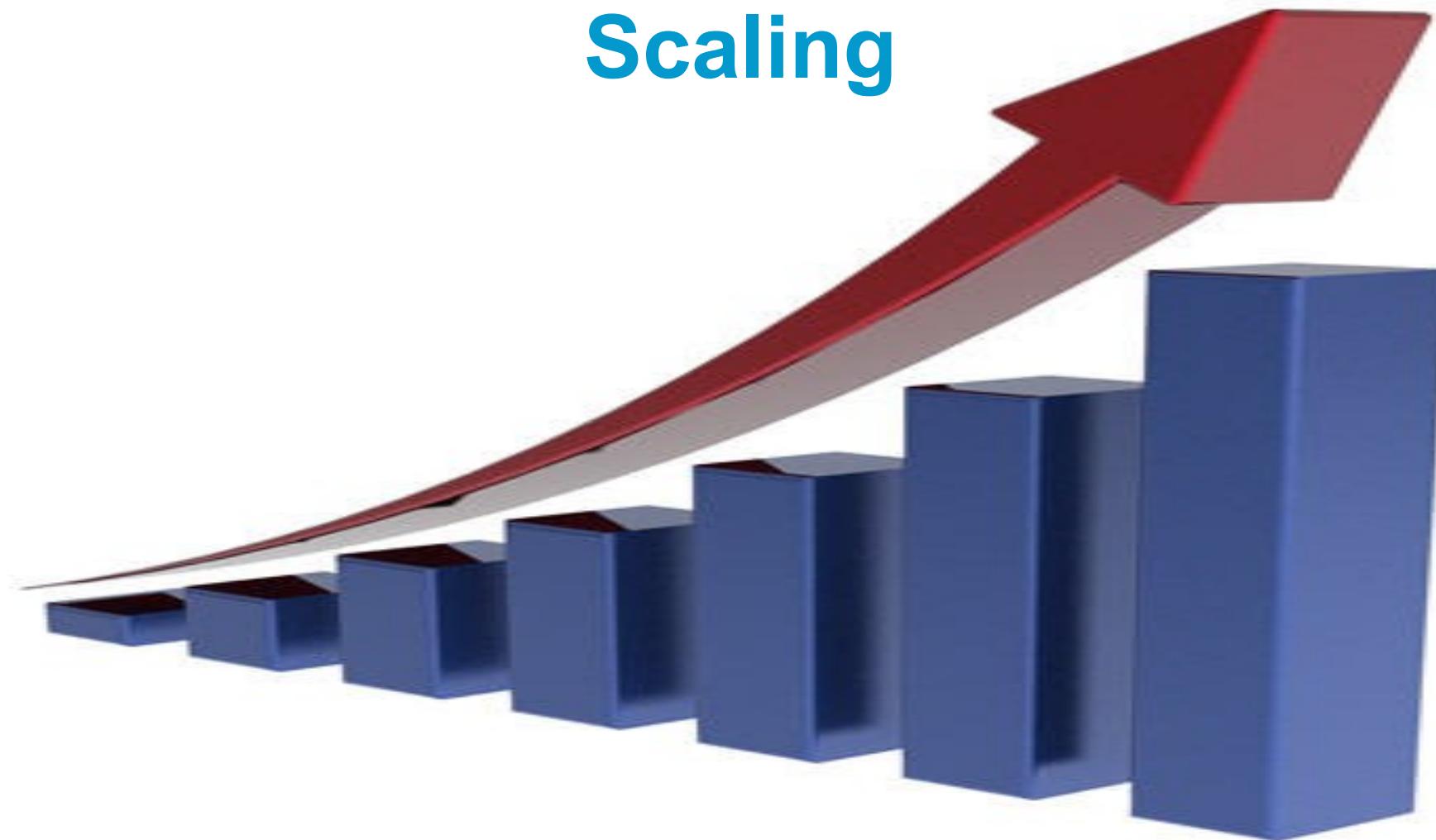


Early Stage Financing

Startup Financing Cycle



Scaling





Regulatory Environment





private
sector

vs.



