

## Chapter 10

### Improving the regulatory environment for Chilean SMEs

*This chapter describes the importance of SMEs to an economy and how the government of Chile could improve its regulatory framework. It does this by presenting a brief overview of SMEs in Chile and the main institutional actors and agencies involved in SME policy. An overview of SME policy throughout the last few decades is provided based on literature, expert interviews and a dedicated stakeholder survey. An analysis of remaining regulatory barriers to SME start-up and continuity is given, together with a closer look at the policy efforts made to formalise SMEs.*

## The relevance of SMEs

The importance of SMEs to an economy has been widely acknowledged across the world and this is no less the case in Chile. Generally speaking, SMEs form the largest proportion of enterprises in a country, and lead to both employment and self-employment. In the OECD member countries, for instance, over half of total employment is attributable to SMEs and this is also the case in Chile; over 75% of total employment came from SMEs in 2012 (based on both formal and informal enterprises) (OECD, 2015).

SMEs are also important to the added value of a nation's economy. Amongst OECD countries, between 55% and 75% of added value was attributable to SMEs. On a macro level, a healthy and thriving SME community also leads to economic competition and innovation, leading to growth for a country. SMEs therefore can contribute much to a nation's labour market and economy and further policy attention for these types of enterprises can be extremely fruitful to a country.

There is no standard formula when it comes to designing SME policies for countries. Countries have different characteristics and features which in turn affect the nature of the optimal SME landscape. Indeed the ideal equilibrium rate of business ownership and level of entrepreneurship in a country depend on a number of national characteristics, and both economic and non-economic factors. GDP levels for instance and the stage of development in which an economy finds itself influence the ideal level of entrepreneurship (Carree et al., 2002).

It is therefore important to examine both the economic and non-economic characteristics of a country when designing SME policy so as to achieve the optimum level of added value towards a nation's economy. Governments can contribute to a country reaching and maintaining its equilibrium rate of business ownership by introducing policies which foster low barriers to entry for SMEs. Allowing SMEs more dynamism helps a nation's enterprises to reach the ideal business ownership rate more easily (Carree et al., 2002).

Size is important; the chapter builds on the importance of making a difference between large and micro, small and medium-sized enterprises in the policy and rule-making process. SMEs often differ from larger enterprises in terms of their levels of resources, their characteristics, performance, and growth prospects and also regarding the staff who run them. This has impacts on how SMEs and larger enterprises perceive and work with regulatory and administrative requirements. For SMEs, the time, energy and money involved in understanding all the relevant regulations and administrative requirements for their business is relatively higher than for larger enterprises, since larger enterprises have higher levels of human and financial resources.

For SMEs the trade-off between following administrative procedures compared to carrying out their core business operations are steeper than for larger enterprises. Added to this is the fact that lump sum costs (such as a standard price for administrative documents or notarising), are proportionately greater for SMEs than for larger firms. This is especially true with regard to the diversity in the sectors SMEs work in and the different administrative burdens that they have to address. These issues and others, demonstrate the need for a policy that is specific to SMEs.

The following sections of this chapter first present a brief overview of SMEs in Chile and the main institutional actors involved. An overview of SME policy throughout the last decade is provided based on literature and expert interviews. An analysis of remaining regulatory barriers to SME start-up and continuity is given, together with a closer look at the policy efforts made to formalise SMEs.

## Overview of small and medium enterprises in Chile

### *Definition*

Common definitions of SMEs used on an international level vary according to their balance sheet total, or turnover, and/or the number of employees at work in the enterprise. The European Commission classifies SMEs as “enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million” (OECD, 2015). Within this understanding, small enterprises are those both with less than 50 employees and a turnover or balance sheet of less than EUR 10 million. Micro enterprises have less than 10 employees and a balance sheet or turnover of less than EUR 2 million.

While the EU and OECD adopt such definitions, there is no uniform, single definition common to all nations. Canada for instance, considers SMEs as firms with less than 500 employees while other countries use a lower employee threshold; in Israel the limit is 100 employees while in New Zealand the line is set at 19 employees.

There is also diversity in the limit in turnover or balance sheet used to categorise enterprises as SMEs. OECD data shows that the Russian Federation for instance uses a turnover limit of RUB 1 000 million (EUR 16.76 million), while India places upper limits of INR 100 million (EUR 1.38 million) and INR 50 million (EUR 0.69 million) on investment in plant and machinery, and equipment, respectively. In other countries the definition of SMEs depends on the sector in which they operate (OECD, 2015).

The nature of the definition used by a country for classifying its SMEs therefore varies. It can also reflect national level considerations and policy priorities based on the economic or social circumstances of the country in question. The EU definition of the SME size classes is relatively easy to apply and as such contributes to internationally comparable national level data on SMEs and entrepreneurship.

In Chile, the definition of an SME is expressed in terms of annual turnover. According to Law No. 20.416, which sets out specific regulations for SMEs, small and medium-sized enterprises in Chile are therefore defined as follows:

Table 10.1. **Chilean firm size definition**

Firm size (annual turnover)	
All enterprises	
SMEs (up to UF 100 000)	
•	Micro (up to UF 2 400)
•	Small (UF 2 400 to UF 25 000 )
•	Medium (UF 25 000 to UF 100 000 )
Large (UF 100 000+)	

*Note:* Data includes employer and non-employer enterprises in all industries; UF (*Unidad de Fomento*) is an indexed unit of account that incorporates adjustments based on increases in the general level of prices in the Chilean economy in order to preserve the purchasing power (real value) of assets denominated or indexed to this unit of account. The UF of 9 December 2015 stood at CLP 25 629.09, according to the Internal Revenue Service of Chile [www.sii.cl/pagina/valores/uf/uf2015.htm](http://www.sii.cl/pagina/valores/uf/uf2015.htm). Therefore, SMEs in Chile are firms with annual sales of up to approx. CLP 2.56 billion (USD 3.64 million).

*Source:* OECD, (2015a), *Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard. Chile Country Profile*.

[http://dx.doi.org/10.1787/fin\\_sme\\_ent-2015-en](http://dx.doi.org/10.1787/fin_sme_ent-2015-en)

### *SME's in numbers*

The most recent data on formally registered SMEs is provided below in order to get a clear grasp of the SME landscape in Chile. The information is partly based on the Survey of Micro Entrepreneurship (*Encuesta de Microemprendimiento, EME*) conducted by the National Statistics Institute and the Ministry of Economy, Development and Tourism; and, on the figures provided by the Internal Revenue Service (*Servicio de Impuestos Internos*).

Table 10.2. Firm size distribution in Chile 2006, 2010 and 2014

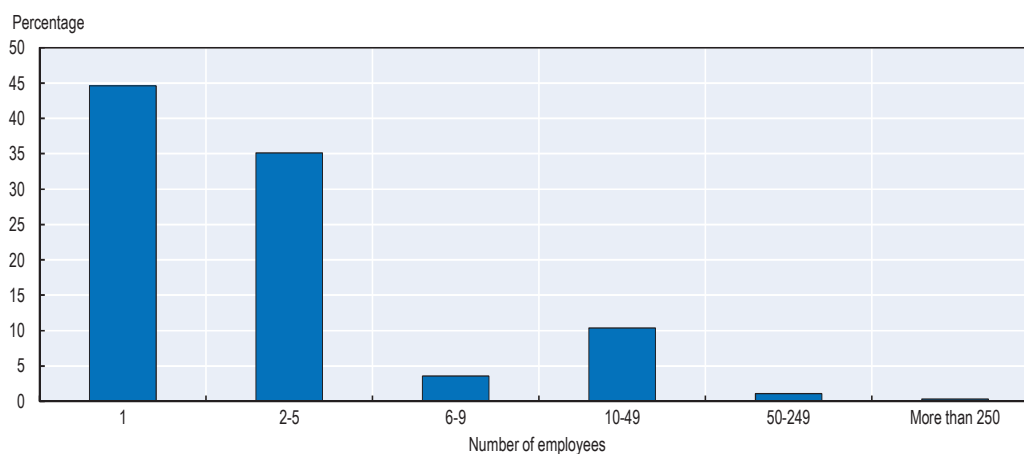
Firm size (annual turnover)	Number 2006	%	Number 2010	%	Number 2014	%
All enterprises	883 211	100	938 113	100	1 045 046	100
SMEs (up to UF 100 000)	752 527	85.2	790 714	84.3	881 857	84.4
• Micro (up to UF 2 400)	608 910	68.9	618 949	66.0	669 515	64.1
• Small (UF 2 400 to UF 25 000)	125 307	14.2	149 545	15.9	184 654	17.7
• Medium (UF 25 000 to UF 100 000)	18 310	2.1	22 220	2.4	27 688	2.6
Large (UF 100 000+)	9 454	1.1	11 219	1.2	13 979	1.3
No sales / Unknown	121 230	13.7	136 180	14.5	149 210	14.3

*Source:* Internal Revenue Service of the government of Chile. [http://www.sii.cl/estadisticas/empresas\\_tamano\\_ventas.htm](http://www.sii.cl/estadisticas/empresas_tamano_ventas.htm)

It should be noted that Chile has a relatively large proportion of informal SMEs. These are not reflected in the statistics on Table 10.2. Indeed this is a point of priority for Chilean SME policy, to get more SMEs, especially micro enterprises to formalise (see also the assessment and recommendations of the current chapter).

A large number of Chilean SMEs do not recruit many employees to work in their enterprises. This is especially true when talking about micro enterprises in Chile. Out of those enterprises which do have employees, the breakdown of number of employees is as follows:

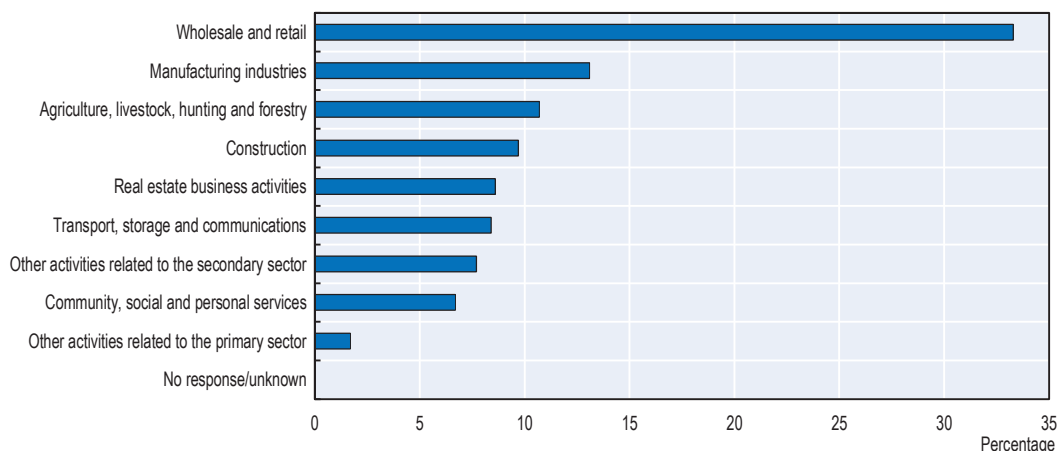
Figure 10.1. Number of employees amongst Chilean enterprises



Source: Ministry of Economy, Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013, (2014).

The following figures provide further information as to the main sectors of activity for Chilean entrepreneurs. The data shows that a third of Chilean SMEs are active in the wholesale and retail sector, followed by 13.1% being active in manufacturing industries, and 10.7% being active in the agricultural, livestock and hunting sector; these three groups constitute the largest areas of activity.

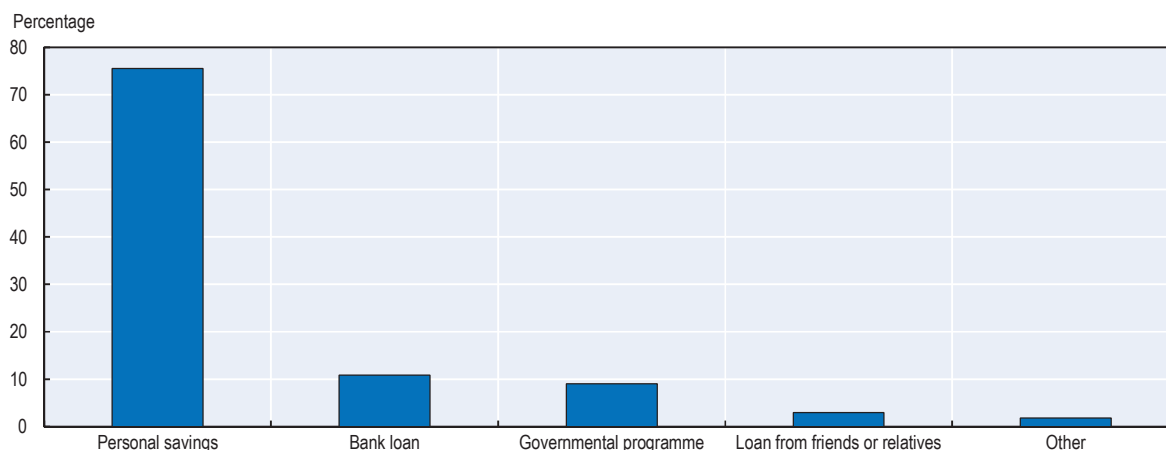
Figure 10.2. Chilean SMEs according to area of activity



Source: Ministry of Economy, Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013, (2014).

Regarding the enterprise features of Chilean SMEs, when setting up a business, the main sources of financing come from personal savings (75.5%). Loans from friends or relatives, followed by bank loans, are the second and third most common sources of financing.

Figure 10.3. Sources of financing used by entrepreneurs at start of an enterprise



Source: Ministry of Economy, Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013, (2014).

The tables above show the SME landscape in Chile but lack international comparison. International initiatives exist which allow for a comparison of a country and its given SME environment such as the Global Entrepreneurship Monitor (GEM). The GEM is an initiative which fosters international comparisons between member countries, allowing policy makers and other stakeholders the possibility of assessing the dynamics and behaviour of entrepreneurship in several countries. The GEM methodology is explained in Box 10.1.

