

## Venture Capital in Chile

### Authors

John C. Edmunds  
Roberto Darrigrandi  
Tomas P. McDermott  
Vesna Mandakovic

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## **Introduction**

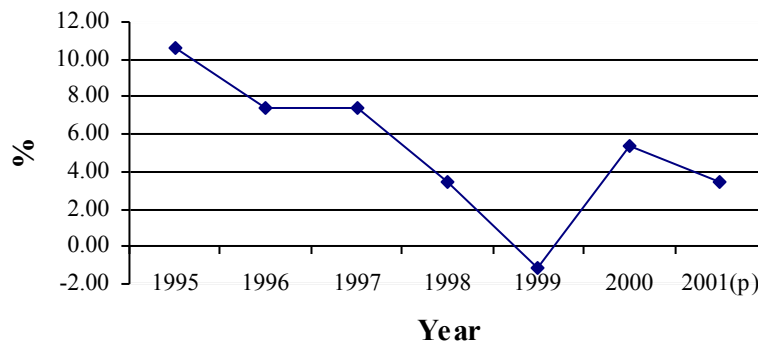
This report gives the findings and supporting documents of a study undertaken by faculty from Babson College and la Universidad del Desarrollo regarding venture capital in Chile. The study was conducted during the period May-October 2001. The study team conducted face-to-face interviews, collected data from private sector and government entities, reviewed other reports on venture capital in Chile, and reviewed news stories in print and electronic media.

The Chilean economy was experiencing a downturn during the time period the study covers, and the stock markets of the entire world were in a period of retrenchment and pessimism. There were major changes happening in Chilean capital markets during the time the study was being conducted, especially the new regulatory initiatives; but it was a period when Chilean financial market participants were discouraged and skeptical. The reasons they were discouraged were the downward revisions in the forecasts of the growth of the Chilean economy, economic crisis in Argentina, stagnation in Peru and Ecuador, and the weakness of the Brazilian real. The specter of stagnation in Asia also weighed on their minds, as did the weakness of the Chilean peso. The previous year had been difficult, with the biggest event being the collapse of the South American internet frenzy. Some of the gloom lifted, however, with the Chilean government's announcement of new capital market regulations. These new regulatory proposals were very promising, and as they move toward formal approval, there is more reason for optimism than at any time during the past two years. The atmosphere of chagrin and reassessment that we found is understandable in light of the setbacks of the recent past, but will prove to be too pessimistic if the new capital market regulations are approved and have the effect they are intended to have.

## **A Strong Institutional Foundation**

We found several facts that the Chileans we interviewed take for granted but which are essential prerequisites for venture capital and for economic growth to be promoted via the capital markets. First, Transparency International recently reported that Chile reached the enviably high 18<sup>th</sup> position in the Corruption Perception Index (2001) <sup>1</sup> The next highest ranked Latin American country was in 37<sup>th</sup> position. Second, Chile has been very successful in curbing tax evasion and in forcing the informal economy to merge into the formal economy. This is important because it raises tax revenues and channels a higher proportion of financial transactions through the formal capital market. Third, Chileans channel most of their savings into Chilean financial intermediaries. Consequently Chile's savings are available to finance new investments in Chile. In many countries tax evasion is a large problem, and in many countries savers put their money into investments abroad, so in those countries the local financial system does not allocate very much new money each year, and the local government has to borrow to cover its fiscal deficit.

**Growth Trayectory in Chile**



Source: World Bank / Instituto Libertad y Desarrollo

Chile had many years of high real growth and has a financial system that performs the task of gathering savings and allocating the savings to users who put the savings to work and repay them later with interest and capital gains. This was the major task the financial system had to perform during the years prior to 1997. The real rate of return that financial investments delivered was high enough during the years 1984-1997 so that middle-class savers in Chile had no reason to

<sup>1</sup> Transparency International, 2001. Corruption Perception Index. <http://www.transparency.org>

complain. The companies that had access to the capital markets were able to create jobs and innovations, so there was no reason to question whether Chilean capital markets performed adequately.

Since the middle of 1997, however, the growth trajectory of the Chilean economy has been lower and more erratic. There is a clear need for new companies to emerge and create new sources of employment and value added.

Now it is noticeable that Chilean capital markets are not raising and allocating very much risk capital, and consequently are not financing as many startups as the economy needs. Also it is clear that Chilean financial intermediaries have continued to perform well in raising and allocating risk-averse capital. So the concern about performance is focused on the availability of risk capital, which is essential for the economy, and the rate at which it is allocated to new ventures. Respondents stated that there is not enough total venture capital activity in Chile; startup financing is not being done on a large enough scale right now.

The concern that we encountered, and which coincides with our own assessment of the situation, is about the amount of venture capital activity, not about the quality of venture capital activity. We found data indicating that there are many more potential startups than the number that get funding; and we questioned closely whether the ones that get funding are the most promising ones, in case there would be perceptions of favoritism or bias. Respondents felt that the ones that get funding are especially promising, and most deserving of financing, so in that sense the Chilean capital markets are functioning efficiently as usual. There was some waste, however, because we heard of one case of a business that got seed capital and early stage venture financing but could not get later stage financing, and consequently failed when, in the opinion of one observer, they were on track to reach break-even. We did not learn enough about this case to verify that it was on track to break even, but nevertheless the case could have a discouraging effect, if indeed it happened. And if it did happen, it would be symptomatic of an insufficient amount of venture capital activity. Another possible explanation is that it could have happened because the underwriting criteria for allocating risk capital became more rigorous after the first

half of 2000, following the NASDAQ decline in the U.S. and after the disappointments with internet startups in Buenos Aires in the second half of 2000.

Our investigation and our results are conditioned by the sentiment in Chile at the time we carried out our research. We have tried to report the assessment of the people we interviewed, and to incorporate our impressions of what the outlook is.

### **Size of the Venture Capital Activity in Chile Versus the Size Needed**

Our interviews and data collection revealed that there is a shortage of venture capital at all stages of the new venture financing process: there are not enough angels, not enough seed capital, not enough early stage venture capital, not enough later stage venture capital, and not enough initial public offerings.

Our study does not cover private equity funds. There are many of those, and some of them are quite large. They usually make large investments in well-established companies that have existed for many years. The funds this study focuses on are the ones that invest in businesses that are new, and have not yet reached the stage where they can get financing from banks and cannot yet place bonds in the capital market. What we mean by venture capital covers angels, seed capital funds, early stage venture capital funds, and later stage venture capital funds. We found that there are between 80 and 90 funds operating in Chile in those categories<sup>2</sup>. Some are entirely locally financed and staffed. Others have funding from outside Chile, including foreign government agencies, multilateral financing agencies, and for-profit foreign companies. Others are local branches of well-known VCs and banks headquartered outside Chile. Staff of these

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<sup>2</sup> See Exhibit A (Venture Capital players in Chile)

funds is always highly qualified, with extensive international experience, and dedicated to their work.

There is a shortage of angel financing in Chile. All respondents emphasized that point, and suggested ways of increasing the number of angels, suggested ways for bringing angels and entrepreneurs together, and for increasing the amounts the angels could lend.

The funds that give seed capital or invest in early stage ventures are small on average. We learned that the typical fund operating in this segment has from \$2 million to \$20 million of total assets. Many of the funds in this segment have only been operating a short time, and have not placed all of their cash yet. They receive hundreds of good business plans and give priority to businesses that will be able to repay within eighteen months, usually by getting financing from a later-stage fund, or from some other lender. In that way the early-stage funds are sticking to their objective of financing startups and then getting the money back so they can finance new ones.

The funds that invest in later stage companies are larger, but there are not as many funds in that segment that are as active now as they were in 1999. Most notably, Chase Capital has become much more wary than it was in 1999. Many of these later-stage funds are associated with large business groups, including Televisa and Banco Santander.

The total assets of venture capital companies operating in Chile may be as large as \$30 billion. That figure includes assets of venture capital funds that are associated with large financial groups, and funds that invest throughout Latin America, not only in Chile. That figure also includes loans that venture capital companies made to businesses in the past and have had to extend the due dates of the loans beyond the original repayment date. Loans of that category may be good, in the sense that the borrower is paying interest, but the borrowers cannot refinance, so that part of the venture capital company's assets is immobilized. There have also been bad loans, and these have been provisioned or written off entirely, and these are not included in the \$30 billion figure.

The number of startup businesses in Chile that received venture capital from the middle of 2000 to the middle of 2001 was probably fewer than 200. We did not hear of more than 50 firms in Chile that received financing during that period, but respondents said there may have been other cases that were not reported. Incubators gave support to early-stage firms, and some respondents included that type of activity in their estimates.

All respondents stated that venture capital in Chile had slowed down after the first half of 2000. They often gave examples of businesses that had gotten financing, but could not think of many that had gotten financing after the first half of 2000.

The scope of this investigation was venture capital financing for companies that intend to become large and intend to make use of modern techniques and advanced technology. For that reason we excluded micro-lending. Respondents understood this, and so they gave their estimate of the average amount of financing these new businesses received in that light. They cited many cases of startup financing below \$500,000, and only a few cases of startup financing in excess of \$2 million. The cases they mentioned sometimes were from the period before the middle of 2000, but even so they could not cite more than a handful of startups that had received more than \$10 million of venture capital financing. During the same period there were large later-stage venture capital investments, on the order of \$30 million to \$50 million, but these were in Brazil and Mexico, not in Chile. Argentina has its Internet boom in 1999 and early 2000, but Chile did not experience such a frenzy. Sources tended to coningle venture capital and private equity capital investments. Nevertheless we did not find more than a few new investments of \$10 million or more in Chile during the cited twelve month period. Several respondents mentioned a big success in the telecommunications sector but did not immediately recall other successes of that magnitude during the recent past. Our best estimate for the total amount of seed capital and early-stage venture capital placements during the depressed twelve-month period from the second half of 2000 to the first half of 2001 is \$100 million or less.

For comparison, venture capital placements in the U.S. averaged \$50 billion a year from 1995-2000. This average is calculated excluding the record year 1999, when placements reached \$100

billion. If Chile had the same level of per capita venture capital activity, the amount of placements in Chile would have been \$2.7 billion per year.

Why are venture capital companies in Chile not larger and more successful? The Chilean economy certainly has enough promising potential. The respondents had several answers why have Chilean venture capital companies not had the enormous successes that Silicon Valley or Route 128 venture capital companies had. In Chile there have been cases of investments that yielded more than 1,000% or 5,000% but not very many. Also the asset turnover of Chilean venture capital companies has not been very high. Chilean venture capital companies have raised funds, then placed the funds in startup businesses, then waited to get the funds back so that they could place them again. In many cases they have waited much longer than they intended. Consequently they have not had as many chances to hit home runs as their size and years of operation might indicate.

More than any other factor, the lack of a vibrant IPO market in Chile has held down performance of Chilean venture capital companies. When a Chilean VC has a big winner, it cannot harvest the spectacular profit quickly. And when it has a moderately successful investment, it cannot quickly get its money back and try again.

How big does the Chilean venture capital sector need to be? To develop an estimate, let us begin with the number of jobs the Chilean economy needs to create. Suppose that the economy needs to create 350,000 new jobs to absorb the new entrants to the labor force and the workers who are currently unemployed. After that it needs to create 100,000 new jobs per year to absorb the people who will join the labor force each year.

The amount of new investment that is needed to create a single new job is between \$100,000 and \$400,000. The lower figure is what it takes to create a new job in the semi-skilled services sector, and the higher figure is the amount it takes to create a managerial or skilled technological job in the high tech sector. This range is widely cited for sophisticated economies like Chile's



and does not include investment in education. There are jobs that only require new investment of \$30,000 but these are unskilled jobs in poorer countries, for example bellhops or hotel maids.

The portion of that money that needs to be venture capital is 5% to 10%. In countries with large stock markets, the portion can be at the low end of the range, because the capital markets recycle risk-tolerant capital rapidly. The rest of the amount needed to create a new job comes from conventional risk-averse sources like banks. For the U.S. during the years 1995-2000 the annual figure for gross capital formation was in the range of \$1 trillion, or 20 times the annual amount of venture capital placements. For Chile with annual capital formation in the range of \$15 billion, a corresponding amount of annual venture capital placements would have been in the range of \$750 million a year.

Those parameters give us a range for the amount of venture capital that Chile needs to invest in order to create 350,000 new jobs. The figure at the low end of the range is  $5\% * \$100,000 * 350,000 = \$1.75$  billion. That figure is high by comparison with the amounts of venture capital that have been placed in recent time periods. Nevertheless an amount of that magnitude would be needed to create enough jobs to bring the level of unemployment down and to absorb this year's new entrants to the labor market.