public
sector

Policy

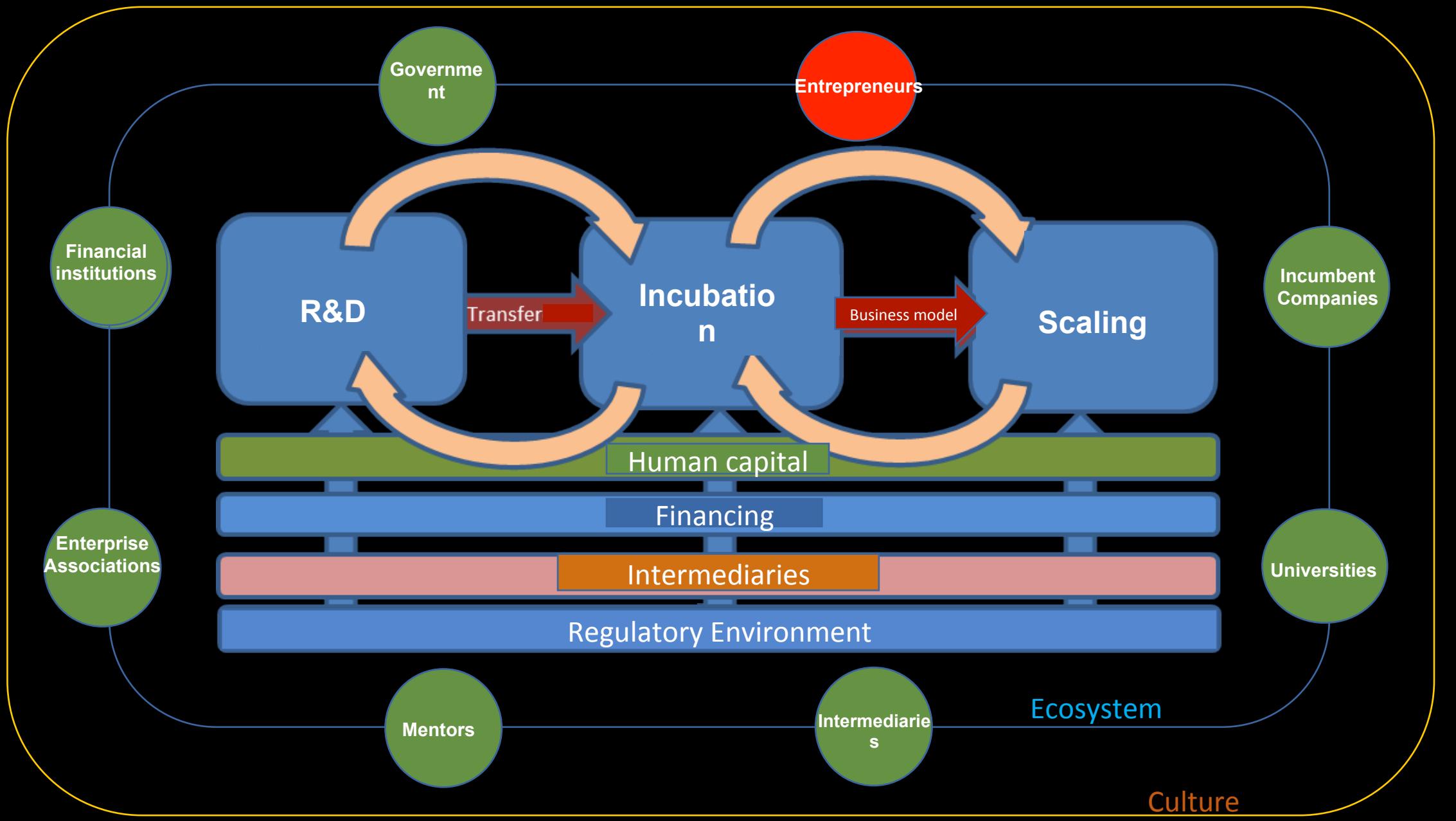


It is a wicked problem!!

HC x RE x Ecosystem x Culture x \$\$ x SC = 0



General Entrepreneurial Model



Common Knowledge...