#### Box 10.1. Internationally comparable information: the Global Entrepreneurship Monitor

The Global Entrepreneurship Monitor (GEM) is an annual monitor of SMEs across the world. Based on two sets of surveys carried out by member nations on an annual basis, national level insights are generated in an internationally comparable manner. The Adult Population Survey (APS) and National Expert Survey (NES) are used as the key inputs for the GEM.

Based on both surveys, national and global information on the progression of entrepreneurs, their dynamics, and characteristics are collected. As such, the GEM provides an idea of how SMEs perform compared to an international benchmark as well as providing insights and concrete information for policy makers.

- The APS provides indicators of entrepreneurial activity, entrepreneurial attitudes, and entrepreneurial aspirations within an economy; it includes a sample of at least 2000 respondents of 10 years and older.
- The NES involves interviewing at least 36 experts in each participating country and asking their opinions on nine topics which have an impact on entrepreneurial activity.

The GEM examines several variables regarding entrepreneurship. Some of the key aspects include:

- **Total early-stage entrepreneurial activity (TEA):** Percentage of individuals aged 18-64 who are either a nascent entrepreneur or owner-manager of a new business.
- **Nascent entrepreneurship rate:** Percentage of individuals aged 18-64 who are currently a nascent entrepreneur, i.e., actively involved in setting up a business they will own or co-own; this business has not paid salaries, wages, or any other payments to the owners for more than three months.

### Box 10.1. Internationally comparable information: the Global Entrepreneurship Monitor (*cont.*)

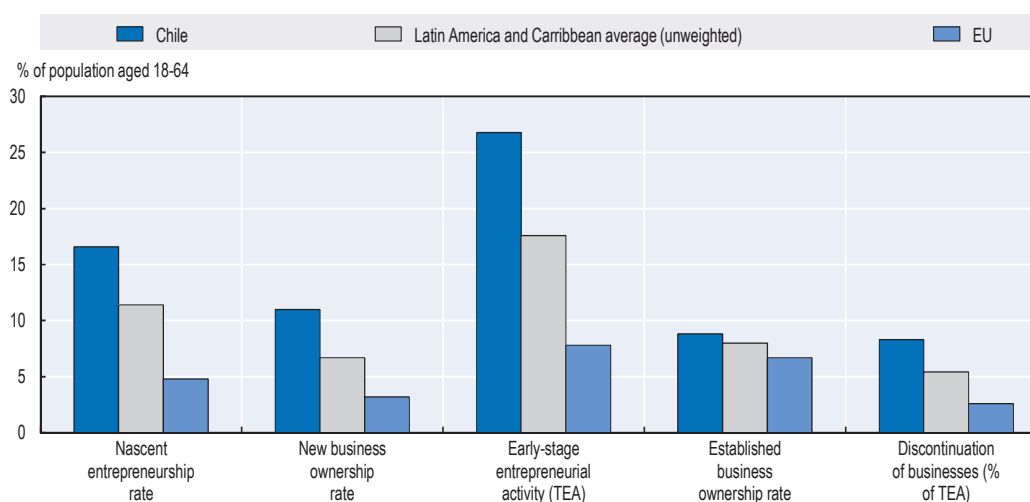
- **New business ownership rate:** Percentage of individuals aged 18-64 who are currently an owner-manager of a new business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months.
- **Established business ownership rate:** Percentage of individuals aged 18-64 who are currently an owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.
- **Business discontinuation rate:** Percentage of individuals aged 18-64 who, in the past 12 months, have discontinued a business, either by selling, shutting down, or otherwise discontinuing an owner/management relationship with the business. Note: this is NOT a measure of business failure rates.

Source: Panteia, (2015), Global Entrepreneurship Monitor – the Netherlands 2014, Zoetermeer, the Netherlands. [www.gemconsortium.org/report/49274](http://www.gemconsortium.org/report/49274)

Information from the 2014 GEM shows how the rate of nascent and new business ownership rate, and early stage entrepreneurial activity in Chile are higher for the Latin American region and the EU. However, the discontinuation of business rate still needs to be taken care of.

Figure 10.4. Phases of entrepreneurial activity in GEM economies (2014)

By geographic region, % of population aged 18-64 years



Note: Unweighted average.

Source: GEM (2015), *Global Entrepreneurship Monitor: 2014 Global Report*, Global Entrepreneurship Research Association, London Business School, [www.gemconsortium.org/report](http://www.gemconsortium.org/report) (accessed 25 February 2016).

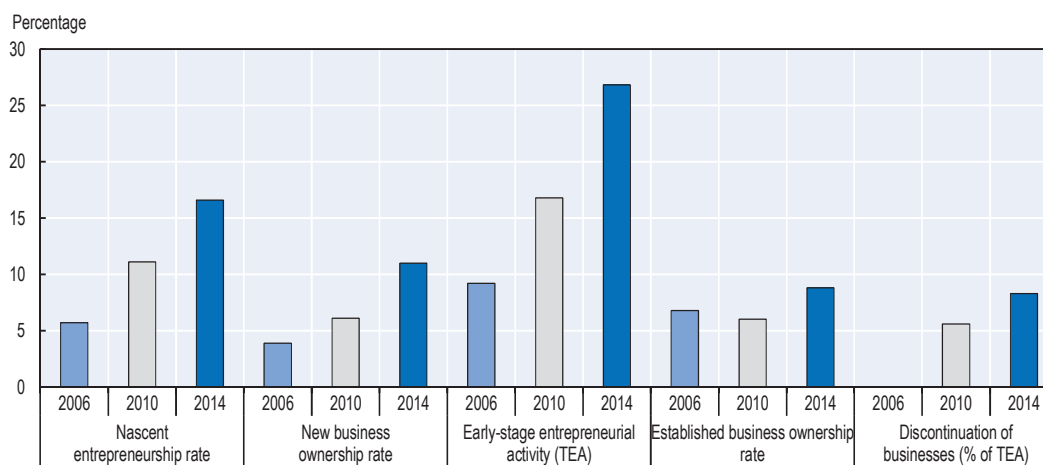
The degree, to which the higher rates of nascent and new business ownership can be attributed to Chile's renewed policy efforts regarding SMEs, is difficult to establish. However, it is noteworthy that the new business ownership rate exceeds the established business ownership rate. The GEM reports that in cases where these two rates are comparable, this reflects a relatively dynamic SME environment (GEM, 2011).

In the case of Chile the rate of new businesses exceeds that of established businesses, suggesting a renewed optimism and drive in the Chilean SME community. But further insight into the composition as well as more encompassing statistics would provide an even more accurate impression of the SME landscape in Chile. As the GEM uses self-reporting, it is not clear whether informal SMEs have been included in these figures. It seems likely that while these numbers provide further insight into the composition of Chilean SMEs, they do not present a complete impression.

As it is difficult to ascertain whether SME policy and other developments, or other national trends have affected Chilean SMEs, Figure 10.5 presents an overview of how the entrepreneurial activity in Chile has changed over the last decade regarding the GEM indicators. This table shows how there has been an increase on entrepreneurial activity across all criteria. This suggests that the environment for SMEs in Chile has improved since 2006.

Figure 10.5. **Development in entrepreneurial activity Chile, 2006-2014**

Percentage of population aged 18-64



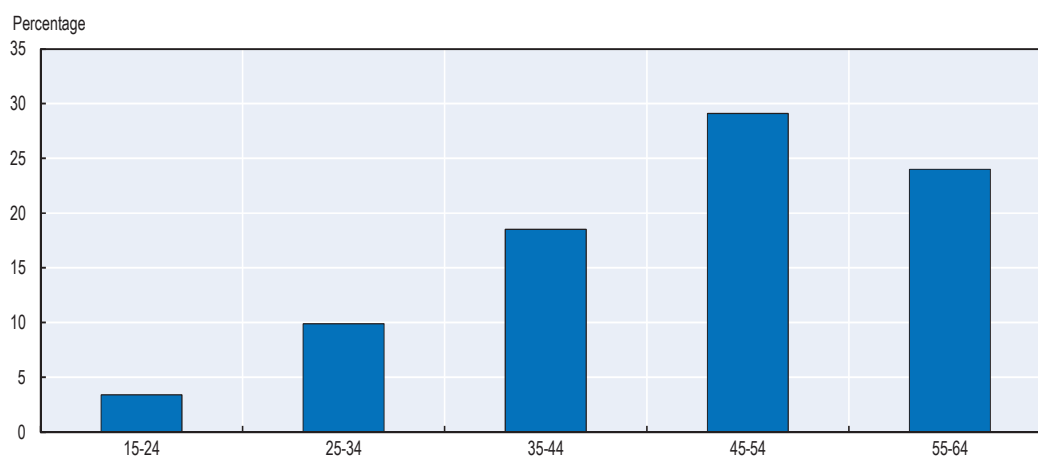
Source: GEM (2007), *Global Entrepreneurship Monitor: 2006 Global Report*, Global Entrepreneurship Research Association, London Business School; GEM (2011), *Global Entrepreneurship Monitor: 2010 Global Report*, Global Entrepreneurship Research Association, London Business School; GEM (2015), *Global Entrepreneurship Monitor: 2014 Global Report*, Global Entrepreneurship Research Association, London Business School, [www.gemconsortium.org/report](http://www.gemconsortium.org/report) (accessed 25 February 2016).

### *Characteristics of entrepreneurs*

The Ministry of Economy, Development and Tourism, through the EME, also provides information on the characteristics of entrepreneurs. The data demonstrates that in Chile some 62% of entrepreneurs are men while 38% are female. This compares to a general labour force distribution of 59.2% men compared with 40.8% women.<sup>1</sup>



Figure 10.6. Age distribution of entrepreneurs in Chile

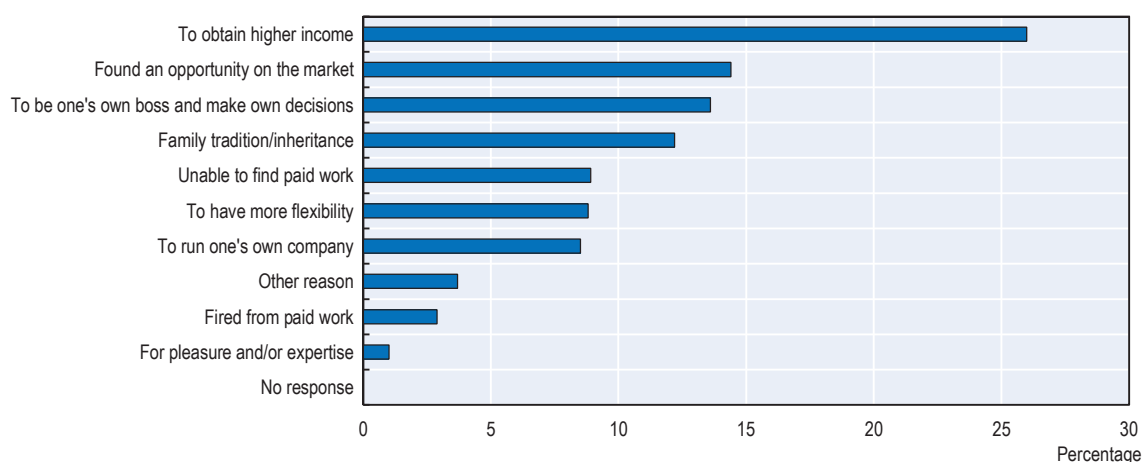


Source: Ministry of Economy, Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013, (2014).

### *Start-ups and growth barriers*

As shown in Table 10.2 in the beginning of the section, many enterprises fall under the category of micro enterprises in Chile; it is often the case that they are family-owned and managed. The individual opinions of one person (the head of the family) are thus quite influential in the start-up and growth of an enterprise. In many cases the scale of the enterprises starts and stays within the micro category. The characteristics of the entrepreneur, such as their educational level, literacy, financial capital, age and geographical location, can all affect the nature and continuity of the business. In Chile such aspects can vary widely across the country leading to a very heterogeneous SME universe (Goldberg and Palladini, 2008).

Figure 10.7. Main reasons for starting an enterprise (formal or informal)

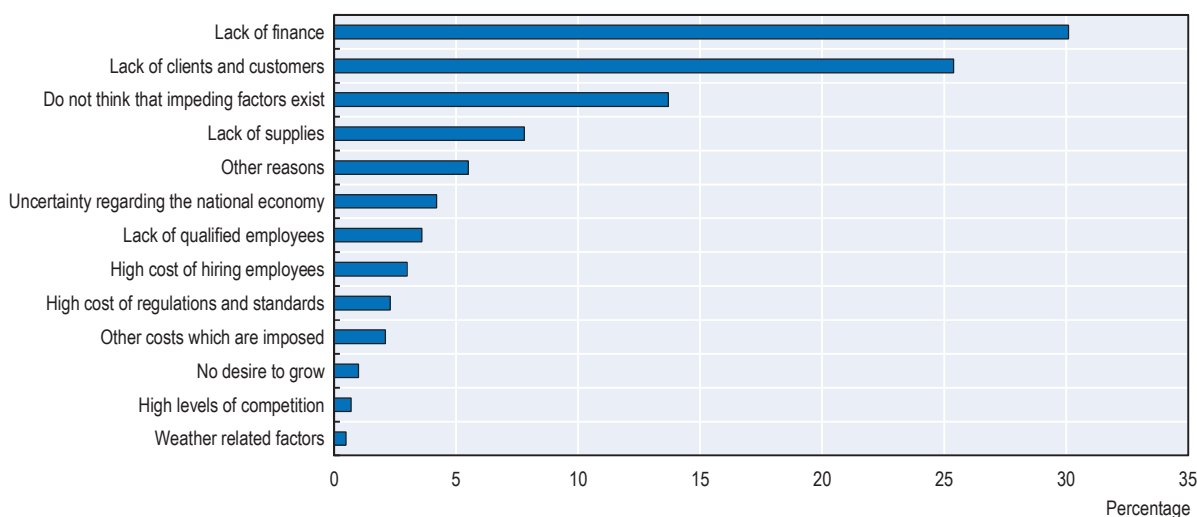


Source: Ministry of Economy (2014), “Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013”.