After we developed the \$1.75 billion figure, we asked several practitioners what their reaction was to the amount. They agreed that the amount is approximately what is needed, and they agreed that an amount of that magnitude can be productively placed in Chile. There are enough entrepreneurs, enough opportunities, and enough skilled venture capitalists to allocate an amount of that magnitude efficiently. What they questioned was whether there would be enough qualified managers to supervise the large number of startups that the \$1.75 billion figure implies.

Here are the computations one respondent cited. If that amount of money would be placed in startups, as many as 2000 startups could be financed, because the average startup in Chile needs a bit less than \$1 million. He was willing to concede, for purposes of discussion, that there are enough entrepreneurs with ideas for startup businesses, and he was willing to concede that if

enough of these were successful, they would generate the needed number of jobs over a time horizon of two to three years. What he and other respondents all insisted, however, is that there would need to be seasoned advisors to these startup businesses. In Chile the typical startup business does not have a full range of seasoned managers on the team. Consequently the venture capital firm has to provide a management advisor for each startup. These advisors have to plan on spending one day a week working with each startup company. In many cases the advisor finds that one day a week is not enough and has to increase his time commitment to two or three days a week.

These seasoned management advisors would be in short supply. Several respondents questioned whether the venture capitalists in Chile would be in a position to provide enough of them to keep track of 1000 or 2000 startups. They considered this a serious limiting factor. They all emphasized that startup companies in Chile are very likely to lose the money unless there is a person on the management team with years of business experience and with enough restraint to keep the startup company from spending its funding too quickly, or from wasting it.

For that reason all respondents felt that the \$1.75 billion should be invested in a mix including private equity opportunities and venture capital. They felt that in Chile there are many businesses that are already medium-sized that can benefit from an infusion of private equity. The potential job creation, in their opinion, can be as large or larger, over the two to three year horizon they discussed for startup companies. For example, if each of 2000 startup companies created an average of 50 jobs over the next two years, that would be 100,000 jobs. This amount of job creation seemed high to the respondents for the next two years, because it would take many months to place the venture capital investments, and so the startup firms would not really have two years to create an average of 50 jobs each. Therefore the target of creating 350,000 jobs with strictly venture capital investment would take the full three years or longer.

In contrast, the prospects for private equity investment seemed good to them at the time the study was being conducted. They felt that there were many medium-sized companies that already had 100 employees, and with an infusion of capital and management could hire 100 more new

employees. So the speed of job creation, and the speed of earning profits on the \$1.75 billion investment, and the prospects for recycling the \$1.75 billion in Chilean capital markets, in their opinion could all be greater if part of the \$1.75 billion could be invested in private equity.

A big reason for their optimism about private equity was the Takeover Law (Ley de OPAS) and the forthcoming laws on capital market reform. These laws, in their opinion, would make it easier of private equity investments to pay off sooner.

After the initial \$1.75 billion has been placed, enough new business activity would be initiated to create enough jobs to remedy the unemployment problem. Two to three years was the time horizon that most respondents cited as the shortest time in which the unemployment problem could be fixed by that amount of new investments. After that, annual placements of \$500 million would need to continue to create jobs to absorb each year's new entrants to the labor market.

Note that we do not see a need for the level of venture capital investment that the high end of our range of estimates would imply. The high estimate of the amount of venture capital needed is  $10\% * \$400,000 * 350,000 = \$14$  billion. This figure is too high for several reasons. First, it assumes that venture capital investment is the only prime mover that leads to job creation and labor absorption. Obviously that is not correct because Chile has been able to create jobs with much less venture capital investment than these estimates call for. Second, the \$14 billion figure assumes that all 350,000 new jobs would be at the managerial or high-skill level, and that all of them would be in high technology. Realistically only some of the new jobs need to be at that level. For those reasons we consider that an initial investment of \$1.75 billion, followed by annual investments of \$500 million, will be sufficient.

Our estimate of \$1.75 billion is specifically the amount of venture capital needed to start businesses that will eventually create 350,000 new jobs. These startup businesses will also need approximately \$33.25 billion of ordinary, risk-averse financing, in addition to the venture capital financing. Note that the computation assumes \$19 of ordinary risk-averse financing, such as

bank financing, for every \$1 of venture capital financing. Raising and allocating ordinary financing has not been a problem for Chile and is outside the scope of this paper. The figure of \$33.25 billion is large but Chile has deep, efficient capital markets and excellent access to foreign capital, so we do not consider that raising risk-averse capital will be an obstacle for Chilean ventures that are already established and have good track records.

Now we can turn to the question of how quickly Chile's capital markets can recycle risk-tolerant capital. After these 350,000 new jobs have been created, 100,000 new ones will have to be created every year. What recycling assumption is reasonable for venture capital? That assumption affects the estimate of the total amount of assets the Chilean venture capital funds would need to have, in order to be able to finance that much new activity on an ongoing basis.

The recycling question is pivotal, as the following extreme example illustrates. Suppose that all the startup companies that Chilean venture capitalists invest in are able to refinance and repay after twelve months. The startup companies would need \$1.75 billion now, but would repay it all after twelve months. The venture capital sector could then downsize, and return \$1.25 billion to its backers because for the second twelve months there would only be a need for \$500 million of new venture capital placements. That \$500 million could then be recycled every twelve months. In this very rapid recycling scenario, after starting the businesses that create 350,000 jobs, the venture capital sector would be able to shrink, because after that it would only need to create 100,000 jobs a year. Due to the rapid recycling it could do that every year with the \$500 million of risk-tolerant capital it retained. Of course, this assumes that the venture capital investments each year would have a high success rate. But with that assumption and the high recycling rate, the venture capital companies operating in Chile would have reached a steady state. They need to attract new money from backers primarily because their asset turnover has been slow. Respondents did not say that the success rate had been low by international standards.

The key parameters in this calculation are the amount of new investment required to create a new job, the percentage of that new investment that has to be venture capital and not risk-averse capital, the venture capital funds' asset turnover rate, and the rate of profit of Chilean venture

capital companies. If Chilean venture capital companies can make profitable investments, and recover their cash quickly from the startups they finance, the estimate of how much venture capital Chile needs can be lower than the \$1.75 billion figure we are putting forward here. If, however, the startup companies will continue to treat venture capital financing as long-term financing, and will continue to have difficulty getting new loans from new sources, with which to repay the venture capitalists and angels, the amount needed will be greater.

With these caveats noted, our estimate is that Chile will need new venture capital investment of \$1.75 billion now, and that the need will decline to \$500 million after there has been enough job creation to remedy the unemployment problem that exists in the second half of 2001. If this amount is forthcoming, and if the results of investing it are successful, Chile will not need 100% of it after two or three years, and will be able to return as much as 60% of the initial \$1.75 billion to backers.

### **Diagnostic of the Current Situation for Would-be Entrepreneurs in Chile**

All respondents stated that there are abundant opportunities in Chile to start new businesses. Respondents emphasized new businesses to take advantage of technological advances that have been developed in Chile, or which can be applied in Chile. They also, however, pointed out opportunities in traditional businesses, including agriculture, tourism, forestry, and services. Our own observation supports their view, and so does the data for electricity consumption. Growth of consumption in the business sector was highest in the categories called commerce and others, which include services. These categories outstripped growth in manufacturing, mining, and residential. Growth of electricity consumption in the business sector continued to show the same promising pattern after the 1997 Asian crisis. New, smaller businesses continued to expand their consumption, especially in the commerce and services sector.

**DISTRIBUCION DE ENERGÍA ELECTRICA  
Abril 2001.**

Year and Month	Energy Distribution per Economic Sector (GWh)						
	Total	Residential	Commerce	Minery	Agriculture	Industry	Others
1996	27.729	4.693	2.245	8.955	362	9.426	2.048
1997	31.728	5.115	2.480	10.401	485	9.430	3.817
1998	33.833	5.623	2.818	11.456	594	9.797	3.545
1999	35.911	5.828	2.983	12.602	624	10.909	2.965
2000	39.510	6.515	3.480	13.410	623	11.962	3.520

There are many more good opportunities for startup businesses than the current venture capital providers can satisfy. All respondents agreed that there is a severe shortage of financing for businesses that are not yet large enough and established enough to qualify for bank financing or bond market financing. Their responses varied in respect to which part of the venture capital process had the most severe shortage: angel financing, seed capital, early-stage, later-stage; but they all agreed that there needs to be more venture capital financing. They expressed this need in terms of national growth targets, saying that Chile will not return to its customary 6% annual real growth rate unless more venture capital is forthcoming; and they also expressed the need by saying that backers who put money into venture capital funds in Chile will earn high returns on their investment.

There are well-trained managers in Chile, who are now ready to start their own businesses. Many of the best proposals for new businesses are coming from experienced managers, not only from recent MBA graduates.

Entrepreneurs in Chile seek more from venture capitalists than just money. They want and need the venture capitalists' hard-won, successful business experience. There was widespread agreement that venture capitalists need to be involved in the businesses they finance, if not in day-to-day management, than in an advisory capacity. This means that venture capitalists in Chile need to have local knowledge, and Latin American business experience. Startup businesses will need venture capitalists who can enter into relations with high trust, confidence, and total candor. The relationship will not be simply a lender-borrower relationship.

This need for close involvement and monitoring means that venture capital companies in Chile will need to have a suitable local mode of operation. It will not be as effective to have a venture capital company that invests cash and then pays little attention to the startup company. Relying on quarterly or half-yearly meetings will not be enough.

The successful venture capital firm in Chile is one that will

- Screen a large number of proposed deals, spanning a wide range of industry sectors;
- Pay close attention to the experience and quality of the entrepreneurs in addition to the ideas they propose;
- Research the proposed businesses thoroughly;
- Bring a large amount of business experience to bear, including experience in different types of industries, markets, and financial arrangements in Latin America.
- Form close business relationships based on personal trust, and act properly with integrity and responsibility.

### **Possible Effects of the New Capital Market Laws**

The fifteen new capital market regulatory proposals that were promulgated in April 2001 and are now being considered by the Chilean Congress have brought the issue of financing to the fore <sup>3</sup>. They have awakened much hope and cautious optimism. This discussion of their possible effects combines points that frame the debate over the new regulations, and put the debate into the context of the current situation of the Chilean financial system and the Chilean economy, and it also discusses the effects of the new regulations.

Venture capital firms need to recycle their cash. They hope to do that by selling their participation in the businesses they finance after a short time. They call these sales “liquidity events”. In the U.S. the liquidity event is sometimes an IPO. More often it is a sale to a large, established company. In Chile the IPO market has been non-existent for the past four years, and the equities market in general has been shrinking. The proposed capital markets regulations will reverse this shrinkage, and will hopefully have the effect of reactivating the IPO market in Chile. But the lack of “liquidity events” via the Chilean stock market has meant that the exit for most venture capital investments is a buyout. The buyers have often been foreigners, mostly foreign

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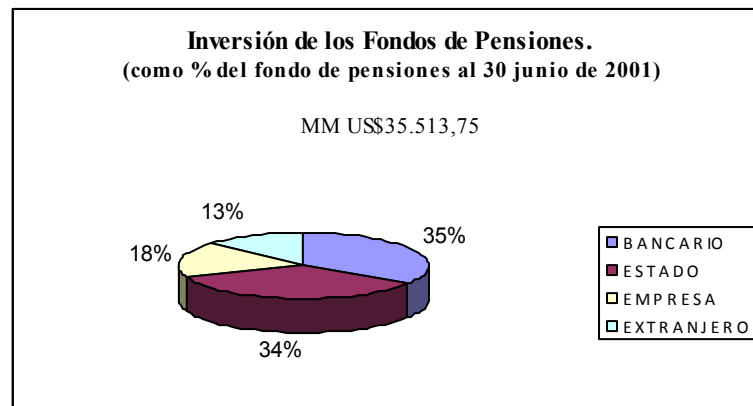
<sup>3</sup> See Exhibit B (Capital Market Reform Proposal)

companies whose shares are listed on a stock exchange in a rich country, where price/earnings multiples are high.

The accumulated pension accounts in Chile now total over \$40 billion. It is tempting to think that only 5% of that accumulation would be \$2 billion, more than enough to satisfy our estimate for the amount of venture capital needed. Many Chileans have argued that some of the money in pension accounts should be directed into venture capital investments. Indeed, some of the money already was directed into equity investments that are now illiquid and languishing. One respondent estimated that the AFPs have a total of \$350 million worth of illiquid Chilean equity securities that they would like to realize but cannot. Current legislation and practices make little room for pension fund managers to invest in anything that risky. The new capital market regulations would not cause pension money to be shifted from safe, conservative investments into risky venture capital investments.

