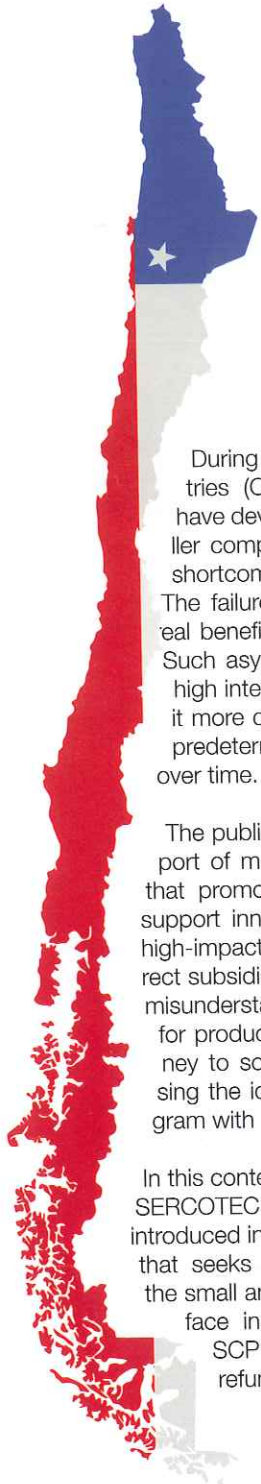


By Claudio Bonilla, Universidad Autónoma de Madrid y Christian Cancino, Universidad de Chile

IMPACT OF A SEED CAPITAL PROGRAM IN CHILE



During the last years, many Latin American countries (Chile, Colombia, Uruguay, among others) have developed public instruments to support smaller companies in order to solve market failures or shortcomings that exist in this segment of firms. The failure is asymmetric information regarding the real benefits and risks of these companies' projects. Such asymmetric information has repercussions on high interest rates and credit rationing which makes it more difficult for these companies to take off and predetermines them to keep a small business status over time.

The public programs developed range from the support of medium-sized enterprises through programs that promote their export capacities, programs that support innovation in small enterprises with a high-impact and high-growth (gazelles), to direct subsidies for small firms which many times misunderstand the concept of public support for productive promotion and use the money to solve short-term problems, confusing the idea from a production support program with a social program.

In this context, the Chilean Government, through SERCOTEC (Service for Technical Cooperation), introduced in 2005 a Seed Capital Program (SCP) that seeks to solve funding problems that the small and medium enterprises (SME) face in Chile. The SERCOTEC SCP represents a non-refundable financial

subsidy which aims to support the SME's take off which is just starting.

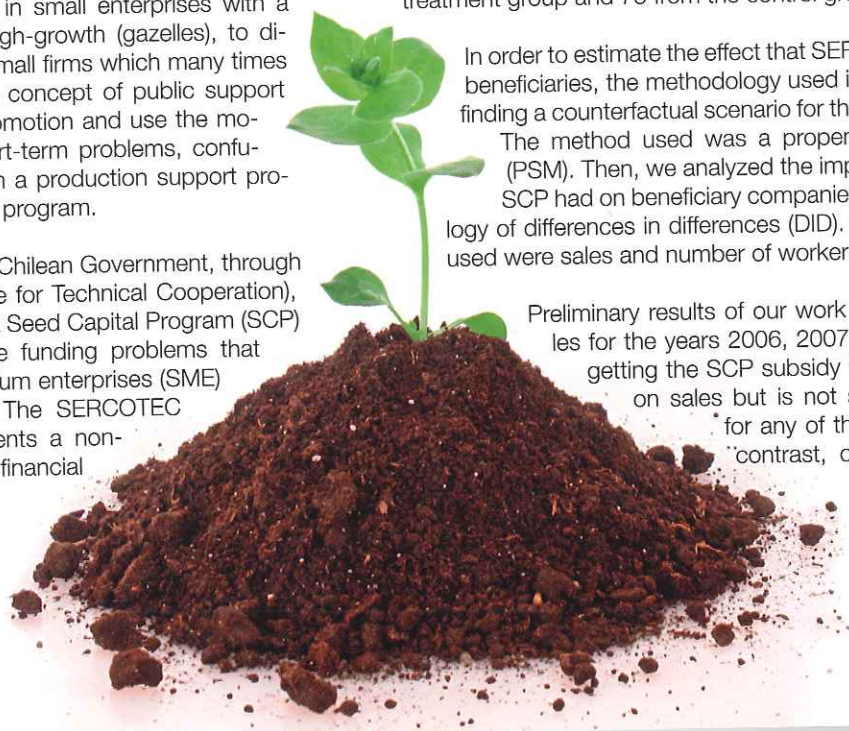
In a research project from the Universidad de Chile, sponsored by IADB (Inter-American Development Bank), the professors Claudio Bonilla and Christian Cancino evaluated the results and the impact of the public program. Their research aimed to analyze the behavior and the first results from those companies which have benefitted from the SERCOTEC SCP funding.