Furthermore, the EME Survey shows that 34.1% of respondents declare having started out of necessity, i.e. family tradition or inheritance, they were unable to find a job, they were recently fired from a paid position or they needed more flexibility. On the other hand, 65.9% of respondents declare that they initiated their start-up in order to seize the opportunity, i.e. obtain higher income than their current jobs, found a niche with a good return rate, to be their own boss, or merely for the experience.

While growth of an enterprise sounds like an intuitively positive thing for an entrepreneur, not all entrepreneurs are able to, nor desire, to lead their enterprises into growing past a particular point. The two main factors impeding growth however, appear to be a lack of funding (30.1%), followed by a lack of clients and customers (25.4%) as can be seen in Figure 10.8. A significant 13.7% of respondents indicated that they did not think any impeding growth factors existed.

Figure 10.8. Main factors impeding the growth of an enterprise



Source: Author's elaboration with data from Ministry of Economy (2014), Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013.

### ***Formal and informal enterprises***

Having sketched a picture of the status of Chilean SMEs and entrepreneurs, the following section takes a closer look at formal and informal enterprises in Chile. This issue of formal enterprises is an important point of policy focus in Chile. Informal enterprises do not pay taxes, and are less likely to comply with labour law and other regulations that are costly for formalised SME's. Moreover, informal enterprises are subject to inspections to a lesser extent than formal enterprises.

It is impossible to deny that for a segment of the population the informal sector remains as their only alternative to earn an income. Organisations like the Solidarity and Social Investment Fund (*Fondo de Solidaridad e Inversión Social, FOSIS*) which is an agency focusing on poverty reduction and the Agricultural Development Institute (*Instituto de Desarrollo Agropecuario, INDAP*) argue:

- There is a segment of informal micro enterprises that have a higher risk of failure if they are formalised due to their inability to withstand delayed payments, pay taxes and comply with the basic legal requirements.
- In many cases, informal entrepreneurs would be unable to find formal employment.
- Enforcing the law in this domain in rural areas would probably result in people moving to urban areas.
- Many of the informal entrepreneurs are functionally illiterate.

There is much debate over current programmes that benefit informal enterprises (amongst others). INDAP has 25 programmes and tools that cover three dimensions: capacity-building, through technical advice and training; investment financing micro entrepreneurs or requiring farmers to develop their business (i.e. irrigation, animals, equipment, etc.) and working capital (under very special conditions). The beneficiaries of the programme are family businesses, some of which might not be formal. There are two groups of users: micro entrepreneurs with a defined business objective and a large group (70% being farmers) which relies on it for subsistence by selling their surplus.

Support is given through programmes whose rules and regulations are defined by INDAP through resolutions that establish the objective of the programme, target audience, characteristics of the supports, etc. They come in the form of annual programmes and they are renewed every year. INDAP has negotiated agreements with many municipalities, for example those concerning training programme for farmers.

Where INDAP is active in rural areas, FOSIS works in the urban environment. Similarly to INDAP, it provides seed capital (also to informal enterprises), support and training. The aim is to help start-ups (not registered) generate sufficient income and develop sufficient knowledge and expertise to run a formal enterprise, or be employed. Several experts argue that the support system tends to create perverse incentives to remain in a support situation rather than move forward.

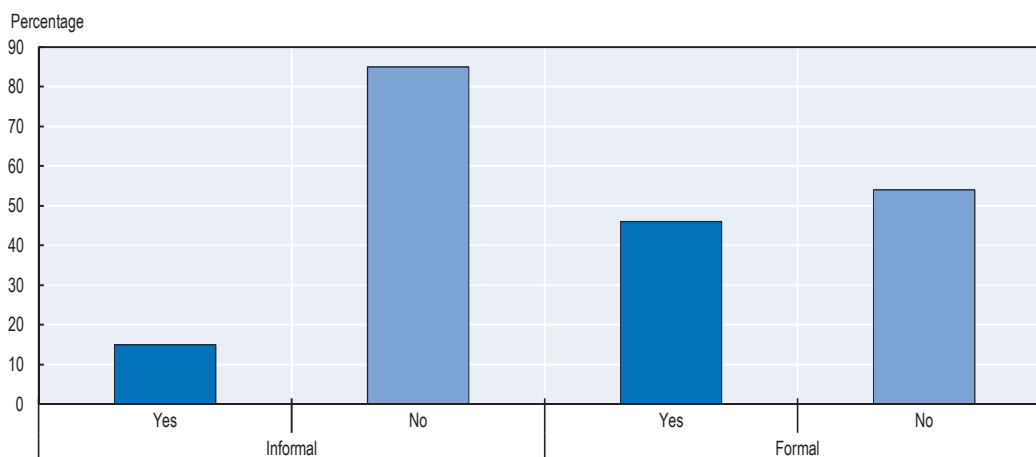
In Chile, according to data collected by the Ministry of Economy, Development and Tourism, 51.6% of enterprises are formal, while 48.4% remain informal. Data also indicates that formal enterprises tend to generate more employment as well.

Table 10.3. **Enterprises in Chile according to formal status**

Status	%
Formal enterprises	51.6
Informal enterprises	48.4

*Source:* Ministry of Economy (2014), “Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013”.

Figure 10.9. Enterprises in Chile according to formal status and employment generation

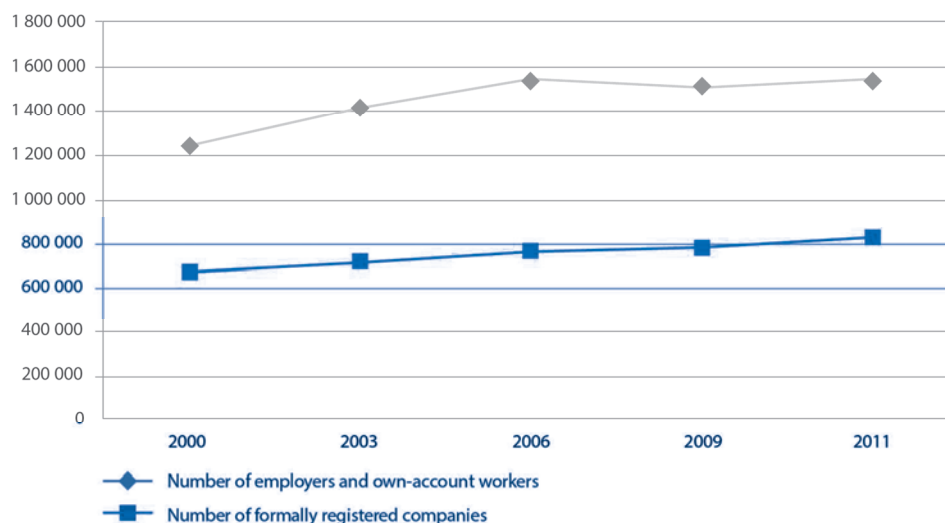


Source: Ministry of Economy (2014), “Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013”.

Looking at other sources of information, and how informal and formal enterprises have developed, the rate of formalisation in Chile in 2013 kept a steady pace as opposed to other Latin American countries. Based on estimations from the national household survey in 2011, some 1 534 485 people identified themselves as business owners and own account workers, also known as self-employed. When taking into account the 825 366 businesses registered with the tax authorities, it shows a formalisation rate of 54% according to data from the International Labour Organisation.

This rate of formalisation was similar ten years previously, when the national household survey recorded 1 241 688 business owners and own-account workers compared to 673 697 businesses registered formally with tax authorities. This also translated to a formalisation rate of 54%. The development of the formalisation rate is illustrated in Figure 10.10 (ILO/FORLAC, 2014).

Figure 10.10. Number of productive units and formal enterprises in Chile, 2000-2011

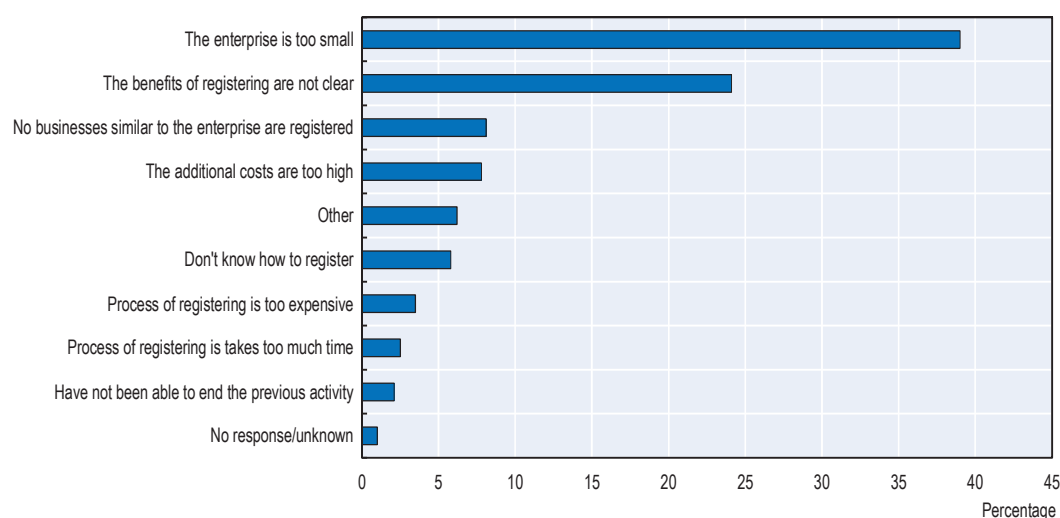


Source: ILO/FORLAC (2014).

Since the launch of the public EME reports on SMEs by the Ministry of Economy, Development and Tourism, formalisation has been an important component of the study series. During the second report on SMEs in 2012, there were some 1 730 000 enterprises in Chile, of which 59% were informal (translating to some 1 001 730 enterprises). Looking at the data for 2014, the level of formalisation amongst enterprises has improved. It should be noted here that under the second SME report in 2012, an enterprise is understood to be formal as soon as its activities are registered by the Internal Revenue Service. The method of investigating and recording informal SMEs and how these are represented in reports differs somewhat, so that comparisons of formalisation data over the years should be made care.

In order to remedy the level of informal enterprises and to get these businesses to formalise, it is important to understand why these entrepreneurs choose to stay informal to begin with. Figure 10.11 provides an overview of the main reasons for SMEs to stay informal.

Figure 10.11. **Main reason for having an informal enterprise**

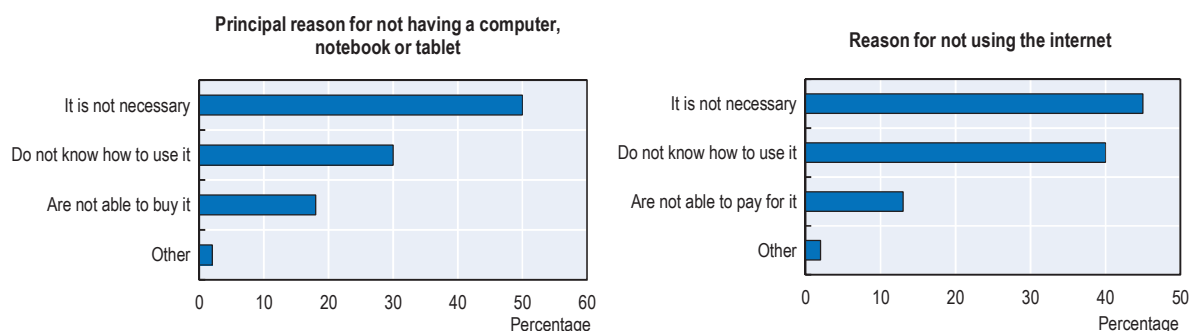


*Source:* Author's elaboration with data from Ministry of Economy, Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013, (2014).

### *Use of ICT*

In Chile, the majority of entrepreneurs do not use the internet. From the respondents, 36.3% indicate that they do use the internet while 63.7% indicate they do not. It is also important to note that a large number of entrepreneurs in Chile do not own a computer, tablet or notebook. Specifically, 68.2% do not own such devices while 31.8% do.

Figure 10.12. Use of internet by entrepreneurs



Source: author's elaboration with data from Ministry of Economy (2014), Development and Tourism, Results from the third Survey of Micro Entrepreneurship 2013.

The information above demonstrates that among Chilean entrepreneurs, a large proportion do not use communication technologies or internet, which is an important element to bear in mind when designing policies to promote entrepreneurship. Especially for informal entrepreneurs, who generally are more likely to live in less developed areas, this lack of internet and digital devices should be borne in mind when designing policies on formalization, see also Chapter 11.

### Institutional environment for SMEs

The following paragraphs describe SMEs in Chile's institutional context. The main organisations at public and private level involved in Chilean SME policy making are described below, along with insights into their main activities. The impact these organisations have on policy making is discussed towards the end of the section.

#### Government institutions

The Ministry of Economy, Development and Tourism is the main Ministry in charge of designing, monitoring and evaluating the implementation of public policies to promote the competitiveness of micro, small and medium-sized enterprises and entrepreneurship. The Small Size Enterprise Division (*División de Empresas de Menor Tamaño, DEMA*) is the division responsible for promoting actions to improve the ecosystem of entrepreneurship and competitiveness of SMEs. Their work is focused on the development of public policies and coordinated measures to facilitate the creation, closure, operation and financing of SMEs in Chile. It has a number of areas of activity including the reduction of administrative burdens, improving access to finance, promoting access to markets, and simplifying laws relevant to SMEs.

While the design and monitoring of the SME policy is the responsibility of the Ministry of Economy, Development and Tourism, other ministries are involved in implementing regulations and instruments relative to SMEs and their own areas of activity. These include the Ministry of Agriculture, Ministry of Finance, Ministry of Mining, Ministry of Foreign Affairs and Ministry of Labour.