The proposed new regulations would induce Chilean money to move into venture capital investments, but only indirectly, and any Chilean who wants to keep his investments in conservative holdings will be under no pressure to take any more risk than he is now taking.

The new regulations require AFP to offer funds that are riskier than the ones that they currently offer. These riskier funds will offer higher expected returns, and the returns will be more volatile. The riskier investments in these funds will be Chilean common stocks.



FUENTE: Asoc AFP-AG



At the beginning of April 2001, a foreign observer could easily have arrived at the conclusion that Chilean savers are very risk averse. The mix of assets in the pension funds was 92% fixed-income securities, mostly high-rated, and of short maturity. All respondents mentioned this extremely conservative mix of assets in the pension funds, and felt that it was caused by the incentives the pension fund managers were given, and by herding behavior on their part, and by growing concentration among the AFPs. Nevertheless the respondents were all distressed that the Chilean financial system is so oriented toward short-term, high-rated debt instruments.

They did not see this very conservative mix of assets dispassionately, as a foreign observer might. They did not see this extreme risk aversion as the natural and logical consequence of several recent facts: first, Chilean savers could achieve all their financial goals without taking risk because until recently the real rate of return on low-risk securities has been high; second, the history of all categories of risky securities that Chileans might have bought since 1994 has been erratic – not enough return to justify the volatility. Instead respondents saw the history of the Chilean financial market since the early Nineties and especially since the Asian crisis of 1997 as a lengthy and unhappy detour. The market seemed in 1990 to be on the road to full status as a prime mover of the Chilean economy. It was going to gather and allocate savings to the full range of uses that the country needs. In 1990 it was also possible that Chile would have become a financial center, and would gather and allocate savings from other countries. During the period covered by this study, Chilean financial market participants were discouraged, and frequently mentioned their lowered hopes. They seemed to feel that the Chilean capital markets have some limitations, or failings, or suffer from structural defects that prevent them from raising or allocating risk-tolerant capital as well as they are able to raise and allocate risk-averse capital. They do not consider Chile a financial center, nor a showcase of financial development. They agreed that Chile's financial development from 1982 to 1993 was really astonishing, brilliantly successful, and correctly considered a miracle. The history since then, however, they considered much less miraculous, and in some senses discouraging, as if the great story has lately had an anticlimactic ending.

Respondents considered Chile's financial system an oligopoly, with low innovation, resting on its laurels. Several of them felt that it has lost its relevance to the country's current needs. They complained that the Chilean financial system is no longer controlled by Chileans. Instead it has been captured by foreigners who have turned many of the previously innovative organizations into cash cows. According to these respondents, the primary objective of these organizations is now to pay off the money the new owners borrowed in Europe to buy control. Foreign buyers have bought control of many major elements of Chile's financial system – e.g., banks and AFPs, mutual fund management companies and insurance companies.

One respondent lamented that several large, dynamic companies had been turned into cash cows. Some of these were, in his opinion, among the most innovative, technologically sophisticated and expansionist companies in Latin America. Foreigners bought the controlling blocks of shares using cheap financing they got in Europe, then stopped the companies' expansion and forced them to become cash cows so that the new controlling shareholders could pay off the money they borrowed to buy the controlling block of shares. When they have paid off the loan, or whenever they want to sell the control block, the way for them to make the largest capital gain will be to sell the block to other European buyers, who will pay a huge price for it with money borrowed in Europe. The new owners will then need to direct the company to pay 100% of its earnings as dividends, and will oppose any new issuance of shares, and use the dividends to pay off the loans. One objective of the Takeover Law (Ley de OPAS), according to some respondents, was to make sure that Chilean minority shareholders would benefit when the controlling block of shares changes hands. There was some disagreement among respondents whether the law would succeed in obtaining rewards prices for minority shareholders.

Most respondents felt that the pattern of turning large, dynamic companies into cash cows was repeating itself in the finance sector, or had already repeated itself. They mentioned the AFP, where five firms dominate. They said that the investment policies of all five have been to buy locally issued paper that does not require any analysis, e.g. treasury bills, certificates of deposit, and prime commercial paper. That way the AFPs do not have to pay analysts.

These remarks may only show how discouraged the respondents were at the time they gave the interviews for this study, which was just as the new capital market regulations were launched. If what they say is true, it would partially explain why the AFPs hold so much low-risk paper, and so little common stock. It would also explain why Chilean capital markets have been so focused on allocating risk-averse capital, and so willing to abandon the task of allocating risk-tolerant capital.

There are several possible explanations besides the oligopoly explanation advanced above why the AFPs do not support very much stock market research, and they do not buy new issues of common stock. Most obviously, new issues of stock are too small and too illiquid. That is also true of many common stocks listed on the Santiago Stock Exchange, so the AFPs cannot buy most common stocks, except the most heavily traded shares. The Chilean stock market is too small relative to the AFPs, partly because of all the companies that have been bought and removed from stock exchange listing, and because the AFPs are too large relative to the market capitalization of many firms that are listed. For example, an AFP with \$10 billion under management cannot bother with the shares of a company that has a market capitalization of \$40 million. The shares don't trade much, so the AFP would need to buy for a long time in order to establish a position without affecting the share price, and if they wanted to sell they would need to spend a year selling to keep from depressing the price. So they don't buy the shares in the first place, and the vicious circle worsens.

The April 19 capital market regulatory change proposal, the Takeover Law (Ley de OPAS), the bolsa emergente and Corfo's matching fund are the government's proposal to break this vicious circle<sup>4</sup>. Respondents were very optimistic about the new capital market regulations, and had a very positive view of Corfo's relevance and effectiveness. But they were skeptical and dismissive of the bolsa emergente proposal. They brushed aside the bolsa emergente proposal because they said the shares that would list there would have very little liquidity. A typical comment about the bolsa emergente was, "They're going to do an IPO of 20% of the stock of a company valued at \$10 million. That's \$2 million of stock. Who's going to want to buy any of

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<sup>4</sup> See Exhibit C (Press releases about Bolsa Emergente Proyecto)

that? Around here nobody wants to be a minority shareholder in a small company. The management just ignores those minority shareholders. So if anybody buys the IPO in the first place, no new investor will buy it from them, and after a few months there'll be no liquidity in those shares." Another comment was, "We already have a lot of illiquid shares around here. Look at the main stock exchange. There are hundreds of listed companies there, so we've already got a bolsa emergente. We don't need another stock exchange full of illiquid shares."

The capital market regulatory changes were, in part, already being treated as if the Congress had approved them. Indeed by October 2001 two thirds of the proposals had been approved, and respondents were optimistic that the remaining one third would be approved in 2002. The most obvious example of this is the way the AFPs reacted to the 401-k proposal. As of April 19, the AFPs were only 8% invested in common stocks. If the Chilean Congress approves the 401-k regulatory change, AFPs will have to offer a range of five different mutual funds, targeted to different age categories and attitudes toward risk. At first it appeared that in the aggregate these funds would have to be 30% invested in common stocks. Also AFPs have to buy Chilean common stocks in Chile; they cannot buy them in New York. This regulation would require the AFPs to increase their common stock holdings by  $(30\% - 8\%) * \$38 \text{ billion} = \$8.36 \text{ billion}$ . At the recent rate of transactions in common stocks on the Bolsa de Santiago of \$16 million per day, that is 522 trading days' worth of transactions volume. The response by the AFP is obvious. They have to oppose the 401-k plan, and at the same time they have to start buying common stocks in case the Congress approves the plan. Their buying has caused a rally in the IPSA, and the rally brings pressure on the Congress to approve the 401-k plan. If the Congress disapproves the plan, the IPSA will fall, and owners of Chilean common stocks will lose the paper profits they have recently made. So the 401-k plan creates its own pressure to be approved. It may be the beginning of a virtuous circle that will be the new dynamic rebirth of Chilean capital markets.

In October 2001, the AFP had already increased their holdings of common stocks to 15%. Because of the deterioration of the Chilean exchange rate, in October respondents were using the figure \$35 billion for the value of pension fund accounts. Their estimate was that holdings of common stocks would have to go up to 22% of the total. So the new buying would have to be

$(22\% - 15\%)*\$35 \text{ billion} = \$2.45 \text{ billion}$ . The total amount of common stock available to purchase, however, is much less than appears at first glance. The capitalization of the Chilean stock market is less than \$50 billion. Of that, as much as \$30 billion is unavailable to purchase because those are the control blocks. Also the AFPs already own 15% of \$35 billion, which is \$5.25 billion. That leaves  $\$50 \text{ billion} - \$30 \text{ billion} - \$5.25 \text{ billion} = \$14.75 \text{ billion}$  worth of common stock available to buy. Respondents said that the amount of stock that experts would be interested in buying is considerably lower than that, perhaps around \$10 billion.

So the stage is set for a stock market revival. If the Chilean Congress approves the third part of the capital markets reform proposal, the AFPs would have to buy \$2.45 billion more Chilean common stocks than they currently own. They would have to buy those stocks through the Bolsa de Santiago. And they would have to choose from only \$10 billion of shares currently available. The people who own those \$10 billion of common stocks know this, and would hold the shares off the market and demand high prices. The AFPs would buy and support a rising market. International momentum traders would see the rise and also buy, and the Chilean stock market could rise very sharply.

Respondents agreed that this is a likely scenario, but expressed skepticism about a full rebirth, however. They were not going to plunge enthusiastically into buying Chilean common stocks with their own personal discretionary portfolios until the third part of the new capital market law seemed on the verge of being approved. They did not express the strong belief that the new capital market regulations would change the expected returns enough. Chilean common stocks, in their opinion, would continue to be risky, and there were several reasons why they thought so. Most obviously, they needed to see better protection for minority shareholders. In their view, it has been too easy for the dominant shareholder to extract most of the benefit. The Takeover Law (Ley de OPAs) has shifted power to minority shareholders, and has worked so well it has caused a debate about whether the “control premium” still exists. In October respondents all felt that the “control premium” had been taken away, but had not successfully been distributed to minority shareholders. They argued that the third part of the new capital markets law had to pass before the Takeover Law would really redistribute wealth. For the time being it had taken away wealth

from the controlling shareholders but there was no guarantee that the new law, which they expect to become official by March 2002, would really put the wealth into the pockets of minority shareholders.

A numerical example will illustrate the effect that the new capital market regulations can have. Suppose that there is a privately-held company that in a private sale would be worth \$10 million. Also suppose that there is one person who owns 51% of the shares of this company. Since this company is not listed on the Chilean stock exchange, the 51% block is worth  $\$5.1 \text{ million} * 1.3 = \$6.63 \text{ million}$ . That assumes the control premium is 30%. By simple subtraction, the remaining 49% of the shares are only worth  $\$10 \text{ million} - \$6.63 \text{ million} = \$3.37 \text{ million}$ . They are worth that much, instead of \$0, because Chilean law requires that 30% of aftertax profit be distributed each year as dividends. Also Chilean law protects minority shareholders from falsified or distorted financial statements.

Respondents all agreed, through the entire period of this study, that the company worth \$10 million in a private sale would be worth somewhat LESS than that amount if it were listed on the stock exchange. This crucial point, in their view, has been true for most of the past seven years. The reason is that being listed on the stock exchange entails costs and brings no benefit because shares of all but the largest companies are extremely illiquid. Every respondent had his or her favorite example of an extremely depressed stock. They mentioned stocks quoted at six times earnings, and four times earnings, and companies with stock market capitalization less than net liquid assets. So for purposes of this numerical example, we use \$9 million as the value of the company if it is listed on the stock exchange.

Now we can see the effect that the Takeover Law (Ley de OPAS) and the new capital market regulations have had so far. Because of the Takeover Law, the person who owns 51% of the company has a block worth 51% of \$9 million = \$4.59 million if the company is listed on the stock exchange. This is \$2.04 million LESS than if the company has not gone public!

After the third part of the new capital market laws has been passed, and the Chilean stock market rises, the company worth \$10 million in a private sale would be worth as much as \$20 million if it lists on the stock exchange. The person with 51% of the stock would have a block worth  $51\% * \$20 \text{ million} = \$10.2 \text{ million}$ . Note that he would have no control premium, but he would have \$3.57 million more than if the company were not listed, and \$5.61 than he does now if the company is listed.