Entrepreneurs are the most important agents in a modern and open economy, it is paramount to support them with grants, loans, tax and regulatory incentives if they want to start a new business. (Laezer 2005)

But be careful with grants ...

- Richer countries tend to have a smaller proportion of entrepreneurs (GEM). It is not a game of numbers.
- Public funds that promote the creation of new companies tend to attract a disproportionate number of persons in industries with low barriers of entry consequently high levels of failure (Shane, 2009).
- Who responds to government stimulus? “Grant Seekers” who tend to have low alternative costs. Maybe those are not the entrepreneurs you want.
- In most cases, it is a disproportionate small number of new companies (Gazelles) that account for the greatest economical impact measured in employment and wealth creation. (Kauffmann Fundation, 2012)
-



Million Dollar Question. What drives away Investors?

Perception of Uncertainty!!

There is an asymmetry of information between the entrepreneurs and the investors.



Policy

Instruments should be focused on solving market failures
that drive away private agents.



Rather than trying to support entrepreneurs do their business, It is best to get them investment ready.



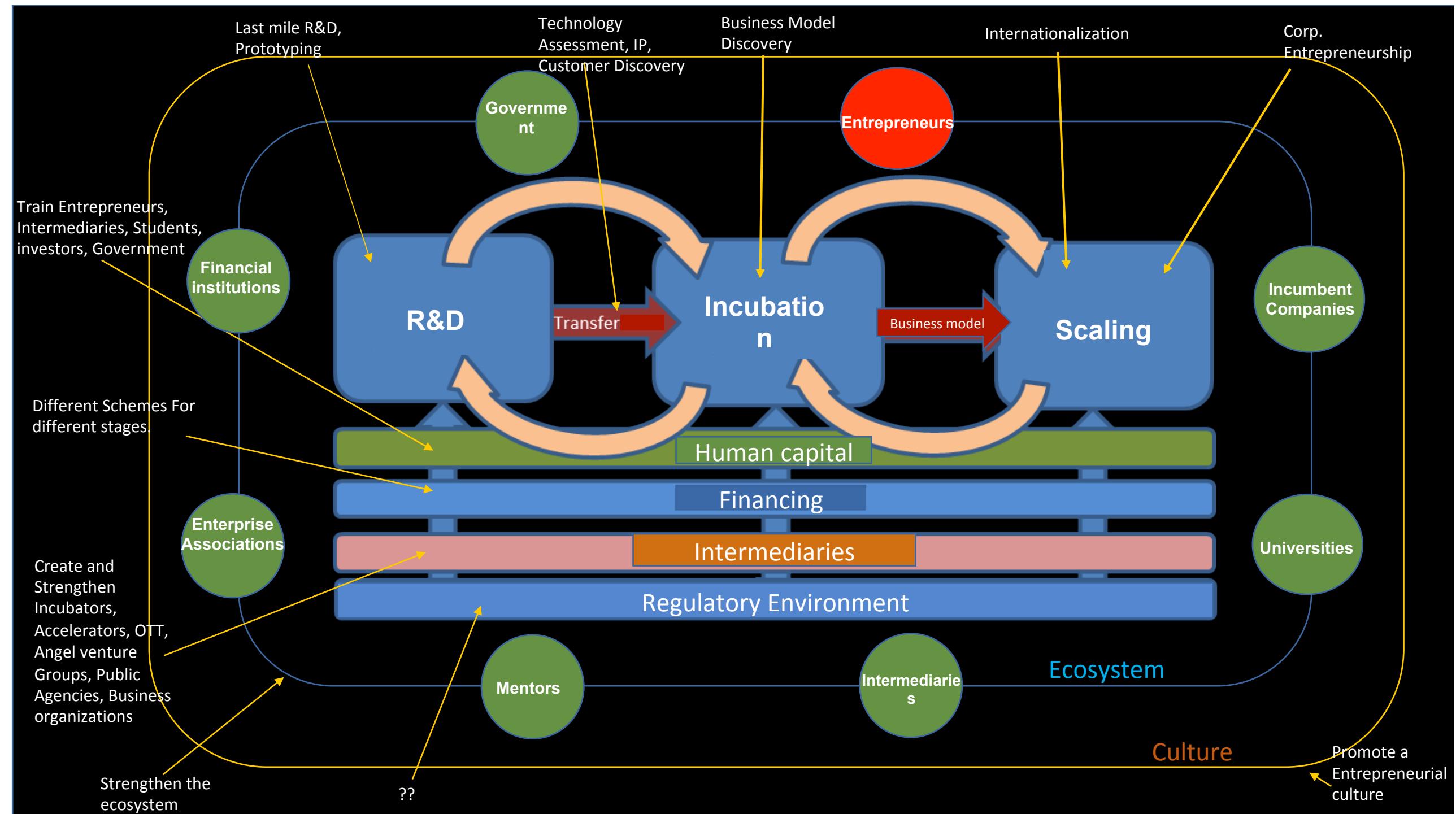
Principles for Policy

- 1.- **Impossible to create something from nothing.** Use assets that are already available and build from there.
- 2- **Holistic Approach.** Isolated Interventions don't work. VCs without deal-flow, Seed Capital without scaling, etc.