Regarding SMEs there are a number of institutions that are affiliated with different ministries with very specific roles. The state bank in Chile, *Banco Estado* is also a key public organisation involved in SME policy as it contains its own specific fund for providing loans to SMEs, notably small and micro enterprises. Besides this, the bank also

manages the SME Credit Guarantee Fund (*Fondo de Garantías para Pequeños Empresarios, FOGAPE*).

Most of the public organisations involved in SME policy are dependent on the ministries. Other examples of such organisations focussing on SMEs also exist:

- CORFO (*Corporación de Fomento de la Producción*) is the Economic Development Agency, functionally dependent to the Ministry of Economy, Development and Tourism. More details are provided below.
- SENCE (*Servicio Nacional de Capacitación y Empleo*), is the National Training and Employment Service, a government agency of the Ministry of Labour; its objective is to upgrade the skills of the Chilean workforce.
- PROCHILE is the National Agency for Export Promotion. Its mission is to promote Chilean exports and facilitate entry of Chilean enterprises with exporting into international markets.
- CONYCID (*Comisión Nacional de Investigación Científica y Tecnológica*) is the National Commission for the Scientific and Technological Research, that manages amongst others the Science and Technology Development Fund (*Fondo de Fomento al Desarrollo Científico y Tecnológico, FONDEF*) and intended to finance pre-competitive research and development and technology projects carried out jointly by universities, technology institutes and the private business sector.
- SERCOTEC (*Servicio de Cooperación Técnica*) is the Technical Cooperation Service, intended to support the management capacities of the Chilean micro and small enterprises. SERCOTEC designs and implements its own programmes but also acts as an intermediation agent for some of CORFO's matching-grant programmes (providing technical support to SMEs).
- FOSIS (*Fondo de Solidaridad e Inversión Social*) is a governmental services affiliated with the Chilean government. Its aim is to help develop and implement strategies to lift people out of poverty and vulnerable living situations. It is aimed at individuals, families and communities in order to reduce inequality.
- CIE (*Comité de Inversiones Extranjeras*), the Foreign Investment Promotion Agency, is the governmental body responsible for promoting Chile on the international market to attract investment interest from abroad. It acts as a bridge between foreign investors and national business opportunities.

Additionally, there are several institutions specialised in specific sectors, such as:

- INDAP (*Instituto de Desarrollo Agropecuario*) is the Agricultural Development Institute, an autonomous institute under the Ministry of Agriculture, created to support the development of family farming.
- SERNATUR (*Servicio Nacional de Turismo*) is the National Tourism Service which is focused on tourism activities.
- SERNAPESCA (*Servicio Nacional de Pesca y Acuicultura*) is the National Fisheries Service which is focused on the fishing sector.

The main agency dealing with SMEs in Chile is CORFO; it administers the largest portfolio of grants and credit programmes covering SMEs in a wide array of different



domains. CORFO is functionally dependent of the Chilean Ministry of Economy, Development and Tourism. In the development of its activities CORFO takes into account the general goals set by the Chilean government.

The current mission of CORFO is to “improve the competitiveness and productive diversification of the country, via the improvement of investment, innovation and entrepreneurship, while at the same time strengthening human capital resources and the technological capabilities, so to reach a sustainable and balanced geographical development while improving the position of Chile in the world economy”. Meanwhile, the vision of CORFO is “to be a world-class agency intended to reach the goals set up for its mission, setting up collaborative productive systems and high potential sectors so as to project Chile into the new knowledge 21st Century economy”. In practical terms, the target group of CORFO is all actors related to the productive system of Chile, with a special focus on SMEs in all stages of development and irrespective of sector considerations. The major fields of action of CORFO are:

- Promotion of innovation and upgrading of the technological development of the business sector.
- Modernisation of enterprises to improve their competitiveness with a focus on business networking and co-operation amongst enterprises.
- Improvement of the enterprises’ management to increase access to various markets.
- Financing and development of financial instruments to attend to the needs of enterprises (new, small and exporting enterprises).
- Improving regional productive development by stimulating private investment and the development of emerging sectors. (Panteia/ILO, 2015)

As part of its activities, CORFO offers a comprehensive supply of support measures and provides enterprises with options that depend on their stage of development. The emphasis of CORFO’s support is on four main domains: *i*) relief of financing constraints for SMEs (through credit guarantees and special long-term investment credit programmes); *ii*) technical cooperation programmes of various kinds; *iii*) promotion of associative endeavours by small firms and; *iv*) support of innovation (both at firm level and between groups of enterprises, business associations and universities). Specifically, the current main activities of CORFO can be grouped as follows:

- Support for the development of new enterprises and entrepreneurship in general. Relevant projects in this domain include Start-up Chile, which aims at supporting start-ups initiated by Chileans or foreigners; Seed Capital Support that channels grants to incubators; and, the Support for Creating an Entrepreneurial Environment (*Programa de Apoyo al Entorno*), intended to subsidise up to 80% of a new business project.
- Support for innovation, including Research and Development (R&D) activities. CORFO is the principal public agency in charge of promoting the innovation in all types of enterprises, both consolidated and new enterprises. It also has important lines of support intended for research centres. Relevant examples of programmes include the R&D Tax Credit Law (for favourable taxation of R&D investments), the International Centres of Excellence in R&D (intended to foster the establishment in Chile of International Centres of Excellence in R&D,



technology transfer and marketing activities) or the Technology Consortiums for Innovation 2.0 (intended to support joint R&D activities conducted by groups of enterprises)

- Support for the improvement of competitiveness of enterprises. CORFO helps small enterprises to strengthen the management of entrepreneurs through the development of skills and capabilities, and co-financing of investment activities (i.e. the Programme of Local Enterprise/*Programa de Emprendimiento Local* or a programme of grants to learn English). CORFO also promotes the integration of production chains of suppliers to improve and stabilise the commercial links with its clients (the Supplier Development Programme/*Programa de Desarrollo de Proveedores*).
- Support the access of SMEs to finance. CORFO develops and runs programmes to facilitate the access of enterprises to funding for productive activities. CORFO operates through banks and other financial institutions providing resources and credit risk coverage for the funding of productive activities by private companies and individuals. Examples of relevant activities include a programme of CORFO-Guarantees, special loans for micro and small enterprises, a Seed-Angel-Venture Capital Programme, risk capital funds, business angel networks, etc.

CORFO collaborates with other public agencies, public and private institutes and industry associations in the implementation of many programmes. For instance, and in the case of financial assistance programmes, CORFO operates through banks and other financial institutions providing resources and security for the funding of productive activities by private companies and individuals. In the case of some innovation and regional programmes, CORFO directly manages the delivery of these programmes.

The design of its SME policies follows a systematic planning and analysis process, involving stakeholders to identify priority areas and the best way to achieve these priorities. CORFO is also obliged to have regular evaluations and to report its activities to the relevant stakeholders. The extent to which all of its activities are made public is not clear at this point. Furthermore, the organisation is evaluated by external partners, such as the University of Chile.

Regarding beneficiaries of the programmes, participation has steadily increased. For instance, the number of beneficiaries of CORFO programmes increased from 96 295 in 2009, to around 270 000 in 2013. Additionally, up to 96% of credits, guarantees and subsidies went to SMEs. These statistics and the fact that CORFO's budget and scope of activities are increasing, along with the promotion for these SME programmes, suggest that CORFO is performing well. However, when examining stakeholder inputs for this study, it appears there is still some way to go in that many SME associations and their members continue to perceive administrative barriers and access to finance as key obstacles to entrepreneurship. The lack of a systematic implementation of programmes at the municipal level and the inadequate dissemination of information are also cited as problems for SMEs. Therefore CORFO, though performing well, has a challenge concerning the promotion and mass communication of its programmes and policies at subnational level in Chile.

Though CORFO acts as the main governmental body responsible for SME policy, its role and actual contribution towards SME participation and consultation remains unclear even though its mandate is primarily the development and implementation of SME policy. Taking into consideration SME associations' views it becomes apparent that there

is a distinct feeling that the representation of SMEs through associations is relatively weak where the government is concerned. This is the case, despite organisations like CORFO's SMEs Advisory Board (*Consejo Asesor MIPYME*), or the Ministry of Economy, Development and Tourism's National Advisory Council for SMEs (*Consejo Nacional Consultivo de la Empresa de Menor Tamaño*), suggesting that the awareness of these public organisations is relatively low amongst the SME associations.

According to a small survey held in 2014 amongst entrepreneurs by PROPYME<sup>2</sup> amongst 474 participants, 3.76% did not belong to any form of association. Anecdotal evidence from the survey suggests that there is apparently not much faith in the ability of associations to represent SMEs at national level. Apart from this evidence suggesting that the representative power of SME associations is relatively low in Chile, stakeholders also claim that their negotiating power is relatively weak. This is predominantly due to the heterogeneity of SMEs across Chile and the atomisation of associations and interest groups; there is not much basis for speaking with a unified voice at national level.

Besides this, it is also difficult to gauge how regularly and systematically these SME associations meet, plan and are involved in policy making at the national level. It is therefore difficult to draw concrete conclusions regarding the role of SME associations at national policy level. On the one hand, there are state organisations active for promoting the interests of entrepreneurs, while SME associations do not appear to be aware of many of these organisations or do not feel heard and represented by those public organisations they are aware of.

### ***SME representation and stakeholder engagement***

A small number of SME's are members of a representative organisation. This of course hampers the power these organisations can exert at national level to ensure a fair environment to do business in. Especially when compared to large enterprises that – allegedly – have a very good access to politicians and policy makers as well as larger resources. As a result, the level of representativeness of SME associations and their negotiation power regarding consultations on SME policy appears to be limited.

The SME representative organisations are said to be divided amongst them due to political factors. Also, many associations are fragmented and represent specific groups and /or regions. Several organisations have poor representation power but many leaders, reflecting an organisational structure of an “inverse pyramid”. Most organisations cannot afford to invest in training, causing management and staff to lack certain competences.

The associations are generally not used as a communication channel between the public sector and the SMEs. Moreover, from the governmental side, active stimulation of participation through active consultation processes is rare, though recently there appears to be some improvement regarding this situation. Some examples are the working committees that the government promoted in order to consult SME associations on their opinion of the Fiscal and Labour Reform, the National Council for the Small and Medium Enterprise (*Consejo Nacional Consultivo de la Empresa de Menor Tamaño*) that the Ministry of Economy, Development and Tourism initiated and the open public consultation prior to publishing a new regulation by the Intellectual Property Institute (*Instituto Nacional de Propiedad Industrial, INAPI*). However, these are some isolated examples that are not illustrative of structural government policy. The SME Statute (Law No. 20.416, sets the necessary regulatory framework, but implementation falters) as discussed in detail in Chapter 4 of this review.

## Regulatory environment for SMEs

SMEs are a diverse and heterogeneous category of enterprises that contrast with the necessities of larger enterprises as discussed in the beginning of this chapter. Given these facts, policy makers are increasingly developing and applying more targeted policy approaches which recognises and seeks to tailor policy to these types of enterprises.

Due to the influence that national policy exerts on the nature and dynamics of entrepreneurship in a country, the European Commission has distilled various approaches to policy making for SMEs into 10 key principles presented in the Small Business Act in 2008. These 10 key principles can be applied when developing policies aimed at SMEs so that policies contribute bringing added value to the EU, create a level playing field for SMEs and improve the legal and administrative environment in Europe as a whole. (European Commission, 2008).

### Box 10.2. 10 principles to guide the conception and implementation of policies both at EU and Member State level

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
3. Design rules according to the “Think Small First” principle
4. Make public administrations responsive to SMEs’ needs
5. Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs
6. Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
7. Help SMEs to benefit more from the opportunities offered by the Single Market
8. Promote the upgrading of skills in SMEs and all forms of innovation
9. Enable SMEs to turn environmental challenges into opportunities
10. Encourage and support SMEs to benefit from the growth of markets

*Source:* European Commission, 2008, Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, “Think Small First”- A “Small Business Act for Europe”, [COM (2008) 374 Final], Brussels. Also available at: <http://eur-lex.europa.eu/legal-content/en/txt/pdf/?uri=celex:52008dc0394&from=en>.

The third principle, “Think Small First” is one of special importance in the EU Communication on the Small Business Act. This principle points to the importance of also acknowledging the differences within micro, small and medium enterprises. The needs and challenges faced by a micro enterprise can differ from a small enterprise, and more so from a medium enterprise. These different needs require different, targeted policy responses. This notion has also been enshrined in the Small Business Act, accompanied by a series of concrete activities and recommendations for both EU and the Member State policy makers to undertake.

The 10 principles established by the EU for policy making for SMEs have been mentioned by other international organisations such as the OECD. These principles have a broad, international relevance and usefulness and as such, these 10 principles are also used by the OECD in its policy research and analysis. This widespread use further demonstrates the utility of these principles in policy making not just for Europe, but globally as well.<sup>4</sup>

Another internationally applicable tool to improve the regulatory environment for SMEs is measuring burdensome regulations and simplifying them with the use of the Standard Cost Model (SCM). This instrument constitutes a tool for identifying and reducing the administrative burden and has been applied across OECD countries. The SCM involves a relatively straightforward methodology for identifying and quantifying the costs and time involved in administrative and regulatory requirements. These insights on the costs and time involved are provided for both the aggregate as at a regulation-specific level. This tool is therefore useful in generating insights which act as input for targeted policy interventions, as well as helping to monitor the effects of policies and reforms. The tool can be applied and adapted to different national contexts and regulatory environments. The broad applicability is demonstrated in its use across EU, OECD and other countries (World Bank, 2010).

The following sections of this chapter first present a brief overview of SMEs in Chile and the main institutional actors involved in SME policy. An overview of SME policy throughout the last few decades is provided based on literature, expert interviews and a dedicated stakeholder survey. An analysis of remaining regulatory barriers to SME start-up and continuity is given, along with a closer look at the policy efforts made to formalise SMEs.