The conclusions that respondents drew from this numerical example are these:

1. The Takeover Law and the new capital market laws will work together well, but will not achieve their intended effect unless they are all passed and enter into effect in coordination.
2. The Takeover Law by itself does take away wealth from the controlling shareholder, but will not succeed in distributing that wealth to minority shareholders until the rest of the capital market changes are approved. For the time being, what the controlling shareholder loses is more than what the minority shareholders gain. The numerical example illustrates this. If the company is privately held, we saw that the 49% is worth \$3.37 million. If the company is listed, and demand for common stock remains depressed, the 49% is worth \$4.41 million ( $\$9 \text{ million} * 49\%$ ). The majority shareholder lost  $\$6.63 \text{ million} - \$4.59 \text{ million} = \$2.04 \text{ million}$ . The minority shareholders have gained, so far, only  $\$4.41 \text{ million} - \$3.37 \text{ million} = \$1.04 \text{ million}$ . Worse still, the minority shareholders have not been able to realize their gain, because liquidity is still inadequate on the Bolsa de Santiago.
3. Companies that de-listed themselves before the Takeover Law went into effect created value for the controlling shareholder, by avoiding the loss of the control premium.
4. Controlling shareholders will be reluctant to list their companies on the stock exchange until they are sure that the valuation of the company will be high enough to compensate for the loss of the control premium.
5. Respondents suggested a way of overcoming this bias against listing companies on the stock exchange. They argued that the tax code should exempt from capital gains tax the profit on selling the control block if the stock is listed on the stock exchange. If the stock is not listed, then the seller of the control block should have to pay tax on the capital gain.

To see how this would work, let us use the example of the company that is worth \$10 million in a private sale. Suppose that the person who owns the 51% block paid \$1 million for the block when he bought it many years ago. If he sells the block in a private sale, he gets \$6.63 million. His gain would be \$5.53 million. If the tax on capital gains is 40%, his gain would only be \$3.32 million. Now consider what happens if he lists the company on the stock exchange and then sells his 51% block. He would only get \$5.1 million for it, and so his gain would be \$4.1 million. But if that gain is exempt from tax, he would keep the entire gain of \$4.1 million instead of keeping only \$3.32 million. That change in the tax law would stimulate companies to list their shares on the stock exchange. If the third part of the new capital markets law passes, the demand for common stock would rise, and this change in the tax law would stimulate an increase in the supply of common stock. The Santiago Stock Exchange would become larger, and would once again take a central role in raising and allocating risk capital.

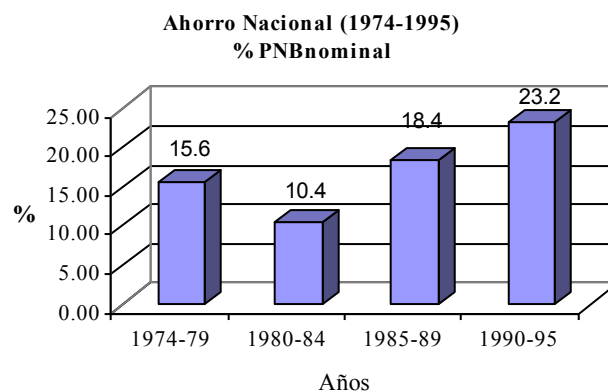
But there are other issues about minority rights, and it remains to be seen what will be the new practices in that regard. The proposed changes in the legal status of minority holders will have to be validated in the courts. The courts will also have to ratify the stronger enforcement of laws against trading on inside information. Respondents did not mention the matter of professional liability insurance, especially for auditors and lawyers, but they were aware that audit statements and legal opinions have to be reliable, and cannot be unless auditors and lawyers have access to professional liability insurance.

Respondents expressed the desire for Chilean institutions to perform all the parts of the financial intermediation process. They wanted the Chilean capital markets to supply more venture capital, and they also wanted Chilean capital markets to raise enough capital so that when a large, established company is for sale, Chilean buyers can outbid foreign buyers. Their desire does not stem entirely from nationalism. They did not want Chile to be exposed to the volatile swings of international capital flows. In their view, it is bad enough for Chile to be exposed to the swings of international goods markets; that is inevitable because the country's policy is to be open to trade in merchandise. It is too much, in their opinion, for Chile to be open to massive inflows and



outflows of capital. They do not think that Chile is a financial center and they do not think that Chile can become one. The suggestion that Chile already is a financial center sounds strange to them, and many of them had not entertained the thought before. Only Alvaro Clarke, the head of Chile's SEC, expresses the conviction that Chile can be financial center.

Respondents thought that Chilean savers could supply more of the needed venture capital. They felt that the amount of savings in Chile is large enough for the country to be able to provide all the risk capital that is needed to finance startups in the amount that will be required to give the country sustained real economic growth in the 8% range<sup>5</sup>. They mentioned Chile's relatively high savings rate, and emphasized that many of the savers are young people, who should be willing to invest in risky investments like venture capital funds.



Fuente: Base Pima  
Flores, T, "Sector Público Financiero", 1995 y corrección 1996

Consequently they did not think that there necessarily has to be such a large role for international risk-tolerant investors to supply the venture capital that Chile needs. Chileans, in their opinion, should take the risk of financing as many new ventures as there need to be in Chile. When pressed on that point, they admitted that it is reasonable to expect Chilean savers to seek international diversification; and it is also reasonable for foreign portfolio investors to invest in Chilean securities. They also admitted that it is especially reasonable for foreign portfolio investors to invest in the risky securities that will have to be issued and placed if there is to be a

<sup>5</sup> "Private saving has experimented a very significant increase in the last twenty years in Chile. From negative figures in mid-seventies, it has reached levels over 16% of PNB in mid-nineties."(Ahorro Privado, Dominique Hachette)

big increase in venture capital financing in Chile. They willingly acknowledged that the amount of risky securities that will have to be issued and placed is in excess of \$1 billion a year. That figure may be low if enough startups and early-stage high-growth companies are to get the financing they need to grow as fast as their potential would allow, without facing capital constraints.<sup>6</sup> They also acknowledged that there is no period in Chilean history when that amount of risky securities have been issued and placed in the local market. Furthermore, the conservative underwriting practices of Chilean capital markets would impede issuance of risky securities from reaching that level. In the international capital markets, by contrast, the appetite for risky securities is much greater. For example, in the year 1999 total venture capital financing plus IPO financing have exceeded \$150 billion in the U.S.

From these considerations we conclude that if there is to be enough risk-tolerant capital in Chile to support the new de facto economic growth strategy, a large portion of the money is going to have to come from international portfolio investors.

### **Performance of Chilean Stocks and Bonds**

The previous discussion shows that a large amount of risk-tolerant capital is needed, and casts doubt on the prospects for raising it from Chilean savers. The prospects for raising the needed amounts in international capital markets are much better. Before we can count on foreign portfolio investors as big providers of financing, however, we need to review how well they have done with the investments they have made in Chile in the recent past.

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<sup>6</sup> The total annual amount of risky securities that Chilean companies will need to issue could be larger than \$1 billion per year. The \$1 billion figure contemplates “liquidity events” for existing VCs in Chile, as well as issuance of common stocks and bonds by Chilean companies that are still too small to qualify for investment-grade credit ratings.

International portfolio investors have earned mediocre returns on Chilean equities since 1994. Many of the large-capitalization stocks that international portfolio investors typically buy have delivered negative returns since 1993.

The panorama for investors in fixed-income securities has been much more encouraging. International portfolio investors have earned excellent returns, when adjusted for volatility, on Chilean fixed-income securities. Chilean debt instruments are the top quality instruments in the category where they have traditionally been assigned. This means that in moments of panic like August-September 1998, Chilean bonds fluctuate less than any other bonds in the category. The category is emerging-markets debt; any by many objective criteria Chilean bonds should not be included in that category. They should have been removed from that category at some point after 1988 or 1989. Nevertheless they are still in it, in the very important sense that when there is a flight to quality, many portfolio managers buy Chilean bonds. To see why, consider the situation that the manager of an emerging markets portfolio faces when there is a panic. The portfolio is supposed to be invested in emerging markets bonds. So if the manager is concerned about the prospects for one country, say Turkey, and sells Turkish bonds, he or she will invest the proceeds in Chilean bonds. The portfolio's guidelines may allow the proceeds from the sale of Turkish bonds to be held in U.S. Treasury bills for a period of time, but sooner or later the portfolio manager will have to reinvest the money in emerging markets debt instruments. If the manager is still nervous, the safe haven is Chilean bonds.

This special position that Chilean debt instruments have is an advantage that has taken a long time to acquire and can now be used constructively to attract capital for risky businesses. International institutional investors will buy Chilean bonds and there are businesses in Chile that need capital -- so the technical question is how to bring the supply and the demand together. The demand is for safe paper, so the risky Chilean borrowers will need to take steps to shield the institutional investors from the risks that each individual company presents. Each individual company on its own cannot issue bonds because those would be junk bonds, and there is no Chilean junk bond market. Encouraging individual weak Chilean companies to issue bonds would be a bad idea because it would damage the image of Chilean bonds in the eyes of

international investors. Also bond buyers are experts and they would not buy large amounts of bonds issued by small, unproven Chilean companies. So trying to place low-rated or unrated Chilean bonds in international markets would do damage and not attract much capital.

The bonds that can successfully be issued, without damaging Chile's image as a prudent user of borrowed money, would have to be structured. They would need to include credit enhancements to protect buyers against downside risk and would have to have warrants attached to give investors upside potential in excess of the high yields they would require in order to agree to buy the bonds. The bonds to be issued would have to be reviewed by credit rating agencies before being issued.

Chilean venture capital firms and startup companies can issue and place large amounts of securities, and the buyers of those securities can earn returns high enough to be satisfied. Some of the buyers can be local but most of them are going to have to international, at least for the time being. The possibility of Chilean buyers having a large enough appetite to buy the volume of risky Chilean securities that will need to be issued is remote. This is true even if the risky securities are packaged with credit enhancements. Foreign portfolio investors have good reasons to be more tolerant of Chilean risk and consequently would be willing to buy risky Chilean securities with fewer, less expensive credit enhancements. Foreign portfolio investors are, by definition, less exposed to the volatility of the Chilean economy, and have less of their portfolio invested in Chilean assets. For that reason they can tolerate Chilean securities with higher risk and less downside protection. What this means in practice is that Chilean issuers who are too new or too risky to qualify for a high credit rating will be able to issue securities in international markets at lower all-in cost.

### **Creating an Entrepreneurial Culture in Chile**

One of the main objectives of the Babson-Universidad del Desarrollo collaboration is to contribute to the environment that will support an increase in the number of new businesses that are created in Chile, and in that way create new, good jobs. This section of the report gives our findings on the culture of the entrepreneur.

There are more than enough young people in Chile with education, ideas, and willingness to try something new. There are also enough new business opportunities so that all of them can find something original and creative to start. There are also several incubators<sup>7</sup>, and there are research institutes to give new ideas and new technologies. Opinions varied whether there is enough financing for feasibility studies.

The limiting factors that we observed are capital and, perhaps, other important pre-conditions for rapid entrepreneurial growth. In that regard it is important to mention that many informed people in Chile are more concerned about the other important pre-conditions. All respondents emphasized the importance of technology, and argued for greater emphasis on technology. They wanted all Chilean productive activity to be world-class, and to use cutting-edge technology. They feared that Chilean activity is losing its technological edge, and that consequently Chilean competitiveness is slipping. Some respondents were quite fixated on technology and competitiveness and stayed on that subject. Those respondents also stressed economies of scale and critical mass of related activities, because these are necessary to support a cluster of related businesses, and Chile, as a small country<sup>8</sup>, cannot assume that critical mass will easily or automatically be achieved. Their points are valid and important, but not completely exhaustive as some respondents seemed to think. Some respondents were so production-oriented that they only talked about production processes, manufacturing technology, exporting, and competitiveness. They only mentioned capital as a limiting factor as an afterthought.

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<sup>7</sup> See Exhibit D (Incubators in Chile)

<sup>8</sup> Chile has a population of 15.1mill and a GDP of \$8.350.957mill, in contrast with the US that has a population of 290mill and a GDP of \$10.000.000mill.

We saw capital, and in particular capital for young entrepreneurs<sup>9</sup>, as the more pivotal scarcity. Not every business has to export, or compete with imports, and not every business has to use the most advanced and sophisticated technology. We agree that competitiveness, critical mass, and economies of scale are important. We do not think, however, that those attributes are as completely preeminent as many informed Chileans seemed to think. In many rich countries there are only a few really competitive industry sectors that use world-class technology, and export successfully without resorting to aggressive pricing or dumping. In those rich countries the rest of the industry sectors are below world-class standards, yet they provide products that local consumers find satisfactory, and they create employment, backward and forward linkages, and growth. Many of these industry sectors are where local entrepreneurs can work, and find niches and footholds and become successful. The same pattern of world-class sectors alongside less stellar sectors can be viable for Chile. To give an extreme example, a chain of hair salons, a pharmacy, or a chain of restaurants can be valuable, without in any sense being at the cutting edge of technology. Respondents seemed to think that businesses like that, involving non-traded goods or everyday services, are not worth thinking about. They also seemed to think that businesses like that do not need venture capital, and would not attract any buyers if they issued securities.