- 3.- **Support Investment Readiness.** Not interventions directly on the business.
- 4.- **Policy must be evolutive.** Ecosystems are Dynamic and policy requires to adjust.
- 5.- **No one size fits all.** Every ecosystem is different (Culture, attitude, education, etc.) and requires specific emphasis and interventions.
- 6.- **Mixed Top-Down and bottom Up interventions.** Change migratory laws to attract talent (Top-Down), support national entrepreneurship award to create heroes (Bottom-Up).
- 7.- **Supporting High Growth Start-Ups not the same as supporting typical SME's.** Start-Ups discover SMEs execute.
- 8.-**Start-Ups require access to big enough markets to justify initial investments.** Internationalization = Exports.



In summary

Go from Transactional Interventions (Grants, Loans, Tax incentives) to Relational Interventions that fosters ecosystem development , human capital, culture, interactions and networks.



Chile



Gobierno
de Chile

InnovaChile
CORFO



BID

2005 Innova-Chile was created



INNOVA Chile

La innovación

Creado en marzo de 2005 a partir de la fusión del FDI (1994) y el FONTEC (1990), a fin de potenciar la acción de CORFO como **principal agencia pública en Chile en la promoción de la innovación**.

Tiene como misión contribuir a elevar la competitividad de la economía chilena, por la vía de:

- Promover y facilitar la innovación en las empresas,
- Estimular el desarrollo emprendedor y,
- Fortalecer el sistema nacional de innovación.

USUARIOS:

- Empresas (individuales o asociadas)
- Emprendedores de nuevos negocios
- Centros/Institutos tecnológicos
- Universidades