### ***SME Policy in Chile***

During the last few decades Chile has seen several cycles of reforms across a range of policy areas, spanning the social and economic domains. Regarding economic and SME policies, there has been an increase in policy attention aimed at improving the business environment and promoting micro, small and medium enterprises.

Since the 1990s, there has been recognition of the value of a thriving business environment, with emphasis on the importance of SMEs in this context. SMEs form sources of employment, and can boost productivity, competition and innovation. In doing so, SMEs can help to increase social welfare and reduce poverty, as well as increase contributing to a healthy and growing economy. General policy trends have included the improvement of the regulatory framework to be more favourable to business. There have been impulses to improve the enforcement mechanisms of regulation relating to business and institutions set up to help promote competitiveness and to enforce anti-trust regulation (Goldberg and Palladini, 2008). In addition to this, the procedures for declaring bankruptcy have been simplified and improved; and steps were taken to improve the protection of creditors' rights.

#### *Policy trends: 2000s – 2010s*

A series of new policies and programmes were set up to further improve the business environment and to facilitate SMEs. These developments tended to focus on reducing administrative burden and promoting better access to credit, given that these particular aspects persevered as some of the main obstacles to entrepreneurship.

Concerning access to credit, financial services and investment, larger and medium sized firms tended to have more access to credit during the late 1990s. The Chilean government set up a series of financial programmes aimed at SMEs, such as the Guarantee Fund for Small Entrepreneurs (*Fondo de Garantía para Pequeños Empresarios, FOGAPE*). This fund facilitates access to credit for SMEs, especially for smaller firms or those with insufficient credit guarantees, promoting both long and short term loans. The FOGAPE is one of the larger guarantee funds and by 2003, 16 financial institutions were providing guarantees through this fund.

Law No. 19.749 relating to family-owned enterprises was revised and streamlined to improve start up and licensing procedure for family-owned, home-based micro enterprises. Given the high proportion of family-owned micro enterprises, special legal attention was given to this group of business owners in 2001 when the law came into force.<sup>5</sup> The law introduces an official term and type of taxpayer, the “micro family enterprise”, which is subject to corporate tax based on a presumed income. Furthermore, micro family enterprises are exempt from certain legal requirements when setting up a business (i.e. regulations on food health and the production of fumes, noise, smoke or odors which could contaminate products still apply for safety reasons).

Besides this, the Labour Code was revised in 2001 to remedy the relative lack of knowledge regarding labour provisions, especially for micro, small and medium sized enterprises, business owners. Programmes were set up to improve this, including:

- *Multas por Capacitación*, was a programme where labour inspection fines were substituted by training so as to reduce the disincentives around formalising an enterprise and to improve the quality of employment offered by SMEs.
- *Programa de Buenas Prácticas Laborales en Mipymes*, a programme for good practices in labour policy was started. This programme provides technical assistance in good practices regarding labour regulations so that all in all, policy efforts were made to acquaint entrepreneurs with labour policy and to avoid them receiving fines due to lack of knowledge. A special fund was set up to finance these programmes in 2008, the Social Security Education Fund.
- The *Previred Portal*, established in 2002, was launched by a group of private pension funds in Chile. The aim was to reduce administrative burdens linked to social security payment by allowing companies to register their employees and to transfer relevant social security contributions in one monthly payment. This was to reduce the administrative burden and complexity for entrepreneurs.
- Regarding taxation and the administration involved in properly organising a company’s taxes, an Electronic VAT Invoicing System was introduced in 2002. This system allows business owners to receive and submit invoices online so as to make VAT invoicing quicker and cheaper. (OECD, 2015) Furthermore, the income tax system in Chile as a whole was revised in 2007 to streamline the calculation of tax for entrepreneurs. This was especially useful for micro and small enterprises to simplify the calculation of tax paid on profit. SMEs eligible for this revision were those with revenues of less than 3 000 UTM or less than 6 000 UTM in equity (ILO/FORLAC, 2014).

Within the larger Reform and Modernisation of the State Project, the Chilean government introduced Law No. 19.880 in 2003. The objective was to improve the focus of administrative procedures on individuals, to shorten the deadlines for responding to both citizens and enterprises, to simplify the public administrative procedures, and to



increase the transparency and performance of public institutions. This law sought to change the regulatory and administrative environment for both citizens and businesses alike.

The different measures described above demonstrate that since the early 2000, the Chilean government has taken several steps to improve the regulatory environment for SMEs. Despite this, some areas could benefit from further attention at the turn of the decade. Though the nature and acuteness of the different obstacles are likely to vary across different types of SMEs, a number of general barriers were identified for enterprises in Chile. In their article (2008) for the World Bank, Goldberg and Palladini identify four main areas: legal and regulatory barriers, networking barriers, access to training, and access to credit. The authors highlighted the lack of a unified, coherent SME strategy underlying its financial support instruments.

This lack of perceived consistency in SME related measures has been recognised to some extent by the government and instruments were set up to further coordinate the support efforts. Programmes such as *Emprende Chile* or the *New Productive Activities Programme*, designed to co-ordinate the efforts of relevant ministries with regard to SME policy. The project co-ordinates various ministerial activities by examining the needs, economic and employment circumstances in a region and identifies entrepreneurship mechanisms to link commercial networks and SMEs. Beyond such projects there was typically not much co-ordination and coherence across different SME-orientated policies.

#### *Policy trends: 2010 - present*

The main focus of this period was to implement policies that would make the business environment more attractive and reduce the regulatory burden for SMEs through legislative efforts. The Agenda for a Competitive Impulse was implemented for the period 2010 -2014 providing the framework for a series of regulations with a focus on simplifying start-up procedures for SMEs.

One landmark was Law No. 20.416 in 2010, known as the Small and Medium Enterprise Statute (*SME Statute or Estatuto PYME*), which establishes the need for small companies to be treated differently. The law forms the basis for the establishment of an enabling regulatory framework for the start up, growth and closure of small enterprises, based on the understanding that this segment of firms requires differential regulations and specialised institutions. The SME statute covers a wide range of general provisions, specific regulations and institutional arrangements, along with transitional provisions to improve small business competitiveness. Some of the policies described here formed part of this framework, while others were designed and implemented before or after the law.

In 2013, the *Banco Estado Microempresas* (the only commercial state-owned bank, established in 1995 to financially support micro and small enterprises) formally created the *Cuenta Emprendedor*. This account was established to help newly registered enterprises to manage their finances. Usually micro enterprises do not have access to bank accounts as they do not fulfil the requirements for opening one up. In not having a bank account, access to other support services is also prohibited and the *Cuenta Emprendedor* helps remedy these difficulties for recently established micro businesses.

The Chilean government also set up the programme *Tu Empresa en una Día*, or “Your Business in a Day” in 2014. This platform was created under Law No. 20.659 under the national competitiveness strategy and set out to streamline the start-up procedures for SMEs. Registration through this platform takes place online and is to be

completed in a day, reducing the complexity and regulatory burden of starting an enterprise. Registration is free though applicants pay for the electronic signatures from a notary and the collection of the necessary documents to submit as part of the application process. Once registered, the business is given a tax identification number and can start its operations. This same number is also used for paying social security contributions and for submitting other modifications concerning the enterprise. The Chilean government reports that after the first five months, this platform helped 10 025 firms to register. Even companies already established are entering the new system because it offers them the opportunity to make rapid changes at a lower cost, amongst other benefits. The programme would be of great benefit by addressing computer illiterate owners of informal enterprises.

In 2014, Law No. 20.720, the bankruptcy law in Chile, making it easier and less complex to declare bankruptcy. While previously closing a business was slow and costly, a deterrent to formalising businesses, this has since been simplified. Under specific thresholds regarding size and revenue, micro and smaller enterprises can close down more easily. The National Revenue Service estimated that prior to these revisions, some 15 000 enterprises were hampered in their development due to inadequate bankruptcy procedures. Additionally, the SME Statute also includes a procedure for insolvency.

Further measures are expected as part of the National Agenda for Productivity, Innovation and Growth, which contains a set of key priority areas and related actions to achieve economic growth and productivity. The agenda contains a specific section on supporting SMEs, with measures 18 to 24 highlighting concrete activities which are currently being developed and/or implemented to support SMEs. These key activities include:

- Capitalisation of the State Bank, *Banco Estado*: capitalising the State Bank so that the provision of credit to SMEs can be further expanded. In this way both enterprises and their households are supported without entrepreneurs having to make monetary choices which could diminish their participation on the market or other business activities. This measure has been implemented.
- Capitalisation of FOGAPE: by capitalising FOGAPE credit is made more easily available for small enterprises. Additionally, to improve the coverage of beneficiaries of FOGAPE, the upper limit for annual sales has been raised so that more enterprises remain eligible for financing via FOGAPE. This measure has also been implemented.
- Promoting an increase in female entrepreneurs: the State Bank implemented a programme to improve access to finance and services for female entrepreneurs, thus contributing to the strengthening, development and growth of their enterprises. Amongst others, the programme includes a general analysis of the credit applications made by participants, and on generating more and better communications with their clients. Furthermore, networking activities, information provision, training plans and mentoring are all facilitated under this programme through a virtual platform. This measure has also been implemented.
- Autonomous financing for female entrepreneurs: this measure aims at promoting better equality of men and women in the eyes of the law so that, in practice, access for women to financing is improved and their entrepreneurial prospects enhanced. This measure is still in its development phase.

- Creating an electronic system for guarantees and loan obligations: the Chilean government has created an electronic system to strengthen the current system for approving guarantees. With this system people and enterprises can register and deliver their guarantees and loan payments to the appropriate financial institutions. In doing so they can easily track, recover and change their payments when portions of their debts have been paid with speed and ease. This measure is still in its development phase (see also Chapter 11).
- Supporting emerging financial products: this measure includes a renewed impulse towards developing financial products and services to support entrepreneurs. They include new methods of making payments by entrepreneurs, or for instance, collective financing initiatives (or crowdfunding). This measure has been partially implemented.
- Network for business development centres across the country: under this measure a network of business development support centres has been set up throughout the country to improve the effectiveness of entrepreneurs in achieving their business plans. Existing support centres were built and their activities expanded further so that entrepreneurs can gain information as well as support in getting financing, and mentors. The network is managed by the Technical Co-operation Service (*Servicio de Cooperación Técnica*, SERCOTEC), which supports the centres. The centres and their services are delivered by specialised organisations such as universities or business unions. This measure is being gradually implemented.<sup>6</sup>

In the recent publication OECD *Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard*, the implementation progress of the agenda is provided. For instance, regarding measure 18 of the Agenda on capitalising the State Bank, a capital increase of USD 450 million was approved in order to increase financing opportunities for small businesses and entrepreneurs. In addition to the capitalisation, *Banco Estado* implemented a programme aimed at women (*Banca Mujer Emprendedora*) that will ease financing conditions for entrepreneurial women. This connects with measure 20 on the Agenda, relating to a focus on female entrepreneurs and to promote their activities.

In relation to measure 19, on capitalising FOGAPE, this translated into an increase of USD 50 million in capital for FOGAPE in order to increase financing opportunities for SMEs. At the same time, the eligibility requirements for this fund have been modified. Specifically, the maximum annual sales threshold was increased in order to give more businesses access to the guarantees offered by the programme.

Furthermore, an agenda for changes to existing regulation related to financial instruments will be proposed in order to allow for new alternative instruments of financing for SMEs and entrepreneurs (e.g. crowdfunding, asset-based financing, etc.); this relates to Measure 23. Additionally, a programme to implement an electronic collateral registry in order to enhance the use of various kinds of movable assets as collateral to secure SME loan obligations is foreseen. This initiative is expected to increase the mobility and divisibility of collateral with an expectation to boost financing for SMEs and entrepreneurs. This in turn is connected to measure 22 on establishing electronic systems of guarantees.

Finally, regarding measure 24 and the Business Development Centres, these are being gradually implemented by SERCOTEC. As of 2015, there are 50 Business Development Centres for SMEs and entrepreneurship where citizens will have the opportunity to get



advice on a wide array of topics including financing and government support programmes.

Additionally, previous OECD research indicates that the following measures will be implemented by CORFO under the agenda: an increase in resources for early-stage start-ups by creating new funds of seed capital, strengthening of the Start-up Chile Programme that offers equity-free financing to start-ups; creation of a business innovation programme aimed at improving management practices of SMEs; creation of a programme of technological diffusion focused on helping groups of associated SMEs to bring technological advances to the country that improve their competitiveness (OECD, 2015). Furthermore, an Advisory Commission on Financial Inclusion is to be set up that will support the Executive on the design of an agenda for financial inclusion and education to guide policy making.

From the paragraphs above it is evident that there has been an increased policy focus on Chilean entrepreneurs. Focus on improving access to finance for entrepreneurs is being sought, easing the regulatory and administrative framework surrounding financing and payments by entrepreneurs have been the main areas of attention, and, to a lesser extent, facilitating the activities of female entrepreneurs and general training and support systems for entrepreneurs.

### ***Barriers to entrepreneurship in Chile***

Notwithstanding the efforts and some success stories, there is room in Chile for a harmonised approach to SME policy. A myriad of initiatives and instruments are in place or are being developed to promote entrepreneurship. However, anecdotal evidence from Chilean entrepreneurs, as well as broader research analysis carried out for this chapter, indicates that a perception of a fragmented approach to SME policy still remains.

Besides this, priorities are set in developing new policies rather than following up on existing ones. Chile would benefit from this approach, more so if these are monitored, evaluated and adjusted as necessary to correspond to the actual needs of entrepreneurs and SMEs. This became evident from broad anecdotal evidence from entrepreneurs who indicated that there was no coherent overview of the various regulations and support relevant to micro, small and medium enterprises. Stakeholder feedback also indicates that at sub-national level and in terms of inspections, SME policy is implemented in a different manner. It appears therefore, that different interpretations and implementations of laws and regulations at municipal level also contribute to an inconsistent approach to SME policy.