In our view there needs to be more recognition in Chile that the causes of the current stagnation, and the remedy for it, are not exclusively technology. The people we talked with all had well-reasoned and convincing explanations for Chile's recent stagnation, and thoughts about how Chile's economy can get going again. Remarkably, their explanations all gave primary importance to technology, and they ascribed a handmaiden role to capital, if they mentioned it all. This is consistent with the view they have of Chile's economic miracle: they thought Chile succeeded by improving its production efficiency, and they did not think that Chile's pension fund innovations were a prime mover of growth. On the contrary, they felt that the pension fund money paid for improvements in production processes, and were important to Chile's growth for that reason. The improvements in financial services were not prime movers because services are not as tangible as manufactured merchandise. Their vision of Chile is not as a service economy;

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<sup>9</sup> See more details in the interviews with young UDD graduates (Exhibit E)

rather their vision is resolutely that Chile is a manufacturing economy, and its future revival, in their view, will come from manufacturing. They agreed reluctantly with our assertion that there are many opportunities in Chile to start successful businesses that will not use high technology, or newly-developed technology, and will not export very much of their output. They did not seem to feel that these medium-technology businesses were worth promoting, nor capable of generating the bulk of the needed jobs. They conceded that every business has to use capital, but did not point that out themselves. They also conceded that if an entrepreneur has a good idea, and the energy and skill to put it into effect, but lacks capital, the business does not get started; but once again they did not mention that themselves. They seemed only to think of it when we brought it up.

In addition to these general considerations, there were several specific points that respondents mentioned on the subject of culture.

Young Chileans need role models and success stories. One of the major reasons they do not choose the career of entrepreneurship in large numbers is because they do not meet entrepreneurs at critical times in their formative years. Three people I interviewed emphasized this point as the single most important obstacle to Chile's new strategy of growing by relying on medium-sized businesses. Students do not need to meet only entrepreneurs who have already had a big success. It is appropriate and effective for them to meet younger, less successful entrepreneurs, including ones who have failed, and are trying to start again. The reflex impulse is to bring older, extremely successful entrepreneurs, who have already made millions, but that is only part of the solution. Respondents said that Universidad de Desarrollo needs to develop a large group of entrepreneurs who will come to class and talk about their experiences, even if those have been unsuccessful. Students need to see a range of people, not only a series of older, extremely successful people one after another.

Many respondents said that Chilean entrepreneurs become satisfied sooner than they would in the U.S. and so do not appear to have been seeking a really big success. They reach a point where they are making \$100,000 - \$200,000 a year and then stop growing their businesses. At that

point they have only perhaps five people working for them. When their business becomes successful, they attempt to pay back all the financing, and support the expansion of the business entirely with internally generated funds. So part of the reason for their satisficing behavior is a desire to de-couple themselves from commercial banks, and release themselves from personal guarantees. Another major motivation is simply the desire not to be an employee, instead to be their own boss. It is easy to see how respondents would have that impression, but to us it does not imply any intrinsic difference between Chilean entrepreneurs and North American entrepreneurs. There are good reasons for Chileans to be less enamored of the entrepreneurial life – for example, the practice of granting stock options is much less widespread in Chile, so there are not very many examples of people who gained when an entrepreneurial company struck it rich. Also, the Chilean entrepreneurs may only be responding to barriers they perceive in the capital market. They may think there is no possibility of doing an IPO<sup>10</sup>, and they may not see any other way of releasing themselves from personal guarantees. Another possible explanation is that in North America, a company cannot be sure that its niche is stable, so it has to keep growing fast, or run the risk of falling behind and becoming obsolete. So North American entrepreneurs have good reasons for continuing to push for greater success even after they have already succeeded. Many Chilean entrepreneurs, according to the people we interviewed, do not have such strong incentives to keep growing. If that is true, it is a major barrier to rapid growth, and will deserve high-level attention.

The upside potential for a Chilean entrepreneur is not as great as it is in the U.S. There are several reasons for this. One, there is not as much chance of a new company achieving a huge stock market valuation before it has had years of profits and has had time to accumulate a large pile of assets. There were instant multimillionaires in Argentina but not very many in Chile. Also being a millionaire on paper is considered in Chile somewhat dubious, imprudent, and insubstantial. In North America the paper millionaire is seen as a serious and successful, not a fool who has let visions of wealth go to his head.

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<sup>10</sup> “An IPO exit through the local stock market is not an option for private equity and venture capital investors. Although Santiago securities exchange listings have an aggregate market cap equal to 70% of GDP, the market is small, illiquid, underdeveloped and shrinking in trade volume and listing. There have been few if any local IPOs in recent years,” (Entrepreneurship in Argentina and Chile, McDermott/La.nge.2000).



Opinions varied on the importance of inherited status. In Chile there is a social hierarchy, and family name<sup>11</sup> has a lot more to do with social status than it does in the United States. The U.S. has its hereditary rich families, but many people from humble origins and immigrants succeed in becoming super-wealthy. In Chile one cannot rise to the highest levels of society very quickly, regardless of merit or accomplishments. Opinions varied widely on this last point. Some said that Chile is a less hierarchical society than most other Latin American countries, but all agreed that there was some reticence to embrace the newly-rich person of humble origin, who still has bits of soil clinging to his boots. The doors of the most exclusive clubs and counsels may remain closed to him, no matter how successful he has been. If this is true, it might make some difference, but we do not consider it a very powerful explanation for the relatively low amount of entrepreneurial activity in Chile.

The downside risk to being an entrepreneur in Chile is much more severe than in the U.S. Failing in business is not forgiven easily. Debt is not wiped off the books as easily as in the U.S. and the stigma of failure can easily last a lifetime in the more traditional sectors of Chilean society. Several people insisted that in Santiago there are plenty of people who took risks and lost, so the financial system has accommodated to deal with this fact; they have gotten new loans, and have been able to get houses and cars and credit cards again after losing them. There are also social circles in Santiago where it is not held against a person for having failed in business. In the secondary cities, however, the stigma of failure is harder to shake off, and the risk of living a severely constrained life still has to be considered serious. If this is true, it would be another reason for young people to hesitate before taking the plunge into a new business venture.

Our suggestions for getting more entrepreneurial activity going in Chile are

- provide role models; a formal plan to put experienced entrepreneurs into mentor relationships with younger would-be entrepreneurs.

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<sup>11</sup> See Exhibit F (Family Groups / Wealthy Individuals)

- organize tours of the Stock Exchange, the AFPs, and other financial intermediaries for would-be entrepreneurs, then follow up with meetings and focus groups, so that young people can understand the capital raising process.
- provide seed capital and early stage financing without requiring personal guarantees from the entrepreneurs; motivate the entrepreneurs to put their maximum effort into making the business a success by other incentive schemes.
- Continue with the effort to revise the Bankruptcy Law so that an individual can get a fresh start after failing in business.
- provide more incubators, in addition to the ones that are already operating.
- organize regular events where would-be entrepreneurs can present their plans to angels. These have been particularly successful in Silicon Valley, and there are similar events in Chile already, but there need to be more. Weekly or monthly dinners, with twenty or thirty successful people listening to three proposals of fifteen minutes each, can have a big impact.
- reward entrepreneurs by deferring their student loans, or by paying some of the accrued interest on their debts.
- Launch an Entrepreneurship concentration at Universidad del Desarrollo, with a student loan fund that only Entrepreneurship concentrators can access. For entrepreneurs who get financing, and then create jobs, reward them by forgiving part of the loan, or giving them a longer deferral.

### **Creating a Liquidity Event for Chilean Venture Capital Firms and Other Chilean Financial Entities that Have Illiquid Loans in Their Portfolios**

The venture capital funds that exist in Chile and the other lenders who have financed startup ventures in Chile need more liquidity events. In recent years the liquidity event for Chilean venture funds has come when the controlling shareholders sell the whole company. If the controlling shareholders do not sell the whole company, they often try to repay all external

financing by directing the startup company's cash flow to repaying lenders and shareholders who are not in the inner circle.

Consequently asset turnover in Chilean venture capital funds has been too slow. Chilean entrepreneurs do not focus on getting new rounds of financing to pay off the initial backers. Instead they try to treat each financing source as permanent, and will subconsciously think they are going to repay each source from the cash flows of the business. They are aware that they should get financing from a new source and use it to repay financing they got earlier, but they think that the practices of Chilean lenders do not make that easy to do. Instead of a succession of financings, they think in terms of one, and seek another only when the first source cannot or will not give them more loans.

Respondents gave estimates of how much Chilean venture capital funds, pension funds, banks, and government agencies have invested in financial assets that are now hard to liquidate. The amounts they mentioned include past purchases of shares of startup companies, and shares of initial public offerings that are now illiquid. They also mentioned loans that are in good standing but hard to refinance, and loans that are subordinated and have been renewed for longer periods of time than the lender originally intended. The total of all this illiquid paper approaches \$1 billion. This includes \$350 million of illiquid equity securities in the portfolios of the pension funds.

We propose to create a series of liquidity events to turn this illiquid paper into cash. The proposal is to launch a series of international issues of structured securities. To us this seems like the easiest and most obvious way of mobilizing new money to re-build the liquidity of Chilean venture capital companies and other risk-tolerant Chilean financing sources. We propose a structure that will convert risky Chilean securities into highly-rated bonds with upside potential. This way we circumvent the question whether there is enough appetite in Chile or in international markets for risky Chilean securities. We also circumvent the question whether the new capital market regulations, after they are all in effect, will trigger enough of stock market revival to allow all this illiquid paper to be turned into cash. We access the enormously liquid international

market for highly-rated bonds, and we make the bonds attractive by giving the buyers some upside potential.

There are many possible ways of designing an issue of securities. The design we propose here is intended to take advantage of overcollateralization and credit enhancement. It is patterned on mortgage securitization, and on factoring. The securities that we propose issuing are bonds with several special features added. They will have a credit enhancement, so that they will be highly-rated; and they will have warrants attached, so that they will have upside potential.

The size of the issue that we propose is \$200 million. This will be large enough to bring an important injection of liquidity to Chilean venture capital lenders, and also large enough to support the cost of design, packaging, and the road show to place it with international investors.

We propose structuring the securities as bonds because Chilean law gives bondholders a strong position, and because since 1994 international portfolio investors have earned higher returns, when adjusted for volatility, on emerging market debt than they have on emerging market equities.

The bonds will be issued by a created entity, called here Chilean Pooling and Bond Issuance Facility. This entity will be created by a Chilean financial organization of recognized standing in the Chilean financial community. For example, the Bolsa de Santiago or Corfo, or Latin Valley, or a Chilean bank could create the Pooling and Bond Issuance Facility.

The Pooling and Bond Issuance Facility would gather and hold notes in the amount of \$300 million. These would be notes that were held by Chilean venture capital companies, banks, pension funds, Corfo, and any other lender who chooses to come forward and meet the criteria. The venture capital companies and other lenders who assign notes to the Pooling and Bond Issuance Facility would have to have conferred with their backers and with their Boards of Directors before assign the notes. The decision to assign the note means that the venture capital

company will get liquidity but will have to leave the note in the Pooling and Bond Issuance Facility for a long period of time.

Much of the illiquid paper that would be suitable to put into the Pooling and Bond Issuance Facility is not in the form of notes. It is in the form of equity securities, and the holders do not have much leverage with the companies that issued these equity securities. We propose that the holders confer with the companies that issued these equity securities and offer inducements so that the companies agree to replace the equity securities with notes. For example, suppose that an AFP bought \$5 million of an initial public offering seven years ago. The shares are valuable and the company that issued them is still operating successfully, without having grown very much since its IPO. The shares do not trade very often now, and when they do, their price is very depressed. The AFP can offer the issuer \$3 million in cash to take back and give a bond with face value of \$10 million. This would recognize the shares as being worth \$7 million. The AFP could also ask for warrants, and exchange for the warrants, lower the coupon rate on the bonds. In that fashion the AFP would get a bond and warrants in exchange for the illiquid common stock that it previously held.

The bond would still be illiquid, so the AFP would put it and the warrants into the Pooling and Note Issuance Facility. The bond and the warrants would then constitute part of the collateral to support the issuance of structured securities to be sold in international markets.

The notes that the Pooling and Bond Issuance Facility gathers would have to be in good standing, in the sense that the borrowers are in compliance with the terms and are current with interest payments. The notes can have original due dates that have been extended. The idea is to gather notes signed by borrowers that are good but unable to refinance. The borrowers will have made all payments due in a timely fashion, and will have complied with all the terms of the notes except the original maturity. They will have had to seek an extension in the date when the principal was to have been repaid.