We did the analysis of the program through information collected with a field survey of its beneficiaries (treatment group) and with additional information provided by SERCOTEC for a group of companies that applied for the program but did not get funding (control group). A total of 682 companies were interviewed, of which 164 answered the survey completely - 89 from the treatment group and 75 from the control group.

In order to estimate the effect that SERCOTEC SCP had on beneficiaries, the methodology used in our work began by finding a counterfactual scenario for the companies treated.

The method used was a propensity score matching (PSM). Then, we analyzed the impact that SERCOTEC SCP had on beneficiary companies using the methodology of differences in differences (DID). The impact variables used were sales and number of workers.

Preliminary results of our work on the impact in sales for the years 2006, 2007 and 2008 show that getting the SCP subsidy has a positive impact on sales but is not statistically significant for any of the years analyzed. By contrast, obtaining the subsidy



in 2007 as well as in 2008 has a positive impact and is statistically significant in the number of workers hired. This result is different from what is found in the literature of evaluation of public funding programs to promote SME in Latin America.

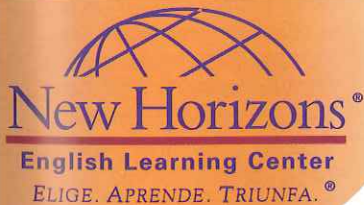
What is the explanation for these results? We think that SERCOTEC SCP is a program with certain features that make it very special. First, most of the public funding programs for SME studied in Latin America are aimed at companies of a certain size, which for example, have the chance to export or have the possibility to adopt new technologies or new productive processes.

For those companies funding programs or subsidies which aim at helping them to jump to a higher stage with better development were created. However, the SERCOTEC SCP, although in its role is a supporting program for entrepreneurship, when studied in detail, we realize that the real beneficiaries of the program are very small-sized companies which respond to the program mainly because of the need of resources in order to have working capital to operate. It is highly probable that some of these resources can be used in hiring the person in charge of operating and supervising the management of the company or who will help make the products that the company will offer to the market. In this sense, we notice that in practice the SERCOTEC SCP fits into a program of social policy rather than to a productive funding program for SME, which is different from the stated objective in the role of the pro-



gram studied. This is consistent with the explanation of Larroulet and Couyoumdjian (2009) to the Latin American paradox of entrepreneurship and growth that shows Latin American countries as highly entrepreneurial, but with very low growth. The same as in the Global Entrepreneurship Monitor (Autio, 2007), where studies proved that most of venture in Latin America is a venture by necessity, of a low level of productivity, in many cases subsistence and that has no comparison with venture by opportunity, which provides added value to the economy. Therefore, our impression is that for the case of SERCOTEC SCP, given the size of beneficiaries, we believe that many of them really respond to venture by necessity. It is interesting to point out that the focus of the program under investigation are the smaller enterprises in the productive chain, so that, the results initially identified are more associated with the kind of venture by necessity and not by opportunity. There is a real possibility that the program results in a program of social kind and not a program of productive promotion.

According to several professors and researchers, entrepreneurship is considered an important mechanism for economic development, due to its effects on employment creation, innovation and general welfare. Therefore, the agencies for productive development should promote the development of new ventures, especially those ventures defined by opportunity and not by necessity. It is essential that institutional actors may reflect on their supporting programs, as well as on the kind of enterprise they assist in order to better evaluate the real impact of each type of executed program.



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