Executive summary

Promoting the creation of start-ups is gaining momentum in OECD and non-OECD economies. Nevertheless, there is still little evidence revealing the speed at which these new companies are being created and how they are being supported by public policy in developing countries. With the aim of identifying good practices and promoting knowledge-sharing among countries, this study analyses the role of public policy in promoting the creation and expansion of start-ups in six Latin American countries: Argentina, Brazil, Chile, Colombia, Mexico and Peru.

Start-ups contribute to structural change by introducing new knowledge-intensive products and services and by improving productivity growth. Although there is no universal definition of a start-up, these firms are characterised by their dynamism and innovation orientation. While some countries define start-ups based on their performance (i.e. gazelles, high growth enterprises), others focus on their technological or innovation content. In general, start-ups tend to develop in specific sectors such as, among others, information and communication technologies (ICTs), health care and pharmaceuticals, biotechnology, renewable energies and clean technologies.

Start-ups face barriers in their creation and expansion stages in both OECD and Latin American countries. Often, the innovator or scientist lacks the specific entrepreneurial skills and/or access to financial resources needed to create and develop a business. Public policies therefore play an important role in promoting start-ups by facilitating access to finance, development of entrepreneurial skills and by setting up a business friendly regulatory framework. Since the 1990s, many OECD countries have been using a wide range of instruments to support start-ups. The experiences of Australia, Finland and Israel show the importance of offering adequate financing at all stages of firm development, such as seed funding in the creation stage and venture capital and business angels investments in the expansion stage. Seed capital

typically requires permanent public support. Venture-capital and business angels, however, mainly need support in the initial stages of their development. As the industry develops, direct public-sector support can be withdrawn while handing over control to private investment, as was the case in Australia and Israel.

Start-ups are an emerging phenomenon in Latin America's innovation strategies. Argentina has been successfully introducing performance-based management criteria in its business incubators and in its intermediate agencies facilitating access to public programmes. Brazil and Chile have accumulated knowledge in supporting start-ups since the 1990s. Over the past years, both countries have introduced new incentives to promote start-ups combining financing with business and training services. Mexico has improved its legal framework to facilitate start-up creation and expansion. Colombia and Peru are currently designing "new generation" support tools that combine seed capital with business training services for new entrepreneurs.

Latin American countries are highly heterogeneous and are implementing different support mechanisms. Yet, in the six countries analysed in this study, two common trends stand out: *i)* the increasing role of regional and local governments (such as the Ciudad de Buenos Aires in Argentina and in the States of Porto Alegre, Amazonia and Sao Paulo in Brazil); and *ii)* the emerging role of large companies that are increasingly involved in financing and coaching start-uppers as part of their new open innovation strategies. The case of Wayra in Peru is an example of a private sector initiative that is helping to bring dynamism to support start-ups.

Latin America is not the first region that comes to mind when thinking about start-ups. Nevertheless, the countries from the region are making an important effort to promote start-ups in order to advance in becoming relevant players within the global knowledge economy. From the analyses presented in this report it is possible to draw the following recommendations in order to progress in designing and implementing policy to support start-ups in the region:

- **Increasing co-ordination in strategy planning**. Start-up support programmes can only reach their full potential when they are set within broader productive transformation strategies that contribute to generate a favourable environment for these companies to develop.
- **Ensuring the availability of a balanced policy mix targeted to the different development stages.** Often, countries tend to focus on one particular tool, overlooking other important elements which are

critical for these firms to develop. For instance, while venture capital is essential for the expansion stages of start-ups, its effectiveness will depend on the existence of seed funding available for entrepreneurs in earlier development stages.

- **Designing and implementing more sophisticated support tools that are more in line with emerging global trends**. Despite the region's recent progress in promoting start-ups, Latin American countries still face important barriers that need to be overcome by: *i)* simplifying the regulatory framework to facilitate the creation and expansion of start-ups; *ii)* identifying opportunities to promote business angel networks; *iii)* investing in promoting an entrepreneurial culture, particularly among young people; *iv)* introducing performance-based management criteria in incubators and agencies that facilitate access to public development programmes; and *v)* designing integrated support programmes that simultaneously offer financing, business services and entrepreneurial skills learning.
- **Taking advantage of emerging private sector open innovation trends, corporate venture capital and knowledge-sharing** to foster the quantity and quality of innovative entrepreneurial projects in the region.
- **Evaluating programmes and adjusting incentive schemes based on performance.** This also requires investing in creating new, better metrics for measuring the dynamics of creation and expansion of start-ups in Latin America in order to improve the capacity to design better policies based on results.

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