Finally, specific legal domains were flagged as causes of excessive compliance cost and complexity for SMEs. Broadly speaking, understanding and complying with tax regulations have typically been a concern for SMEs in Chile. Additionally, health and safety regulations for instance for SMEs with employees or for SMEs working in hospitality sectors constitute areas of higher compliance costs. For many SMEs, finding explanations, advice or overview on regulation is difficult and burdensome.

This section examines the main regulatory barriers found in the SME landscape. The information provided in this section is mainly based on interviews and discussions held with a variety of experts, as well as anecdotal evidence collected amongst SME representatives from the National Council on Small-Sized Enterprises (*Consejo Nacional Consultivo de la Empresa de Menor Tamaño*).

### *Fragmented approach to SME policy*

Preceding chapters in this report discussed the fragmented approach to policy. In the context of SME's, the situation is no exception. Laws and regulations are made by various ministries and other institutions (government, Parliament, agencies, regions, municipalities). This hampers co-ordination, insight in impacts, overview and understanding of laws and regulations by SMEs.

SMEs mentioned the following with regards with the matter at hand:

- Government organisations do not often use each other's expertise, nor do they have a structured approach to consultation of other stakeholders. While there are some good experiences to be found in policy-making consultations for other sectors, this is somewhat lacking where SME policy is concerned.
- There is no consolidated repository of regulations, in which the different norms are explained, as well as their reason for existing, their implementation and the relationship they have with the business sector.
- At the municipal level there is a lack of coherence and standardised requisites depending on the municipality one approaches. Depending on the characteristics of a municipality and its environment, certain policies and regulations may receive more attention than others based on the more pressing needs in a region. More efforts may be put into implementing certain regulations compared to others depending on the municipality. This can lead to incoherent approaches which can be burdensome for entrepreneurs throughout the country.
- There is no coherence in the way the auditing bodies act. In relation to the point above regarding different implementation of policies and regulations at municipal level, this diversity in behaviour also extends to auditing bodies. These bodies check and assess compliance with regulatory rules in different ways which, again, can lead to an inconsistent impression of SME policy and regulations.

However, some recent positive examples can be mentioned. Already discussed above are the working councils and public consultations. Another example is the cooperation between INAPI and INDAP, where INDAP developed courses for SME's in the field of agricultural trademarks and geographical indications.

### *Regulations and size differentiation of enterprises*

Many stakeholders refer to the lack of differentiation in regulations between large enterprises and SMEs. The differences in their firm characteristics are not always taken into consideration which lacks a number of challenges for SMEs. The various administrative requirements, (i.e. permits, licensing, taxation, accounting, administrative requirements), require a good deal of human resources, time and money to understand and implement properly. Large companies can do so at lower relative costs as they have more resources available for doing so. SMEs on the other hand often struggle with compliance. The lack of differentiation between company types in regulations contributes to an uneven playing field for SMEs.

In this context, the most common example mentioned concerns sanitation requirements and hygiene standards. They are basically the same for all enterprises. However, for SMEs the administrative complexity is higher and compliance is more difficult. Especially for small firms, relative costs (per employee or UF) are much higher.

This example illustrates the difficult balance one has to strike between taking into account SME's characteristics while maintaining a generic political goal (for instance, safety of work places and food hygiene). Some measures have been taken to remedy this, such as the Zero Formality programme (*Trámite Cero*), where the authorities grant the permits in one hour to enterprises under the signed promise that they will meet requirements and further inspection.

Similarly, larger enterprises are able to handle delays and lengthy payment procedures better than SMEs as they tend to have strong revenue and liquidity positions. A delay of more than 30 days for an SME can lead to more severe liquidity issues than for a larger enterprise. One example mentioned is the Timely Payment Code (*Código de Pago Oportuno a mis Proveedores*) signed between the SMEs, the representatives of the big enterprises and government. This should reduce the time from anywhere between 60 to 180 days to a time limit which SMEs could also manage (30 days).

In this spirit the *Sello Pro Pyme* was established within the Ministry of Economy, Development and Tourism. When large enterprises and suppliers deliver to SMEs within 30 days they receive a seal; companies with this seal are published on the initiative's website ([www.sellopropyme.cl](http://www.sellopropyme.cl)), to help SMEs access suppliers who make more timely and manageable deliveries and payments. However, additional efforts are required as according to SME representatives, the 30 days payment is not necessarily being implemented and is not yet a widespread practice.

Some recent good practices in the field of labour can be mentioned:

- There is an obligation to have a book of wages that only companies with more than 5 employees are required to keep
- Regulations with respect to the employment of foreigners only applies to companies with more than 25 workers
- Internal Health and Safety Regulations are for companies with more than 10 workers (apart from general safety rules).

Two other examples illustrate the potential problems attached to differentiation.

- Sanctions punishing micro, small, medium and large companies (by number of employees): the amount of fines varies depending on the size of the company. Large enterprises consider this unfair competition. Moreover, such a differentiation may result in a safe workplace not being provided.
- A nursery is only obligatory for companies with 20 or more women. However positive the intentions, it may discourage employers from employing women.

### Ex ante and ex post evaluation

Also discussed before is the need to systematically evaluate policies and regulations, both prior to implementation (*ex ante* regulatory impact assessment) and *ex post* (effects, possible improvements). Of specific interest in the SME context is the preparatory analysis supporting draft regulations, which includes an estimation of the regulatory impact on SMEs in a special form that has been prepared for the whole administration. This obligation is set out in Law No. 20.416. In theory, it is a very useful instrument, but implementation falters according to many stakeholders, as discussed in detail in chapter 4. Monitoring and evaluating the performance of regulations is a generally advisable practice as it allows for a regulation to be adjusted according to the changing environment

and needs of the target group in question. In the case of SME policy this is no less the case; the changing national context in Chile and the changing needs of entrepreneurs, also based on favourable impacts of SME policy, are important to track so as to create policy in an effective and efficient manner.

Even though SME associations recognise the work done by the government regarding the ease of regulatory barriers, there is still much room for improvement. Official reports and international analyses (World Bank Group, 2014) vouch for the positive steps being made by the Chilean government to create a more attractive climate for SMEs, but these are somewhat at odds with the perceptions of SMEs collected from anecdotal evidence amongst Chilean entrepreneurs. This can partially be attributed to differences in implementing these new regulations but also in their design. The design of many laws and regulations does not appear to consider the special case of SMEs compared to larger enterprises and this leads to higher regulatory barriers throughout the life span of an SME. *Ex ante* evaluations in combination with differentiated regulations could bring substantial improvements.

### *Legislation vs. implementation*

Previous chapters of this report indicate that, at the central political level, typically there tends to be more attention given to laws as opposed to implementing regulations. Laws are made but their implementation at sub-national levels often receive less attention from public institutions and this leads to inconsistent implementation of a given law or regulation. Several funds and policy supports for SMEs are organised at national level (ILO/FORLAC, 2014). For instance, CORFO is launching an initiative to increase the resources and the implementation of SME support programmes. This is to be based on a higher level of decision-making by the regional authorities in order to decentralise the policymaking of SME support programmes. The state of affairs of this initiative is not clear, nor how CORFO will implement a co-ordinating body to monitor the implementation of SME programmes by these regional authorities.

In a similar vein, the full range of SME policies and support is unclear for SME's and their representatives. In connection with the comparatively few regulatory monitoring mechanisms in place, this may, to some extent, explain the persistent presence of non-formalised micro and small enterprises.

The survey amongst SME representatives produced a number of specific complaints and examples of implementation issues:

- In general, laws tend to create legal voids that allow for interpretation.
- It is easier to audit and sanction a SME than a big enterprise. Though the level and nature of the fines differ according to enterprise size, SMEs have less clout than larger enterprises to deal with the administrative and financial processes involved in receiving auditors and sanctions.
- Depending on the regions or communes (municipalities), regulations change and/or are applied differently.
- The National Training Service and Employment (SENCE) does not possess an adequate supply for the sector. The state proposes social assistance rather than skills improvement training.
- Individual (health) inspectors take a very different stance towards SME's, varying between understanding and helpful on the one hand, and punitive on the other.

- Constant modifications to the SME Support and Promotion Programme. We have to start all over again trying to understand how the programme works now. After we come to grips with the programme it is changed again and we have to start the programme again.
- A study by the University of Chile resulted in different responses by the health supervisory bodies to questions concerning actual implementation.
- Municipalities have different interpretations of operating permits (*patente comercial*). For example, in some municipalities a design consultancy has to apply for a permit, in others not.
- Noise emission is classified differently by each municipality.
- All municipalities apply the Law on Family Business differently.

Differences between municipalities were mentioned in all responses and during many expert interviews. Municipalities are responsible for providing the operating permit enterprises require. The underlying regulations vary by municipality as the central norm is included in a delegated act. For small family businesses, simplified rules have been developed. Furthermore, requirements depend on enterprise characteristics, notably the possibility of environmental impacts (in a broad sense, including e.g. noise). The operating permit is only required if the enterprise is ‘physically present’; in principle, independent workers do not require a permit.

Law No. 18.695 states that municipalities should contribute to economic development, but does not give specifications or criteria on how to fulfil this mandate. Municipalities do not receive sufficient guidance or information on issues such as these. The existing associations of municipalities are considered too political to make a difference. Although SUBDERE (*Subsecretaría de Desarrollo Regional y Administrativo*), the agency focusing on co-ordination on regional and municipal levels, is increasing its efforts, but it lacks the resources to make any real difference. One should also consider the huge differences between municipalities in urban and rural areas.

### *Information dissemination and communication*

Chile could benefit from a consolidated and fully developed system providing information on legislation, obligations, etc. Stakeholder contributions suggest increasing the coherence of the information available on policies and instruments and some advocate the establishment of one-stop shops. SME associations and interest groups are scattered and fragmented, each focusing on their own members. This translates into having a fluctuating level of support and information received by entrepreneurs.

A co-ordinated information system would reduce the levels of accidental non-compliance amongst SMEs and reduce the perceived administrative complexity, which still acts as one of the major obstacles to starting an enterprise in Chile, according to stakeholders. Having all relevant information for entrepreneurs in one place, written and framed in plain language, could contribute to reducing perceived administrative complexity. Often establishing which regulations are relevant to an entrepreneur’s situation, as well as then complying with these requirements can result in accidental non-compliance due to failure to understand. Clarifying and harmonising information could therefore help. As has also been mentioned, it is crucial that the system is complete (at least at legal domain level) and kept up to date. As discussed, both physical and internet one-stop-shops are currently being developed.



Although the CORFO does emphasise better support activities, the degree to which these actually reach entrepreneurs leaves room for improvement. Though CORFO puts efforts into improving its communication and information dissemination activities, these could be increased even further. Municipalities can play a key role, as these are at the implementation level and support activities currently provided by municipalities towards SMEs are reported to be inconsistent across regions. Umbrella organisations of SME associations could also play an important role. Currently, in tandem with CORFO's activities, SERCOTEC, under the Agenda for Productivity, Innovation and Growth is gradually implementing a network of business desks across the country to act as information, advice and support points for SMEs. Such initiatives are positive steps in bringing information to entrepreneurs.

Various SME representatives stress the need to train entrepreneurs. Lack of skills can be a cause of non-compliance, higher compliance costs and higher costs of legislation enforcement. A good example can be found in the field of medical insurance. The insurance companies invest quite heavily in training and risk prevention. Obviously, being (semi) commercial implies that this works out to their benefit as well. They use training, support units and a specific checklist for SME's – specifically related to risk assessment.

### *Complexity*

Administration and accounting involved in setting it up is perceived as complicated. Even though digitisation is taking hold and there is a rise in digital government services to set up businesses, the administrative and financial complexity remains to a large degree. Although documents can be easily scanned or sent online to relevant authorities, procuring those documents is still a time consuming and expensive process according to stakeholders. Documents here can include permits and licenses, which involve notaries or accountants or tax advisors; according to stakeholders the aspect of procuring these documents remains complex and therefore continues to form a barrier to entrepreneurs. In close connection with this point is the fact that these efforts to ease the administrative burden through digitisation of services require access to such digital services. Not every SME has internet access and therefore administrative complexity and burdensome administrative procedures for setting up an enterprise remain challenges to those SMEs without digital access.

Other burdensome issues mentioned in response to the survey:

- The most complex factor is accounting; in the fiscal system, it is quite complex to know which laws are specific for each sector and what benefits they could bring.
- Requesting a working permit often is a lengthy process. One needs to do it in person.
- Heritage law and its effect on business.
- Sanitary measures and quality standards.
- Dissolution of the business.

### *Compliance cost*

Acquiring administrative documents such as permits and licenses, accounting procedures and requirements and taxation considerations all entail high costs in terms of

human resources, time and money according to stakeholders. Added to this is the waiting time involved when other parties and institutions are involved; these delays can have relatively larger impacts on a SMEs performance compared to larger enterprise.

Very specific regulations causing regulatory problems for SMEs were mentioned in the response to the survey. Often, the problems seem rather specifically related to the type of SMEs represented. While national level data collected by the Ministry of Economy, Development and Tourism is available on the main barriers to growth as well as to formalisation of enterprises, these statistics remain relatively broad. The points below provide some further insight concerning the main, specific compliance costs according to entrepreneurs.

Direct cost (payments/fees to government/agencies)

- payment for Certificates of Origin in cases of exports
- excessive payments to notaries
- in the case of the OTEC (capacity building organisations, generally SMEs) the certification NCH2728
- registration cost for intellectual property in the National Institute of Intellectual Property (INAPI)
- costs of obtaining a website domain
- administrative fees for application forms, for example in the private health insurance sector, ISAPRES.

Other compliance costs (costs for enterprises to comply with legislation, not being direct cost, but for example wages of employees filling in forms, investments in machinery, payments to advisors/accountants, etc.):

- Obligations in the context of sanitary and environmental regulations.
- Complexity and duration of the process to register intellectual property.
- Accounting and tax advice.
- Labour inspection audits.
- Public procurement. Barriers have been decreasing for SMEs but the required guarantees still are an obstacle for participation. The *ChileCompra* platform works well but access remains poor.

