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%
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.

Can we make the jump?
Productivity is key to growth

\[
\frac{\Delta Y}{Y} \approx \alpha \frac{\Delta K}{K} + (1 - \alpha) \frac{\Delta L}{L} + \frac{\Delta A}{A_{PTF}}
\]

- Product Growth
- Capital Growth
- Labor Growth
- Total Factor Productivity

• Technology
• Efficiency
• Climate
1) Right and sufficient Human Capital.

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

3) Infrastructure

4) Right business environment

5) Demography
Where it happens

COMPANY

MARTET

INNOVATION

This Photo by Unknown Author is licensed under CC BY
R&D is not Innovation
Innovation is value Creation

R&D → Transfer → Invention → Adoption → Business Model

Incumbents

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.
Garajes Famosos

Jeff Bezos 1995
10704 NE 28th in Bellevue, Washington.

Steve Jobs 1976
2066 Crist Dr. in Los Altos, California

Larry Page and Sergey Brin 1998
232 Santa Margarita Ave in. Menlo Park, 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.

Churning and productivity gains. Kaufmann Institute, 2010
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
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

Traditional Non-Scalable Start-Up

• 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.

Micro-Small Company

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

Don't require venture capital.

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

Intervention
- Small Seed Capital
- Technical Advice, marketing, finance and accounting, legal, etc.
- Co-Work space
Social Impact Start-Up

- 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

Examples
- B companies
- Social entrepreneurs farmers

Intervention
- Grants
- Social entrepreneurship incubators
- Networks and government goodwill
- Corporate Social responsibility
Innovación Corporativa Disruptiva

Open Innovation

Start-Up

Spin-Offs

Corp. Venture

Incumbent Company

Corporation Support

Intervention
- Skills for corporations
- Corporate Venture Capital
- Corporate Accelerators
- Open Innovation Strategies
High Growth Potential

- Start-Up
  - Unknown Product
  - Unknown Customer

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

Discover

- Chaos
- Discovery
- Failure
- Dysfunctional
- Experimentation
- Prototypes
- Key issues
- Burn Rate
- Team
- Client acquisition cost

Execute

- Efficiency
- Processes
- Economies of scale
- Replicable
- Key issues
- Financial Statements
- Balance Sheet
- Profits
- CEO-Board of Directors

Start – Up → Transition → Established Company

- Founders many times leave.
- Professional management.
- Scaling begins
- New focus is efficiency
We are here to discuss why and how to support this spaghetti.
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.

Hwang, Horowitz: Rainforest
Important conclusions about Start-Ups

Temporal organization used to discover a scalable and repeatable business model

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

Start-Ups are not the typical SME

Steve Blank, 2011
Start-Ups are vehicles to look for a Product-Market Fit

Eric Riese, Lean Start-Up
Value of the Company

Risk Zone C
Scaling
Higher Private Interest

Risk Zone A
Ideation
No private Interest

Risk Zone B
Discovery and Incubation
Relative private interest

Risk Capital in a mature ecosystem

Risk Capital in an immature ecosystem

Adrian Magendzo
Uncertainty ≠ Risk

Uncertainty

Controlled Risk

$ Investment

Private Interest

Time

R.G. Cooper and B. Little
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 (%)
Everything happens in an Ecosystem
The Batten Institute at U.Va.’s Darden School of Business improves the world through entrepreneurship and innovation.
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

- Seed Capital
- Early Stage
- Later Stage
- Mezzanine
- IPO
- Public Company
- Secondary Offerings

- Valley of Death
- Break Even
- Angels, FFF
- VCs, Acquisitions/Mergers & Strategic Alliances

Revenue vs. Time
Scaling
Regulatory Environment
Policy
It is a wicked problem!!

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

Mason, Brown, OECD January 2014
In summary

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

Incubation

R&D

Scaling

Governme nt

Entrepreneurs

Internationalization

Universities

Inputs

Proceso

Incumbent Companies

Business model

Entrepreneurs

Regulatory Environment

Human capital

Financing

Intermediaries

Ecosystem

Internationalization

Promote a Entrepreneurial culture

Train Entrepreneurs, Intermediaries, Students, investors, Government

Different Schemes For different stages

Create and Strengthen Incubators, Accelerators, OTT, Angel venture Groups, Public Agencies, Business organizations

Strengthen the ecosystem

Last mile R&D, Prototyping

Technology Assessment, IP, Customer Discovery

Business Model Discovery

Financial institutions

Enterprise Associations

Mentors

Intermediaries

Chile
2005 Innova-Chile was created

FIC: Empowered by the Mining Royalties
What is there today…

<table>
<thead>
<tr>
<th>INNOVACIÓN</th>
<th>CAPACIDADES TECNOLÓGICAS</th>
<th>EMPRENDIMIENTO</th>
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</thead>
<tbody>
<tr>
<td>INVERSIONES ESTRÁTICAS</td>
<td>INVERSIÓN Y FINANCIAMIENTO</td>
<td>CHILE TRANSFORMA</td>
</tr>
<tr>
<td>DESARROLLO PYME</td>
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</tbody>
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Integrated set of instruments according to the development stage of the company
Thank You

Adrian Magendzo
amagendzo@iadb.org