When the \$200 million of bonds have been sold, the money will be passed to the venture capital lenders, AFPs, banks, and others who provided the notes. For example, if a venture capital firm assigns a \$3 million note to the Pooling and Bond Issuance Facility, that venture capital firm would get \$ 2 million from the proceeds of the sale of bonds. Then, if the startup firm that borrowed the \$3 million repays, the Pooling and Note Issuance Facility would receive the \$3 million, use \$2 million of it to repay \$2 million of the \$200 million of bonds, and the remaining \$1 million would go to the venture capital firm that provided the \$3 million note.

Any time a note falls into arrears, the venture capital firm or other financial institution that put the note into the Pooling and Bond Issuance Facility will have to take back the note and repay all money that was borrowed against it. To assure that each provider of notes will be able to do that, the Pooling and Bond Issuance Facility will require a letter of guarantee. If the letter of guarantee permits, the provider of the defaulted note will be able to replace it in the Pool with a different note, signed by a different borrower, of the same face amount or greater.

The Pooling and Bond Issuance Facility will issue \$200 million of bonds collateralized by the \$300 million of good Chilean notes. The individual notes may be risky, but they will have been provided by venture capitalists and financial institutions known to be financially strong and able to respond in case one of the notes proves to be uncollectable. So in that sense the Pooling and Bond Issuance Facility will be over-collateralized in the amount of 50%. ( $\$300/\$200 = 150\%$ ).

The \$200 million of bonds would not get a very strong credit rating, despite the over-collateralization, and despite the Pooling and Bond Issuance Facility's power to put the notes back to the providers. To strengthen the credit rating of the \$200 million of bonds, the Pooling and Bond Issuance Facility will buy a credit enhancement from a Swiss insurance company. This credit enhancement will raise the credit rating of the \$200 million of bonds.

To sweeten the \$200 million of bonds, they will have warrants attached. The bonds will be sold in \$1000 denominations, and each \$1000 bond will come with a package of warrants. These will be issued by the venture capitalists, based on their holdings of stock in the startup companies, and

will be put into the Pooling and Bond Issuance Facility along with the notes they are providing to the Pool.

The \$200 million of bonds will pay a yield that is higher than the market rate for debt paper of that credit rating and maturity. For example, suppose that the credit rating is AAA, and the maturity is 5 years. Suppose that the market rate for bonds of that description is 7%. The \$200 million of bonds to be issued by the Pooling and Bond Issuance Facility will pay 8%. That will make the bonds easy to sell. It is important that the bonds sell well and that the investors earn a high enough return so that they will be willing to buy more bonds from the Pooling and Bond Issuance Facility later on.

In order for the bonds to yield 8%, the gross annual cost of the \$200 million that the Pooling and Bond Issuance Facility will raise will be close to 12%. The credit enhancement will cost around 2% per year, and the costs of designing and placing the bonds, and then managing the Pooling and Bond Issuance Facility, might be as high as an additional 2% per year. Also, the financial institutions who put notes into the Pooling and Bond Issuance Facility will have to obtain guarantee letters, and those letters may cost money.

So the \$200 million that the Pooling and Bond Issuance Facility will raise in international markets will be expensive, though not as expensive as if the startup companies themselves tried to sell bonds in the international market. The expense is justified, however, because the \$200 million will go to the venture capital funds and other lenders who provided the notes to the Pooling and Bond Issuance Facility. The \$200 million will then be loaned to new startup ventures.

The proposed \$200 million bond issue would not be the only one. There would be additional bond issuances. For purposes of this example, these would each be in the amount of \$200 million. The second issuance could begin as soon as there are \$300 million more notes payable by Chilean startup companies and other risky borrowers in the hands of lenders. These could

then be gathered into the Second Pool. The same design, the same credit enhancement, and the same selling syndicate could then place \$200 million more bonds in international markets.

The advantages of the proposed deal structure are that it resembles mortgage securitization, it uses credit enhancement to hold the cost of country risk to a minimum, and it takes advantage of the international market's immense appetite for highly-rated bonds. The bonds are designed to be very appealing to buyers, so that the \$200 million will be easy to place. In our opinion the rate of return on venture capital investing in Chile is high enough to support the cost of credit enhancement and international placement. The advantage of getting \$200 million of liquidity into Chilean venture capital funds compensates for the cost of the cash.

The proposed deal structure take advantage of the excellent reputation, credit rating, and position as the Rolls Royce of emerging markets bonds that Chilean debt instruments have in international markets, and makes constructive use of it. The proposed deal does not try to place the individual risky notes issued by Chilean startup companies in the international market. Instead it uses those risky notes as the underlying collateral for an issuance of bonds that have several layers of protection. The proposed deal would have the effect of creating a Chilean junk bond market with a large initial size and lower cost to the ultimate borrowers, who are the startup companies. Expert bond buyers working for international financial institutions will study the proposed deal structure and buy the bonds. They would not buy the individual underlying notes even if they had coupons as high as 16%. The over-collateralization, the letters of guarantee, and the credit enhancement will make the difference so that the proposed bonds will have a large market of willing buyers.

The proposed deal structure, and variants of it, will allow Chilean venture capital firms to raise the \$1.75 billion that our calculations indicate is needed now in Chile. Access to capital is a problem for Chilean entrepreneurs now, and would not be as serious a restriction after the proposed deal. If Chilean venture capital companies can obtain liquidity, startup companies will be able to grow as fast as their markets permit, rather than having to slow their growth because of being unable to get enough capital.



At some future time Chilean buyers may have a large enough appetite for risky Chilean paper to be able to buy all the securities that startup firms in Chile would like to issue. For the time being, however, the buyers of risky Chilean paper are going to be international portfolio investors, who will rely on over-collateralization and credit enhancements. Chilean buyers are already exposed to Chilean country risk, so they do not have a reason to take as much new Chilean risk as the capital needs of Chilean entrepreneurs will create. Foreign portfolio investors have little exposure to Chilean country risk, and little exposure to contagion risk, so they can be more tolerant of Chilean risk and consequently would be willing to buy risky Chilean securities with fewer, less expensive credit enhancements. What this means in practice is that Chilean issuers who are too new or too risky to qualify for a high credit rating will be able to issue securities in international markets at lower all-in cost, through a deal structure like the one proposed here.

**EXHIBIT A**

**Venture Capital Players in Chile**

	<b>Local VC/PEC</b>		<b>FIDE</b>		<b>International VC/PEC</b>		<b>International -OTHER</b>
1	BzzC	1	Bhif-Equity	1	Advent	1	Acon Investments
2	Capital Trust	2	CMB-Prime	2	Bank Boston Investments	2	Bankers Trust
3	Circulo	3	Columba	3	Compass Capital	3	Baring LA Private Equity
4	E Ventures	4	Chiletech	4	CVC Latin America	4	Blackstone Group
5	Emprenet	5	Emergente	5	Chase Capital Partners	5	CEI Citicorp
6	Empretec	6	Estrella Americana	6	Darby Overseas Investment	6	Citibank VC
7	Endeavor	7	FCMI	7	Explorador Capital Management	7	CVC Opportunity Equity partners
8	Fernando Flores	8	Las Americas	8	Exxel Group	8	DLJ Merchant Banking Partners
9	Flatiron Partners	9	Monitor	9	Galicia Advent	9	Donaldson Lufkin Jenrette
10	I Holdings	10	PROA	10	Global Bridge	10	Electra Fleming
11	Idea Supply	11	SABCO	11	GP Invetimentos	11	Environmental Enterprises Assistance Fur
12	Intend Change	12	Santander Crucero	12	Icatu Equity Partners	12	Equest Partners LLC
13	Internet Holding	13	Toronto Capital Group	13	LA Enterprise Capital Fund	13	GE Capital
14	ITC Ventures			14	Latin Healthcare Investment Mgt	14	Goldman Sachs
15	Laborum.com			15	MBA Private Equity	15	Greenwich Investors
16	Latin Valley			16	Southern Cross Group	16	IRR
17	Mifactory			17	Ventana Chile	17	JP Morgan Capital
18	Netjuice			18	WestSphere Investment Manangement	18	LA Equity Funds
19	PSI Net					19	Mercosur Equity Fund
20	Technoland					20	Merril Lynch
21	Worldcap					21	New bridge LA
						22	Pactual Electra
						23	Patagonia Fund LP
						24	Pegasus
						25	Puntocom Holdings
						26	Republic Holdings
						27	Softbank LA Ventures
						28	Terra Capital Bank America Equity Partner:
						29	Tow er Fund
						30	Trust Company of West
						31	USB Brinson
						32	Warburg Pincus

## EXHIBIT C

### **El Mercurio**

#### **Gobierno pidió a empresarios apoyo a creación de Bolsa Emergente**

Martes 15 de Mayo de 2001, 14:50

EFE

SANTIAGO.- El Gobierno llamó hoy a todos los empresarios del país a apoyar la puesta en marcha de la Bolsa para Sociedades Emergentes, cuyo objetivo es atraer nuevas fuentes de financiación para las empresas chilenas.

"Espero que los empresarios entiendan que deben apoyar este tipo de iniciativas con la presentación de proyectos novedosos", señaló el ministro de Hacienda, Nicolás Eyzaguirre, al dar a conocer la nueva normativa que permite la constitución de la Bolsa Emergente.

La norma, que fue incluida en el reglamento de la Superintendencia de Valores y Seguros, establece que el requisito para que las empresas se incorporen al nuevo mercado de valores es tener una facturación de entre 2,6 millones y 26,7 millones de dólares. Además, las compañías deben firmar un compromiso para ingresar a la bolsa y colocar en ella acciones que representen al menos un 10 por ciento de su propiedad accionarial.

Lo fundamental, sin embargo, es que los medianos empresarios confíen en este instrumento y gestionen proyectos para participar en él, enfatizó el titular de Hacienda, quien agregó que sin la confianza de estos agentes es muy difícil lograr la reactivación económica.

Eyzaguirre destacó que el Gobierno ha hecho todo lo necesario para que el país crezca, con medidas como la apertura de la cuenta de capitales del país, que está en fase de tramitación.

El pasado 19 de abril, el Ministro de Hacienda chileno anunció un paquete de reformas "pioneras en América Latina" para abrir completamente sus puertas al capital extranjero y desregular el mercado financiero.

"Una vez más el Estado está dando el primer paso", afirmó el ministro, quien agregó que "ahora le toca a los privados invertir".

Explicó que incluso el Estado ayudará con recursos y apoyo técnico a las pequeñas y medianas empresas (PYMES) a elaborar proyectos "emergentes" para participar en el nuevo mercado de valores. El pasado marzo, el Presidente Lagos anunció un paquete de medidas que involucran más 1.000 millones de dólares para ayudar a las PYMES que mantienen cuantiosas deudas con la banca, el fisco y la seguridad social. Sin embargo, el salvavidas lanzado por el Gobierno a este sector, que representa más del 70 por ciento de la fuerza laboral chilena, sólo consiguió dar respiro temporal a las empresas, que acumulan una deuda total que ronda los 14.000 millones de dólares." Estamos ahogados y dudo mucho que tengamos los recursos suficientes y el ánimo para embarcarnos en un proyecto como la Bolsa Emergente", afirmó Germán Dastre, presidente de la Pequeña y Mediana Industria y Artesanado.

Tras el ciclo recesivo que afectó a Chile entre 1998 y 1999, la reactivación no ha marchado con la rapidez deseada por las autoridades y el país heredó un serio problema de empleo, que no ha vuelto a los niveles previos de entre 5 y 7 por ciento de paro previos a la crisis.

En la actualidad, el desempleo es del 8,8 por ciento, lo que significa 511.680 parados y todos los análisis coinciden en que la solución de los problemas a la pequeña y mediana empresa es clave para la recuperación del empleo y la demanda interna. Por ello, algunos especialistas han advertido que la creación de la Bolsa Emergente "no tiene viabilidad si en la práctica no hay instituciones que puedan operar eficientemente en ella".

## **Diario ESTRATEGIA.**

### Autoridad Emitió Normativa Para Funcionamiento de la Bolsa Emergente 16 de mayo de 2001

Asimismo, la Corfo apoyará a las compañías que deseen listarse, asesorándolas y financiando parte del proceso de inscripción.

Un paso hacia lo que será la reforma del mercado de capitales dieron ayer las autoridades en cuanto a normar la creación de la bolsa emergente. Ello a través del lanzamiento de la Norma de Carácter General N° 118, que establece los mecanismos para la inscripción en el registro de valores de las sociedades anónimas y sus acciones. Junto con ello, la Corfo aportará con un instrumento de asesoría que impulsará la creación de este mercado.