FIC: Empowered by the Mining Royalties



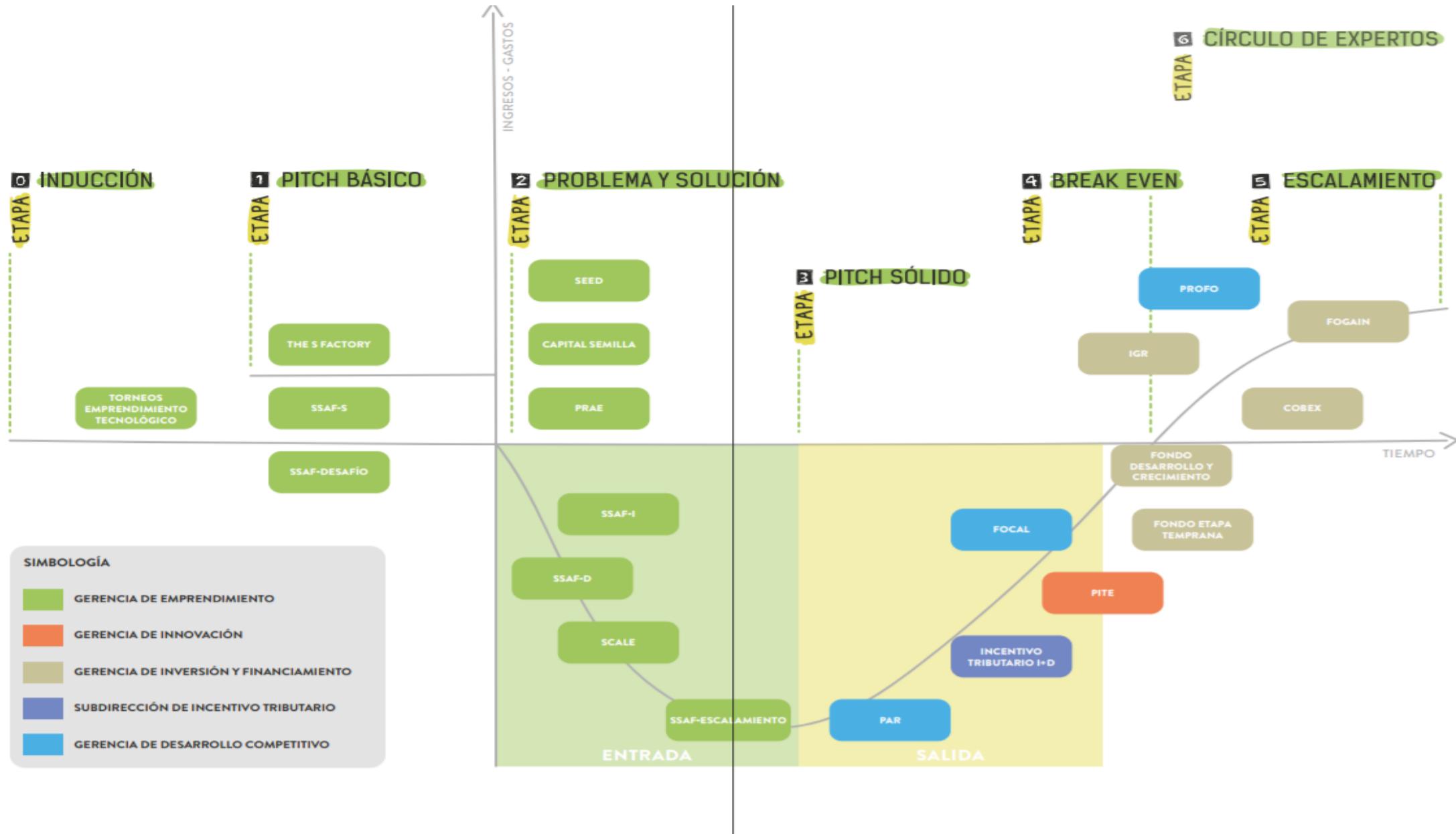
What is there today...



Integrated set of instruments according to the development stage of the company

5

STARTUP JOURNEY



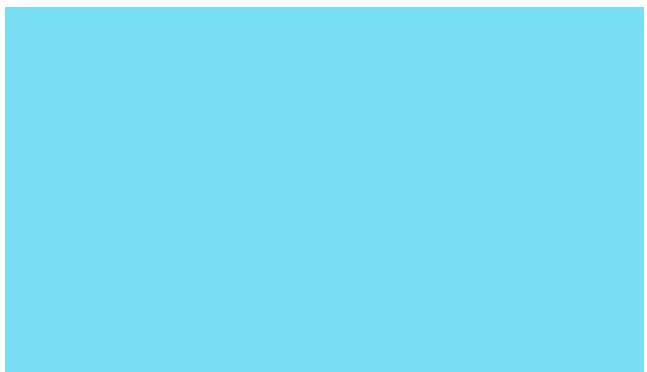
STARTUP JOURNEY

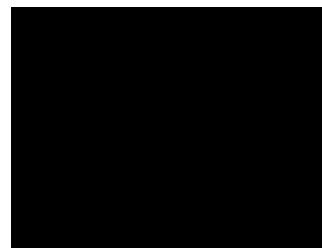
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STARTUP JOURNEY

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ST>RT-UPCHILE





Thank You

Adrian Magendzo
amagendzo@iadb.org