There is a common understanding among SMEs that inspections seem to target SMEs more and this reduces the desire for SMEs to become formally registered. Additionally, sanctions are given more easily to SMEs who are less able than large enterprises that have the resources to legally cover themselves better, to fight sanctions or to make necessary changes to their organisations when authorities deem this necessary. SMEs are comparatively more vulnerable to inspectors in this regard.

Non-compliance is unintentional in the case of SMEs according to stakeholders, and it stems from lack of awareness regarding which regulations are relevant to their type of business. Availability of information and advice, administrative complexity and the relatively higher costs associated with understanding regulations for SMEs increase this problem. More support activities through a more collaborative interaction between institutions and SMEs could reduce the risks of non-compliance.

In cases of a first instance of non-compliance an SME could be helped to understand and remedy their error as opposed to being fined. Such a change in approach is evident in some aspects of SME-related policy, but could be used in other regulatory areas; revisions in labour laws for instance include an advisory and supportive component in cases of non-compliance. Instead of fining an SME first off, they are helped to correct their breach in compliance with the relevant labour laws. Extending such a supportive and collaborative approach regarding breaches in complying would also help to reduce the perceived administrative complexity in that entrepreneurs are helped to understand the range of requirements they must fulfil and the reduced risk of sanctions may help formalise SMEs in Chile.

## Assessment and recommendations

Based on preceding sections, the following paragraphs present the overarching analysis and several main recommendations to improve the regulatory business environment for Chilean SMEs. Several interesting practices in other countries are included as an illustration. As discussed above, the recommendations will comprise the regulatory environment as a whole and a special focus on SME specific aspects.

---

*The government of Chile should support SME's development by formalising stakeholders' involvement throughout the regulatory process with the aim of having interventions that are more suitable to their needs. The consultation process could largely benefit from clear, standard and compulsory guidelines regarding SMEs, even at the sub-national level.*

---

Policy makers should be aware of the wide range of necessities, size, skills and nature of SMEs during all the phases of the policy cycle. A special focus should be granted to the representation of SMEs and stakeholder engagement in the policy and rule-making process, as well as in the nature and rationale of their participation within public consultation.

The SME Statute is a powerful tool that already indicates that the need to treat SMEs different is acknowledged and to involve them in the rule-making process. However, in practice, the SME Statute is carried out in a procedural manner rather than as a cost-effective mechanism for information. The SME Statute is seldom conducted before the draft regulation is prepared and it runs the risk of becoming a justification of the regulatory proposal.

Support at the highest political level will play a key role in implementing a dynamic and constant communication channel with SMEs. Within CORFO and the Ministry of Economy, Development and Tourism the involvement of SME related stakeholders happens through advisory boards; however, a broader consultation mechanism that takes into account opinions in the early stage of the rule-making process should be implemented in order to increase coherence and ownership of SME policy.

Taking the SME representatives seriously, even if they have limited power, will help the associations in turn to grow and become an increasingly reliable partner. Advertising the results of SME consultation is useful for both sides of the table, particularly if the



outcome has an added value for SMEs, allowing associations to become a real and clear communication channel between the public sector and SMEs.

The diversity of SMEs is reflected in their institutional context. SMEs are represented by a large number of mostly small and sector-oriented associations. This has a negative impact on the strength of the representativeness of SMEs, as well as on the efficiency and effectiveness of political processes regarding the regulatory environment for SMEs.

An observation made throughout this report is that rolling out successful national policies and organisational procedures to the local and regional levels can prove difficult and lead to fluctuating outcomes. The government of Chile should also formalise the involvement of stakeholders at the sub-national level into the policy making process as stated in Chapter 4 recommendations.

---

***Focusing and targeting resources on the quality of doing business is just as important as the creation of new enterprises. Increasing capacities of targeted groups or sectors such as women and youth should be the focus for SME policy in Chile.***

---

In the wake of the financial and economic crisis and the difficult access to finance for entrepreneurs, especially young entrepreneurs, this group could form a target group for more tailored policies. Female entrepreneurs already form a focus of SME policy under the Agenda for Productivity, Innovation and Growth but could still benefit from further support. Specialising financial support programmes or administrative burden alleviation for specific sectors (for instance, agriculture or food-processing sectors, where stakeholders indicate there are large quantities of hygiene requirements and inspections) could be designed as well. Such sectors could benefit from a more efficient manner of communicating and complying with relevant regulations.

International examples for stimulating entrepreneurship amongst the young are a growing trend across Europe; common approaches to stimulate entrepreneurship among young people include practical training and business support services, tailored to the specific challenges faced by these people. For example, in Lithuania, the “First business year baskets for youth” was implemented to target youth unemployment (up to 30% in 2012, one of the highest in Europe), through entrepreneurship. This measure was implemented by a non-profit agency under the Ministry of Economy, *Versli Lietuva* (Enterprise Lithuania), and involved handing out vouchers for business support services to people under the age of 29 who attend entrepreneurship promotion events by *Versli Lietuva*. Each person receives one voucher and can exchange this in for business support services up to LTL 6 000 (approximately EUR 1 740).

Young people receive information on things like bookkeeping and accounting, labour law and occupational safety, contracting, licenses and permits. Between May 2011 and July 2013, some 5000 vouchers were handed out and around one third of these were used to start an enterprise. *Versli Lietuva* indicated that 98.9% of the businesses survived for at least one year, compared to a national average of 63.3% (OECD & European Commission, 2014). Such measures which begin by communicating with and involving young people, combined with an incentive for free help and consultations can lower the barrier to entrepreneurship; it also allows young people to select the services they wish to follow.

---

***Establish mechanisms to actively provide oversight to SME policy with the aim of improving coherence and co-ordination within the existing agencies and programmes at all levels of government.***

---

While a certain degree of diversity in implementation of programmes is normal, entrepreneurs should have access to a similar basic level of opportunities and programmes. One of the recurring issues encountered regarding regulatory burden for Chilean entrepreneurs is that policy instruments designed to help SMEs are not implemented in a uniform manner at the sub-national level. For a country as large as Chile with areas of diverse levels of urbanisation and development, a uniform implementation of policies should be sought.

In this spirit, the Ministry of Economy, Development and Tourism as main responsible of the SMEs portfolio, could strengthen co-ordination in the implementation of programmes at the national and sub-national level, acting as an intermediary between the national and local political levels. By working with and supporting municipalities in the implementation of policies, a central public body could contribute to a more standardized and effective implementation of policies and programmes.

Improved co-ordination and communication at the national policy-making level in Chile could be very beneficial for a more coherent and streamlined SME policy portfolio. This could be achieved through systematic, regular meetings between branches of national ministries and agencies at work in similar or overlapping sectors. At the EU level for instance, consultations and workshops between relevant sectors are quite common. In certain European countries there is also a more prevalent consensus based approach to policy making (such as Sweden and the Netherlands), which includes multiple stakeholders coming together to discuss challenges for a given sector and appropriate policy responses.

---

***Engage in an administrative simplification programme specifically for SMEs, with a focus on the most burdensome regulations. Take advantage of existing initiatives to assess their costs and support their simplification and streamlining.***

---

Reviewing and simplifying administrative procedures would increase the ease of doing business in Chile. The opportunity should be taken to measure burdensome regulations and simplify them jointly with digital government initiatives such as the Business Desk. Efforts should be made to simplify procedures before they are digitised. Furthermore, as was the case in many other countries, administrative simplification might be used as a spring board for creating more sophisticated, whole-of-government regulatory policy. Given that the results of simplification programmes are relatively easy to measure and to present to politicians, high-level decision-makers as well as businesses and general public, these programmes as be used as a stepping stone to more comprehensive regulatory reforms.

An internationally applicable initiative for improving the regulatory environment for SMEs means measuring burdensome regulations with the Standard Cost Model (SCM). This instrument is a tool for identifying and reducing the administrative burden and has been applied throughout OECD countries. The SCM involves relatively straightforward methods for identifying and quantifying the costs and time involved in administrative and

regulatory requirements. These insights into the costs and time involved are provided for both the aggregate and regulation-specific levels. This tool is therefore useful for generating insights which act as input for targeted policy interventions, as well as helping to monitor the effects of policies and reforms. The tool can be applied and adapted to different national contexts and regulatory environments. The broad applicability is demonstrated in its use in OECD countries

---

***Formalising existing informal SMEs and limiting the creation of new informal enterprises deserves a high political priority.***

---

A crucial element is to make it both beneficial for the informal and the formal enterprises and ensure it is perceived as such. A gradual improvement without too much use of force is the best approach. Some of the main barriers which prevent formalisation include taxation, business registration/licensing requirements, and compliance with labour laws. For example, reducing the perceived cost of business registration by lowering the time and total cost of registering, or decreasing taxes on new, small enterprises that are being formalised for the first time. Evidence shows that reducing tax rates and simplifying the paperwork and tax compliance helps increase the rate of formalisation. Some general approaches to improving the formalisation of businesses include:

- Increasing the benefits of formalisation such as by improving access of micro enterprises to formal loans or by subsidising the hiring process within small new ventures.
- Removing perverse incentives where possible. A common example of this mechanism is: situations in which informal enterprises do not formalise because they would lose their status of vulnerability granted by the State.
- Differentiate between what we call informal enterprises. Some are deliberately evading compliance with the regulations, and others are simply not in a position to comply. Policy measures and monitoring compliance should take into account the effort made by the formal sector to comply with regulations – competition advantage based on non-compliance is not desirable.
- Promotion of the benefits of business registration is a crucial aspect in the formalisation process. This related to the preceding point that reaching informal entrepreneurs often forms one of the main stumbling blocks towards awareness of SME-friendly policies and the benefits of registering (Innovation Policy Platform, 2013).

The government of Chile should communicate results and consistently promote the benefits of having a more dynamic SME landscape, including the benefits of formalising enterprises.

---

***The government of Chile could benefit from the implementation of ex post evaluation of SME regulation to ensure that performance and impact are reviewed regularly and objectives met.***

---

As stated in the *ex post* chapter, Chile has been a pioneer in the *ex post* evaluation of laws, but additional steps should be undertaken to ensure that other regulations, in

particular secondary regulations, are also part of this systematic work and that the whole legal system benefits from this process. The aim is to ensure that policy achieves its objectives.

Laws and regulations should be periodically reviewed and carried out in co-operation with the executive and the legislative authorities, taking into account that most information on the implementation side lies in the regulatory bodies of the executive branch. Stakeholders should also be involved as they can provide information on ways to move forward.

An added step in this direction could be to follow the Swedish approach to evaluating its SME policy. For several years, the Swedish government has used a checklist of 12 questions to establish how policies are performing, as well as to identify areas for improvement, based on the specific needs of entrepreneurs. The process therefore involves actively researching and surveying entrepreneurs in different municipalities to establish where the main administrative challenges and burdens lie. As municipalities differ in their environmental features and the main challenges to entrepreneurs differ accordingly, having a more precise idea of which aspects of the regulatory environment to work on could further help to promote formal enterprises (European Commission, 2007).

A key recommendation to any policy is to have a system for monitoring and evaluating the performance of a policy, and this is no less true for the SME policy. In order to establish the effects of the diverse set of instruments and policies at work in Chile, a system for assessing these policies should be established and implemented for the various instruments developed. Besides helping to monitor progress being made, evaluating policies can also help to identify areas of overlap in the functions of different policy instruments.

---

*Adopt a risk-based approach to enforcement and inspection strategies rather than sanctions. Enforcement and inspections need to be risk-based and in proportion to the level of risk they pose.*

---

The major challenge for governments is to develop and apply enforcement strategies that deliver the best possible outcomes by achieving the highest possible levels of compliance, while keeping regulatory costs and administrative burdens as low as possible. SMEs are those for whom the experience can be the hardest, and the burden the heaviest, as they have less resources to deal with regulations, compliance issues, etc (OECD, 2014a).

An example from the United Kingdom is that local inspections are conducted amongst SMEs which follow a risk-based, sectoral approach (European Commission, 2013). At council level in the UK, an assessment is made of SMEs which warrant stricter or less strict inspections with risk, labour and health laws depending on how risky the sector of operations is. This risk-based approach allows some SMEs to follow less strict requirements where the councils deem these less relevant to an enterprise. In this way compliance costs for certain enterprises are reduced. In Chile enterprises in sectors which are subject to greater hygiene, health and safety legislation could be approached in a similar manner. As it stands, under the SME Statute and initiatives such as Trámite Cero, regulations not related to health, safety and hygiene areas are being made easier and quicker to implement for entrepreneurs. However, assessing these initiatives and the

process by which the inspections conducted in connection with these initiatives is not clear.

---

***Consolidate and implement the initiative Escritorio Empresa, taking into account the wide array of policies and regulations regarding SMEs, including those at the sub-national level. Further efforts must take into account the large number of entrepreneurs who currently do not make use of the internet. Furthermore, information provided will require a mechanism that allows for systematic updating.***

---

The Business Desk (measure 35 of the Agenda for Productivity, Innovation and Growth) will allow for a more coherent and systematic manner of providing information to entrepreneurs in one point. Currently, the one-stop shop for enterprise registration does not include the operating permit. The forthcoming evaluation of the *Tu Empresa en un Día* (Your Business in a Day) programme should take this element into account: and combine both. For both registrations, keeping the information up-to-date and ensuring the reliability of information provided by the start-ups is of utmost importance. Link the enterprise ID-number to other services, expand the possibilities of temporary permits to facilitate a quick start, such as an automatic digital patent application going to the relevant municipality as part of the registration. This would require supporting municipalities.