De esta manera el encuentro, que contó con la presencia del ministro de Hacienda, Nicolás Eyzaguirre; el superintendente de Valores y Seguros, Alvaro Clarke; el vicepresidente ejecutivo de Corfo, Gonzalo Rivas, y el presidente de la Bolsa de Comercio, Pablo Yrarrázaval, se emblemizó con la firma del documento por parte del representante de la SVS.

Al respecto, Nicolás Eyzaguirre señaló que el objetivo principal de esta bolsa es permitir el nacimiento de un nuevo instrumento para empresas de tamaño medio, que sean líderes en cuanto a crecimiento y desarrollo tecnológico, y que encuentren nuevos canales de crecimiento distintos de los habituales. "Las condiciones más precarias que hoy tiene la economía chilena en término de acceso a financiamiento externo obliga a ser más creativos, ideando nuevas fuentes de financiamiento al impulso del desarrollo y especialmente de la pequeña y mediana empresa innovadora".

Por su parte, Alvaro Clarke indicó que con la firma de la norma queda vigente desde el punto de vista regulatorio la bolsa emergente, la que tiene su base legal en la Ley de OPA, donde explica que se introdujeron los conceptos que permiten diferenciar tanto los mercados como los distintos grupos de inversionistas. "En la misma Ley de OPA se desreguló la industria de los fondos de inversión, que tiene por objetivo estimular el desarrollo del capital de riesgo, que en algún momento requiere una salida para los inversionistas. En esa etapa es donde la bolsa emergente cumple un rol fundamental".

## LA NORMA

En la normativa que implementa la Bolsa Emergente se establece que las acciones que se registren en este nuevo mercado deberán ordenar y estandarizar la información que entreguen al organismo regulador, la bolsa o al público.

De esta manera, los emisores que deseen registrarse deberán ser empresas nuevas que buscan financiamiento para un plan de negocios innovador; sociedades con proyectos de innovación en el sector de alta tecnología; y compañías de rápida expansión o con proyectos con fuerte potencial de crecimiento.

En el instrumento de la Corfo denominado "Programa de Apoyo a la Apertura en Bolsa para Empresas Emergentes", que fue diseñado en conjunto por la SVS, la Bolsa de Comercio, el Banco del Desarrollo y la Asociación de Bancos, según explica Gonzalo Rivas, el mercado objetivo son empresas de tamaño medio, de rango de ventas entre UF 100.000 y UF 1.000.000, donde para poder listarse tendrán que atravesar por tres etapas.

La primera es el diagnóstico de la empresa en cuanto a si califica como emergente, donde se cofinanciará hasta el 60% del estudio con un tope de UF 150. Una vez evaluada se realiza un estudio para la apertura en la bolsa, donde se analiza a la compañía desde el punto de vista legal y financiero. Si cumple con lo esperado se prepara la información para el proceso de listamiento, financiando hasta un 50% con un tope de UF 500. Cada una de las etapas estará validada por la bolsa y se creará un registro de consultores especializado para acceder a la inscripción de las sociedades.

Cabe señalar que además de la norma dictada por la SVS, para que las sociedades comiencen a listarse en la bolsa emergente requerirán de reglamentos emanados de las tres bolsas de valores que operan en el país. En este sentido, el presidente de la Bolsa de Comercio, Pablo Yrarrázaval, señaló que en esta plaza en menos de un mes estará lista la disposición normativa.

## MEJOR PANORAMA

Además de felicitar a la autoridades por la puesta en marcha de la norma que valida la bolsa emergente, Yrarrázaval señaló que surgirán figuras que se encarguen de atraer empresas a esta bolsa, así como asegurar que el 25% de las acciones estarán entre accionistas minoritarios. Asimismo, agregó que posiblemente en la Bolsa de Comercio habrá una sección donde se marquen las empresas que están en la bolsa emergente, pero las operaciones se efectuarían en la misma rueda.

Por otra parte, refiriéndose a los efectos que han tenido en el mercado accionario las medidas que hace menos de un mes fueron anunciadas, Yrarrázaval destacó que desde el momento que se conocieron, el IPSA ha subido a 106 puntos, considerando que antes estaba en 98; los montos transados, en tanto, han subido de \$6.000 millones diarios a \$10.000 millones, mientras que las transacciones de empresas que tienen ADR en Nueva York son menores que en el país.

"Esta eliminación de barreras, donde se ha hecho la invitación a los inversionistas extranjeros a no pagar impuestos, pudiendo remesar sus capitales cuando quieran, ya se está reflejando, aunque falta la promulgación de las leyes", concluyó.

Al respecto, el ministro Eyzaguirre señaló que las reformas serán presentadas al Congreso en los próximos días, donde espera que su aprobación sea en tiempo récord.

## DESTACADO:

### Requisitos Emergentes

-El programa de colocación de acciones debe representar a lo menos un 10% del total de las acciones que quedaran en circulación una vez terminada la oferta.

-Las compañías que participen en este mercado no cancelarán su inscripción en el registro de valores por tres años, contados desde esa fecha.

- Las empresas deben cumplir con las exigencias que establezcan las bolsas de valores en que registren sus acciones
- Obligación de los emisores de inscribir acciones de pago de primera emisión junto con la inscripción del emisor.
- Elaboración de un prospecto con énfasis en aspectos como descripción del sector, los negocios y factores de riesgo



## **Diario ESTRATEGIA.**

### **Inversionistas Institucionales Afirman que Operarán en la Bolsa Emergente**

23 de mayo de 2001

Sin embargo, señalan que es necesario que esta bolsa cuente con al menos cien sociedades listadas y que exista algún otro tipo de incentivo tributario, además de la eliminación del impuesto a la ganancia de capital.

Considerando que la semana pasada las autoridades económicas dieron señales claras de que próximamente comenzará a operar la bolsa emergente, las distintas industrias de fondos que operan en el país manifestaron estar interesadas en participar en este mercado, aunque para ello sostienen que se deben considerar varios aspectos.

Para el gerente general de Santiago Fondos Mutuos, Juan Luis Silva, invertir en la futura bolsa emergente será una opción atractiva, cuyo interés se desarrollará en la medida que se cree un ambiente de credibilidad. Para ello, señala que será necesario primero explicarles a los clientes en qué consiste en este mercado, y crear fondos específicos para invertir en él.

No obstante, el ejecutivo advierte que para que exista mayor interés en invertir en la citada bolsa, será necesario contar con un número suficiente de empresas listadas, ya que al igual como sucede en otros mercados emergentes del mundo, los precios de las acciones se caracterizan por ser más volátiles que el de las empresas tradicionales.

De esta manera, estima que la bolsa emergente debe contar con al menos entre 80 y 100 empresas, de modo que los institucionales puedan invertir sin dificultades, ya que "en la medida que se logre diversificación, el producto va a ser más atractivo".

Por su parte, Eduardo Moyano, gerente general de Estrella Americana Fondos de Inversión, considera que existen dos elementos básicos para que la bolsa emergente funcione. Por un lado, que la regulación sea adecuada para las empresas que ahí transen, y que además exista algún estímulo de carácter tributario.

En este sentido, aunque valora que se exima del pago del impuesto a la ganancia de capital por tres años a las operaciones de compra en este mercado cree -tal como se ha señalado en otras oportunidades- que se debe incorporar un beneficio similar al que otorgaba el artículo 57 bis. "Ello como ingrediente adicional para la demanda en esta bolsa, y para que las empresas sean atractivas, aunque ello no debe entenderse como incentivo permanente", agregó.

Asimismo, señala en el caso de los fondos de inversión, invertir en empresas emergentes podría darles más liquidez a las cuotas de inversión de esta industria, facilitando el salir con menor dificultad de este tipo de instrumentos.

### **ATRACTIVO DE LAS EMPRESAS**

Una parte importante que han mencionado los ejecutivos de las distintas industrias de fondos es el atractivo que puedan presentar las empresas que estén en la bolsa emergente. Ello considerando que la definición establecida por la propia norma señala que para estar en ésta los emisores que deseen registrarse deberán ser empresas nuevas que buscan financiamiento para un plan de negocios innovador, sociedades con proyectos de innovación en el sector de alta tecnología y compañías de rápida expansión o con proyectos con fuerte potencial de crecimiento.

Al respecto, el gerente de inversiones AFP Cuprum, Axel Christensen, señala que en general los requisitos de información que se les exigirá a estas compañías son bastante adecuados para inversionistas institucionales como las AFP, ello sumado a que se asegura un mínimo de acciones a colocar en el mercado, lo que le da más liquidez.

Sin embargo, el ejecutivo resalta que la decisión de invertir dependerá de los proyectos que las compañías presenten, donde las administradoras de fondos de pensiones, tal como lo han hecho siempre, se fijarán en la viabilidad de los nuevos proyectos.

**DESTACADO:**

Exito de la Bolsa Emergente Depende de:

- Contar con 80 a 100 sociedades listadas para que sea atractivo invertir en ella, dada la volatilidad que presentan las acciones en este tipo de mercados.
- Que la regulación para las empresas sea adecuada.
- Establecimiento de un estímulo tributario adicional a la exención del impuesto a la ganancias de capital a las operaciones que se realicen.
- Que los proyectos que presenten las compañías próximas a inscribirse en este mercado sean atractivos y viables.

## **Diario ESTRATEGIA.**

### **La Bolsa Emergente Debe Incluir a las Pymes**

15 de junio de 2001

Para ello propone que los inversionistas de estas compañías se beneficien con la exención de la renta imponible de 10% de la inversión, y con un límite máximo por contribuyente.

Pese a que la creación de la bolsa emergente es una de las importantes apuestas que está realizando el Gobierno, existe incertidumbre respecto al impacto real que tendrá en el mercado. Ello por cuanto, por un lado, algunos sostienen que posiblemente ésta demorará un par de años para prender, mientras que otros consideran que sin un beneficio similar al 57 bis, las probabilidades de éxito se diluyen.

Sin embargo, las autoridades han sido categóricas al señalar que artículo 57 bis si bien era un beneficio tributario, no generaba rotación en las carteras, razón por la cual no se incluyó en este nuevo proyecto. De hecho, el mismo superintendente de Valores y Seguros, Alvaro Clarke, ha señalado que ya la exención del pago del impuesto a la ganancia de capital por tres años en las operaciones que se realicen en la bolsa emergente es un incentivo suficiente.

Al respecto, el ex gerente general de la Bolsa de Comercio, Enrique Goldfarb, propone la conveniencia de incorporar un incentivo tributario, como lo es la rebaja de la renta

imponible de un porcentaje de la inversión en la primera emisión especialmente para pymes.

En este sentido, pese a lo dicho por algunos analistas respecto a que un incentivo como este encarece la liquidez o rotación de las acciones, resalta que una acción que no se compra en sus comienzos, jamás rotará, ya que eximir por tres años las ganancias de capital es más efectivo para algunas empresas emergentes, no así para empresas pymes, donde difícilmente se verán utilidades extraordinarias.

De este modo, propone diferenciar las empresas emergentes de las pymes. Las primeras que listarán con un proyecto novedoso e innovador podrán optar a la exención al impuesto a las ganancias de capital, mientras que los inversionistas de aquellas que solo sean consideradas pequeñas o medianas, inscritas en lista aparte, podrán beneficiarse con la exención de la renta imponible de un porcentaje, podría ser de 10% de la inversión en ellas, con un límite máximo por contribuyente.

Con ello, agrega Goldfarb se corrige el problema de la diferencia sustantiva que existe entre las innovadoras y las pequeñas empresas.

ENRIQUE GOLDFARB

## EXHIBIT D

<b>Incubadora de Empresas:</b>	
	<i>Sitios de Empresas que como actividad principal, entregan herramientas, recursos y conocimientos técnicos relativos al desarrollo de un proyecto, con información sobre las fases de negocio.</i>
<b>1</b>	Business Internet
<b>2</b>	E Brainstorm Chile
<b>3</b>	El Area
<b>4</b>	El Panal
<b>5</b>	Emprendedores
<b>6</b>	Latin Holdings Inc
<b>7</b>	SouthNet
<b>8</b>	Ventures Latinas
<b>9</b>	Vertical Andes
<b>10</b>	Celfin
<b>11</b>	Chiletech
	Fuente: Sitio Empresa-Desarrollo Productivo.

## EXHIBIT E

### Entrevista a Jovenes Emprendedores UDD

Roberto Araya

(a) *¿Qué año te graduaste de la Universidad?*  
En 1998

(b) *¿Qué actividad realiza actualmente?*  
Investigación y desarrollo, (Industrias chilenas de alambres)

(c) *Una vez egresado, ¿pensaste alguna vez iniciar un negocio propio?*  
Absolutamente, y sigue siendo un proyecto.

(d) *¿Por qué sí? ¿Por qué no?*

Creo que la primera etapa de la curva de aprendizaje se puede alcanzar más rápidamente si se trabaja primeramente en una empresa, para luego aplicar los conocimientos a un proyecto personal. (como individuo el riesgo que asumes es menor al trabajar en una empresa y luego con tu propio capital o directamente relacionado con tu patrimonio).

(e) *Crees que exista algún costo social al no trabajar en una empresa tradicional sino que a una independiente*

No considero que exista ese costo social, si personal.

Hugo Castillo

(a) *¿Qué año te graduaste de la Universidad?*  
1997

(b) *¿Qué actividad realiza actualmente?*

Con un socio creamos una empresa de administración de edificios "Edimanagers", comenzó a funcionar este año.

(c) *Una vez egresados, ¿pensaron alguna vez iniciar un negocio propio?*

La verdad es que nunca fue una de mis metas en mi etapa universitaria, pero las cosas se fueron dando de cierta forma y ahora estoy contento con el proyecto que estamos desarrollando.

(d) *¿Por qué sí? ¿Por qué no?*

Nunca fue lo que busqué debido a que trabajar como empleado era más seguro y no era muy amigo del riesgo.

(e) *¿Te enfrentaste a obstáculos financieros en la creación de tu negocio? ¿De qué tipo?*

Normalmente los bancos no dan préstamos a las personas que no demuestren tener un cierto nivel de ingresos. Pero el banco confió en nuestro proyecto que contaba con el apoyo de la Corfo en el tema de planificación estratégica.

(f) Crees que exista algún costo social al no trabajar en una empresa tradicional sino que a una independiente

Al tener un negocio independiente no se baja de status. Si se requiere una mayor dosis de compromiso, pero el esfuerzo al premio llega.

### **Lorena Fernandez**

(a) *¿Qué año te graduaste de la Universidad?*

Año de graduación: 2001

(b) *¿Qué actividad realiza actualmente?*

Administrando “Autoforma”, taller de desabolladura y pintura; haciendo 3 ayudantías en la U

(c) *Una vez egresada, ¿pensaste alguna vez iniciar un negocio propio?*

Sí.

(d) *¿Por qué sí? ¿Por qué no?*

Porque creo que, si bien al comienzo es mucho más fácil empezar siendo un trabajador más (ya sea por falta de capital y oportunidades, porque creo que hay montones de buenas ideas dando vueltas por ahí), la meta de todo Ingeniería Comercial es crear algo propio, aunque sea pequeño o bien una empresa consultora. Además, ya que se presentaba la oportunidad, tenía que tomarla.

(e) *¿Te enfrentaste a problemas de financiamiento?*

Muchos. NINGÚN banco me prestó ni un peso para mi negocio. Ni siquiera se dieron la molestia de evaluar el proyecto, aunque yo haya proyectado flujos, tir, etc., etc, etc. Pasé desde el Bco del Desarrollo, que tenía entendido que ayudaba a microempresarios, pero parece que se referían a aquellos que facturan como \$200.000 mensuales (a todo dar); después Bco. Edwards (donde saqué previsoramente una cuenta corriente. El año pasado), pero tampoco pasó nada; luego el Bco del Estado, pero menos. El Citibank me ofrecía un a cuenta corriente. Para empresas pero sin



líneas de crédito ¿? (no me sirve de nada) Ningún banco. Le presta dinero a empresas que tengan menos de 1 año de funcionamiento.

(f) Crees que exista algún costo social al no trabajar en una empresa tradicional sino que a una independiente

Jamás. Todo lo contrario, hasta los amigos andan dejando volantes en los autos de los estacionamientos dónde van. Mis padres me han financiado un poco.

La verdad es que sigo pensando en trabajar en una empresa tradicional en unos meses más (me encanta la certidumbre), me imagino que deben ser cosas demasiado distintas, no creo que más fácil, pero por lo menos te desligas de andar pensando las mil y una cuentas que llegan, los sueldos de los trabajadores. Creo que los 2 trabajos son igual de importantes, probablemente el independiente tiene más mérito porque implica un mayor esfuerzo y desgaste, aprendes millones de cosas de la vida “de verdad”.

La idea es echar a andar este negocio y en un tiempo mas, trabajar en una empresa “normal” y dejar a mi jefe de taller a cargo del buque.

Carola Hoffman

(a) *¿Qué año te graduaste de la Universidad?*

1999

(b) *¿Qué actividad realiza actualmente?*

Encargada de Personal Universidad del Desarrollo.

(c) *Una vez egresada, ¿pensaste alguna vez iniciar un negocio propio?*

Trabajar como independiente da estabilidad, pero no grandes satisfacciones. No creo que exista algo más gratificante, en el ámbito profesional, que crear tu propio tu propio negocio y tener éxito en ello.

(d) *¿Te enfrentaste a obstáculos financieros en la creación de tu negocio? ¿De qué tipo?*

Por supuesto, en Chile hay muchas trabas para la inversión. Los bancos asignan una tasa de riesgo altísima a los nuevos proyectos lo que los hace muy poco rentables. Si no cuentas con un capital de respaldo, es muy difícil conseguir financiamiento.

(e) *¿Te enfrentaste a barreras sociales (padres, familiares, amigos)?*

No

(f) *Crees que exista algún costo social al no trabajar en una empresa tradicional sino que a una independiente*

Para nada, todo lo contrario.

Alejandro Jimenez

(a) *¿Qué año te graduaste de la Universidad?*  
2001.

(b) *¿Qué actividad realiza actualmente?*  
Estudio para realizar un postgrado en Estados Unidos

(c) *Una vez egresados, ¿pensaron alguna vez iniciar un negocio propio?*  
Si lo pensé, sobre todo en el último año de universidad. Continúa siendo uno de mis objetivos en la vida. Quiero hacer un MBA para así poder encontrar buenas ideas para montar mi propio negocio.

(d) *¿Te enfrentaste a obstáculos financieros en la creación de tu negocio? ¿De qué tipo?*  
Existe una barrera al acceso de financiamiento. De hecho la fuente de recursos en un comienzo siempre pensé que sería mi padre y capital propio. Los bancos no prestan recursos a gente joven recién egresado, se requiere un aval sólido.

(e) *Creas que exista algún costo social al no trabajar en una empresa tradicional sino que a una independiente*  
Es mirado de mejor manera si se trabaja en una empresa tradicional y más sólida, pero no se pierde status al decidir ser un empresario independiente.

Ignacio Maturana

(a) *¿Qué año te graduaste de la Universidad?*  
2001.

(b) *¿Qué actividad realiza actualmente?*  
Tengo junto con un socio una empresa de tarjetas electrónicas, que comenzó hace un año atrás.

(c) *Una vez egresados, ¿pensaron alguna vez iniciar un negocio propio?*  
Desde siempre, de hecho actualmente tengo mi negocio propio.

(d) *¿Te enfrentaste a obstáculos financieros en la creación de tu negocio? ¿De qué tipo?*  
No muchos, ya que nos acercamos a un banco y este nos prestó el capital inicial, igualmente tenemos un aval muy sólido (madre de mi socio)

(e) *¿Te enfrentaste a barreras sociales (padres, familiares, amigos)?*

Las barreras sociales provienen de el diferencial de edad de las personas. Mis padres, abuelos etc, preferirían que trabajara en una empresa tradicional, en cambio los jóvenes de mi misma edad valoran mucho más el trabajo independiente que desempeño.

*(f) Crees que exista algún costo social al no trabajar en una empresa tradicional sino que a una independiente*

La estabilidad, pero hay que tomar riesgos en la vida.

### Felipe Muñoz

(a) ¿Tienes estudios relacionados a la administración de empresas?

Sí, Estudié Ingeniería Comercial

(b) ¿Qué actividad realizas actualmente?

Estudio para mi examen de grado de dicha carrera

(c) Una vez egresados, ¿pensaron alguna vez iniciar un negocio propio? ¿Por qué sí? ¿Por qué no?

Sí, porque me brinda la oportunidad de crear mi propio futuro y sueños y no trabajar para que otros puedan cumplir sus sueños.

*(d) ¿Te enfrentaste a obstáculos financieros en la creación de tu negocio? ¿De qué tipo?*

Sí, he tenido problemas, los cuales pasan principalmente por el hecho de que prácticamente nadie está dispuesto a confiar dinero al proyecto de alguien relativamente joven, por mucho que este parezca bueno.

*(e) ¿Cuáles son las principales trabas a las que se enfrentan los jóvenes al emprender un negocio? (opinión personal)*

Considero que las principales trabas están relacionadas con el conseguir el dinero necesario por los canales formales, llámese bancos e instituciones financieras, para llevar a cabo estos proyectos y a la cantidad de trabas tanto de costos como burocráticas para iniciarlos.

*(f) ¿Crees que existan barreras sociales (padres, familiares, amigos)?*

Creo que sí existen estas barreras sociales, las cuales, sin embargo, no están relacionadas con el incursionar en un negocio propio, que es algo altamente valorado, sino que por la inercia que existe hacia tener un trabajo estable y remunerado, como empleado, y al temor a fracasar que otros sienten por ti.

*(g) Crees que exista algún costo social al no trabajar en una empresa tradicional sino que en una independiente*

No, creo que exista, por el sencillo hecho de que el tener un negocio propio es altamente valorado. Lo que sí considero que existe es de alguna manera una cierta envidia en otros, que se

refleja en críticas destinadas a destruir lo que con tanto esfuerzo se ha creado o se quiere crear, sólo por el hecho de que ellos mismos no tuvieron el valor de emprender un camino que es más arriesgado y sacrificado que el trabajar en una empresa tradicional.

Enrique Van Rysselberghe H.

*(a) ¿Tienes estudios relacionados a la administración de empresas?*

Sí; estudié Ingeniería Comercial en la UDD Concepción.

*(b) ¿Qué actividad realizas actualmente?*

Actualmente soy profesor de Macroeconomía en la UDD (Ingeniería en ejecución); además, apoyo a mi padre en un negocio relacionado con áridos y desarrollo proyectos con un grupo de amigos.

*(c) Una vez egresados, ¿pensaron alguna vez iniciar un negocio propio?*

Sí; intentamos confeccionar un sistema que ayudara a minimizar los costos mensuales de Gas y Luz.

*(d) ¿Por qué sí? ¿Por qué no?*

Por la satisfacción de crear cosas nuevas que sirvan realmente para solucionar problemas y que el mercado te premie en justicia por ello.

*(e) ¿Te enfrentaste a obstáculos financieros en la creación de tu negocio? ¿De qué tipo?*

Sí; faltaban recursos para hacer realidad el proyecto y no fue fácil alcanzarlos. La burocracia entre medio aburre.

*(f) ¿Cuáles son las principales trabas a las que se enfrentan los jóvenes al emprender un negocio? (opinión personal)*

La principal es la serie de requisitos legales que hay que superar desde que se te ocurre la idea hasta que la realizas. La burocracia fiscal asfixia las ganas.

*(g) ¿Crees que existan barreras sociales (padres, familiares, amigos)?*

Sí existen; hay personas relacionadas (amigos, familiares) que te animan a seguir un camino más seguro empleándote en una empresa consolidada. Sin embargo, también hay otros que te impulsan a tomar el riesgo de la independencia económica.

*(h) Crees que exista algún costo social al no trabajar en una empresa tradicional sino que en una independiente*

A mayor riesgo, mayor rentabilidad. Si te va mal, existe un costo social al respecto; si te va bien, la sociedad te premia en justicia al riesgo y desafío emprendido.

EXHIBIT F

Family Groups / Wealthy Individuals			
1	Abovenor Family	20	Larraín Group
2	Abunohor Family	21	Luksic Group, plus individual family members
3	Agustin Edwards Family	22	Marcelo Rabba
4	Alberto Liebedinsky-Estrella Americana	23	Matte Group
5	Andrés Navarro	24	Navieras Group
6	Angelini Group	25	NEXXUS (Eduardo and Alexandro Ergas; Sergio Motles)
7	Bofill Group	26	Parot Family
8	Calderon Family	27	Paulman-Jumbo Supermarkets
9	Clarp Gropu, plus individual family members	28	Pathfinder Group
10	Cruzat Group	29	Penta Group (Carlos Eugenio Lavín)
11	Curoli	30	Said Family
12	Del Rio Family	31	Saieh Group
13	Elberg Family-Ex Santa Isabel Supermarkets	32	Sebastian Piñera
14	Elias Family	33	Sigdo Koppers
15	Errazuriz Group	34	Solari/ Fallabella Family-Errazuriz Group
16	Fernandez León	35	SONDA
17	Hurtado Vicuña	36	Soquimich Group
18	Ibañez Group	37	Vial Family
19	Ibañez Santa Maria Family	38	Von Appen (Altrammar Group)