Providing information on the many policies and instruments available to SMEs in a country as large as Chile requires a well-developed communication strategy. Reaching entrepreneurs, especially in rural areas warrants close attention. Given that during the last EME survey, some 63.7% of entrepreneurs in the sample indicated they did not use internet in their business activities, a combination of communication channels is required. Indeed digital government policies undertaken to ease administrative burden in Chile are a positive step (see Chapter 11), but one which may fail to reach a large number of entrepreneurs.

Bearing in mind the computer-illiterate population, communication should not only be improved by means of digital solutions. Physical presence at local level is currently limited. This hampers formalisation and compliance. Both INDAP and several municipalities are already active in this field; such initiatives should be incorporated. There are several one-stop shop solutions being used, both physically and using government digital solutions. Rather than creating new ones, the existing initiatives could be combined to facilitate interface with the population. Having efficient and effective administrative procedures in place has little impact if people are not aware of this increased ease in setting up a formal business.

## *Annex 10.A1*

### **Responses from SME survey representatives**

In the context of the OECD Regulatory Reform review of Chile, the Chilean government requested a chapter focused on SME's. This entails analysing regulatory policies for Chilean enterprises and establishing recommendations about the criteria and procedures that help improve the design and evaluation of regulations that affect SMEs. The chapter should refer to governance, stakeholder participation, regulatory coherence, regulatory impact analysis, mechanisms of control/inspection and compliance, and ex post evaluation, and best practices for the implementation of a regulatory policy for business in general and, particularly, SMEs.

OECD representatives provided a presentation during the meeting on Tuesday 12 May 2015 in Santiago of the *Consejo Nacional Consultivo de la Empresa de Menor Tamaño*. While in Chile, they had many discussions with a wide variety of government organisations and agencies, scientists and other experts. In addition, a large number of relevant publications were studied.

Your support is requested to further improve the quality of the report. We kindly ask you to answer the questions below. The results will be included in a chapter of the OECD report. If you so wish, your contribution will be kept anonymous.

#### **Questions**

##### ***Representation of SME's***

1. Please provide a brief description of the SME's you represent, or alternatively the relevance of your organisation for SME's
2. What is your opinion of the current representation of SME's, in terms of power, participation and consultation?
3. Can you provide a specific example of SME groups moving the government to make policy adjustments or amendments to legislative proposals?
4. What can be improved in this context, and how should this in your view be done?

##### ***Regulatory environment for SME's***

Below, you will find questions with regards to the regulatory environment for SME's. If relevant, please feel free to distinguish various types of SME's (e.g. size, urban/rural, sector, formal/informal, family/other ...).

5. What are the main problems for SME's in the context of legislation? It helps us if you can be specific (laws, regulations, etc.) and explain why this is the case. From



the viewpoint of enterprises and/or business processes. If possible, please provide (different) answers for:

- Direct cost (=payments to government/agencies)
  - Other compliance cost (cost for enterprises to comply with legislation, not being direct cost, but for example wages of employees filling in forms, investments in machinery, payments to advisors/accountants, etc.)
  - Complexity (here: obligations set in legislation that are difficult to understand for SME's)
  - Coherence (are different regulations aligned to prevent unnecessary cost and not contradictory)
  - Implementation (the practical translation of general rules, usually done by government agencies or regional/municipal governments)
  - Enforcement/inspections
6. If possible, please provide concrete examples (6.1 – 6.6) of these problems. Areas we are particularly interested in are labour, sanitary, and business registration, but other examples are also welcome.
  7. For each problem (7.1-7.6): how could this problem be solved or reduced, and who should undertake such actions?
  8. Could you reflect on the most relevant recent and/or forthcoming developments in legislation where SME's are concerned?

### ***Formalisation of informal enterprises***

9. In your view, how does the informal economy impact SME's?
10. How could an increased formalisation of enterprises be reached? What would be necessary conditions?

## Notes

1. Ministerio de Economía (2014), “Fomento y Turismo, Informe de Resultados Tercera Encuesta de Microempredimiento 2013”.
2. For the survey, participants of the *Consejo Nacional Consultivo de la Empresa de Menor Tamaño* were approached. Response to the survey: PROPYME (public private initiative which aims at fostering entrepreneurship), CRPC (represents SMEs and associations in a public-private sector setting), ASEXMA (represents SMEs in the manufacturing sector), CONTRAMEN (Confederation of Collective Taxis and Minor Transport of Chile, umbrella organisation), CNDC (national confederation of business owners in Chile, umbrella organisation), UNAPYMPE-EMT (umbrella organisation 7 national organisations of diverse productive sectors).
3. Insights from the Survey *Consejo Nacional Consultivo de la Empresa de Menor Tamaño*, conducted as part of this OECD study.
4. More of the Small and Medium-Sized Enterprises, [www.oecd.org/globalrelations/smallandmedium-sizedenterprisessmepolicyindex.htm](http://www.oecd.org/globalrelations/smallandmedium-sizedenterprisessmepolicyindex.htm).
5. Biblioteca del Congreso Nacional de Chile, (2001), Historia de la Ley N° 19.749 Establece normas para facilitar la creación de microempresas familiares, Chile.
6. Ministerio de Economía, Fomento y Turismo, Agenda de Productividad, Innovacion, y Crecimiento – Medidas, [www.agendaproductividad.cl/estado-de-avance-por-medida/](http://www.agendaproductividad.cl/estado-de-avance-por-medida/).



## *Bibliography*

- Agosin, M., C. Larrain and N. Grau (2010), “Industrial Policy in Chile”, *IDB Working Paper Series No IDB-WP-170*, Washington, United States, [www.iadb.org/wmsfiles/products/publications/documents/35472108.pdf](http://www.iadb.org/wmsfiles/products/publications/documents/35472108.pdf).
- Alarcon, C. and Stumpo, G., (2001), Policies for *small and medium-sized* enterprises in Chile, CEPAL Review 74.
- Amorós Ernesto, J., Felzenstein, C., and Gimmon, E., (2011) Entrepreneurial opportunities in peripheral versus core regions in Chile, *Small Business Economics*, 40, pp 119 – 139.
- Carree, M. et al. (2002), “Economic Development and Business Ownership: An Analysis Using Data of 23 OECD Countries in the Period 1976-1996”, *Small Business Economics*, Vol. 19, <http://ce.entel.cl/posts/tramite-cero>, pp. 271-290.
- Economic Commission for Latin America and the Caribbean (ECLAC), (2014), “Innovation in SMEs should be promoted to improve their contribution to productivity”, [www.cepal.org/cgi-bin/getProd.asp?xml=/socinfo/noticias/noticias/6/53096/P53096.xml&xsl=/socinfo/tpl-i/pl1f.xsl&base=/socinfo/tpl-i/top-bottom.xsl](http://www.cepal.org/cgi-bin/getProd.asp?xml=/socinfo/noticias/noticias/6/53096/P53096.xml&xsl=/socinfo/tpl-i/pl1f.xsl&base=/socinfo/tpl-i/top-bottom.xsl).
- European Commission (2013), *Adapting legislation to minimise regulatory burdens for SMEs: best practice examples*, Group of High Level National Regulatory Experts – SME Working Group. Available at: [http://ec.europa.eu/smart-regulation/impact/best\\_practices\\_examples/docs/eu/lighter\\_regimes\\_for\\_smes\\_oct\\_20\\_13.pdf](http://ec.europa.eu/smart-regulation/impact/best_practices_examples/docs/eu/lighter_regimes_for_smes_oct_20_13.pdf).
- European Commission (2008), Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, “Think Small First”- A “Small Business Act for Europe”, [COM (2008) 374 Final], Brussels. Also available at: <http://eur-lex.europa.eu/legal-content/en/txt/pdf/?uri=celex:52008dc0394&from=en>.
- European Commission (2007), “Annex to the Report of the Expert Group: Models to Reduce the Disproportionate Regulatory Burden on SMEs – Complete List of Proposed Good Practices”, Brussels.
- Fairfield, T., (2014), *The Political Economy of Progressive Tax Reform in Chile*, Woodrow Wilson Centre Update on the Americas, Wilson Centre Latin America Programme, **Error! Hyperlink reference not valid.**
- Global Entrepreneurship Monitor (GEM) (2015), *Global Entrepreneurship Monitor: 2014 Global Report*, Global Entrepreneurship Research Association, London Business School, [www.gemconsortium.org/report](http://www.gemconsortium.org/report) (accessed 25 February 2016).
- GEM (2011), *Global Entrepreneurship Monitor 2010 Global Report*, Global Entrepreneurship Research Association, London Business School.

- GEM (2007), *Global Entrepreneurship Monitor: 2006 Global Report*, Global Entrepreneurship Research Association, London Business School, [www.gemconsortium.org/report](http://www.gemconsortium.org/report) (accessed 25 February 2016).
- Goldberg, M. and Palladini, E., (2008), “Chile: A Strategy to Promote Innovative Small and Medium Enterprises”, *Policy Research Working Paper*, World Bank Poverty Reduction and Economic Management Department Latin America Finance and Private Sector Unit.
- ILO/FORLAC, (2014), *Policies for the formalization of micro and small enterprises in Chile*, ILO Regional Office for Latin America and the Caribbean.
- The Innovation Policy Platform, (2013), *Formalising the informal sector*, hosted by the OECD and World Bank Group, [online], available at: <https://innovationpolicyplatform.org/content/formalising-informal-sector>.
- Ministerio de Economía, Fomento y Turismo, (2014), *Informe de Resultados Tercera Encuesta de Microemprendimiento 2013 EME*, Chile.
- Ministerio de Economía, Fomento y Turismo, Agenda de Productividad, Innovación, y Crecimiento – Medidas, [www.agendaproductividad.cl/estado-de-avance-por-medida/](http://www.agendaproductividad.cl/estado-de-avance-por-medida/)
- Ministry of Business, Innovation and Development, (updated 2016), Māori Economic Development He kai kei aku ringa, [www.mbie.govt.nz/info-services/infrastructure-growth/maori-economic-development](http://www.mbie.govt.nz/info-services/infrastructure-growth/maori-economic-development) (accessed 26 February 2016).
- News Day (2015), *Breaking down barriers to SME formalisation*, [online newspaper], available at: <https://www.newsday.co.zw/2015/07/03/breaking-down-barriers-to-sme-formalisation/>.
- OECD, (2015a), *Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard*, OECD Publishing, Paris, [http://dx.doi.org/10.1787/fin\\_sme\\_ent-2015-en](http://dx.doi.org/10.1787/fin_sme_ent-2015-en).
- OECD (2015b), *Taxation of SMEs in OECD and G20 Countries*, OECD Tax Policy Studies, No. 23, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264243507-en>.
- OECD. (2014), *Regulatory Enforcement and Inspections*, OECD Best Practice Principles for Regulatory Policy, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264208117-en>
- OECD, (2013a), *The Role of Public Financial Institutions in fostering SMEs access to finance Final Report*, Working Party on SMEs and Entrepreneurship (WPSMEE), OECD Publications Office, Paris. [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=CFE/SME\(2012\)1/FINAL&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=CFE/SME(2012)1/FINAL&docLanguage=En)
- OECD, (2013b), *Financing SMEs and Entrepreneurs 2013: An OECD Scoreboard*, OECD Publishing, Paris. [http://dx.doi.org/10.1787/fin\\_sme\\_ent-2013-en](http://dx.doi.org/10.1787/fin_sme_ent-2013-en)
- OECD (2012), *Recommendation of the Council on Regulatory Policy and Governance*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264209022-en>.
- OECD, (no date), Small and Medium-Sized Enterprises (SME) Policy Index, [online], available at: <http://www.oecd.org/globalrelations/smallandmedium-sizedenterprisessmepolicyindex.htm> .

- OECD and The European Commission. (2013), *The Missing Entrepreneurs: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264188167-en>
- Pacific Economic Cooperation Council, (2007), *The Policy Environment for the Development of SMEs*, Chinese Taipei Pacific Economic Cooperation Council.
- Panteia, (2015), Global Entrepreneurship Monitor – the Netherlands 2014, Zoetermeer, the Netherlands. [www.gemconsortium.org/report/49274](http://www.gemconsortium.org/report/49274)
- Panteia/ILO, (2015), *What is the best set up for an SME promotion agency?* (Forthcoming), Zoetermeer, the Netherlands.
- Sello Pro Pyme, ¿Qué es el Sello?, [online], available at: [www.sellopropyme.cl/?page\\_id=30](http://www.sellopropyme.cl/?page_id=30) (accessed 20 February 2016).
- State Government of British Columbia, Regulatory Reform Policy, [online], available at: [http://www2.gov.bc.ca/assets/gov/government/about-the-bc-government/regulatory-reform/pdfs/reg\\_reform\\_policy\\_oct\\_2015\\_update.pdf](http://www2.gov.bc.ca/assets/gov/government/about-the-bc-government/regulatory-reform/pdfs/reg_reform_policy_oct_2015_update.pdf).
- Tan, H., (2009), *Evaluating SME Support Programs in Chile Using Panel Firm Data*, Policy Research Working Paper, World Bank Poverty Reduction and Economic Management Department Latin America Finance and Private Sector Unit.
- World Bank Group, 2010, *Here is Your Money: Using the Standard Cost Model to Measure Regulatory Compliance Costs in Developing Countries*, Washington, the United States of America.
- World bank Group, (2014), *Doing Business in Chile: Going Beyond Efficiency: Economic Profile 2015 Chile*, Washington, United States.
- Zimbabwe Independent, (2014), “Govt ups tempo to formalise SMEs”, [www.theindependent.co.zw/2014/05/16/govt-ups-tempo-formalise-smes/](http://www.theindependent.co.zw/2014/05/16/govt-ups-tempo-formalise-smes/)





**From:**  
**Regulatory Policy in Chile**  
Government Capacity to Ensure High-Quality Regulation

**Access the complete publication at:**  
<https://doi.org/10.1787/9789264254596-en>

**Please cite this chapter as:**

OECD (2016), "Improving the regulatory environment for Chilean SMEs", in *Regulatory Policy in Chile: Government Capacity to Ensure High-Quality Regulation*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264254596-14-en>

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.