



SMEs in Chile: Its role on Poor Power Empowerment

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Chile has seen outstanding growth and stability during the past two decades. Today's challenge is to continue the forward movement so that Chile can reach greater levels of technological sophistication and development to contribute to the country's consolidation of its ICT, mining, aquaculture, forestry, and food industries.

Chile has a strong natural resource-bases export economy:

- UD\$ 183 billions GDP (2008)
- 16,8 millions population
- US\$ 64,6 billion exports : 53% Copper, 18,2% Food Industry, 6,6% Wood, pulp and paper. Source: Central Bank of Chile, 2009

SMEs DEVEVOLPMENT POLICY.

In Chile, the Ministry of Economic Affairs (MINECON), have the responsibility to design, monitoring and evaluate the implementation of public policies to promote micro, small and medium enterprises (SMEs) competitiveness and the entrepreneurship.

The SMEs development policy includes the support of a institutional network with several public institutions, like:

- CORFO, the Chilean Development Agency;
- SERCOTEC, to support micro and small enterprises competitiveness and to strengthening their management capacities:
- INDAP, a service of the Ministry of Agriculture to support small farmers and their organizations;
- SENCE, the national Service for Training and Employment, to contribute to the increase national productivity by promoting occupational training for entrepreneurs and their workers, in a continuous way.

Innovation and Entrepreneur Policies are a central task to Government actions, with a special focus on small business and on regions, for decentralization purposes.

Human resources qualification, technology application and its dissemination, support to entrepreneurship are critical to SMEs development.

A favorable business environment is an important factor. A change in legislation, norms and regulations has facilitated the small business start-up, its development and closing, when the economic viability it is not possible.

Recently the Government proposes to the Congress a new legislation with special norms to regulate small business, based on recognizing their special nature and to equalize conditions for its performance considering competitiveness and market access.

Administrative simplification for formalization and its performance help them a lot.

Other areas to take care are the SMEs improvement of factors such as:

- Creation of an innovation and entrepreneur culture;
- Stimulate science and technology;
- Access to international networks of information and business opportunities;
- Facilitate market access (case of fiscal procurement);
- Support the access to financial services (credit access; seed capital).

Coordination and public-private dialogue at national, regional and local levels are fundamental for the SMEs policies and strategies success.

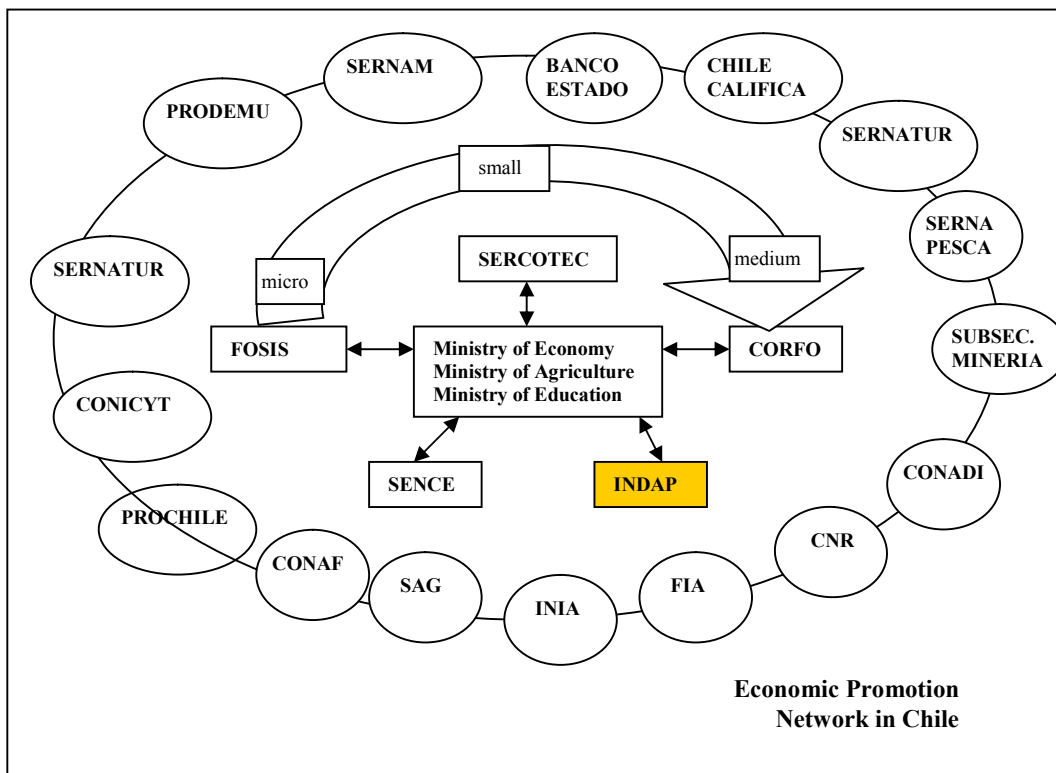
Better and timely information on SMEs quantification and characteristics are key to a successful design and execution of public policies, programs and projects. Adoption of an intensive use of ICT such as digital literacy education and E-Commerce.

Defense of Competition through policies to stimulate market efficiency and to support the Office of the National Economic Prosecutor. It includes consumer protection using public information, education and protecting their rights and market transparency.

Stimulate associability, supporting SMEs associative projects, clusters participation, supplier development, among other programs.

In all of this matters SME public supporting network are working to generate policies, strategies and programs to improve the present situations, getting in each of them relevant advances with the active participation of small enterprises private organizations.

But in this presentation it is not possible to include the main achievements in each policy area and we hope that in our dialogue we can present some specific examples of the instruments applied INDAP.



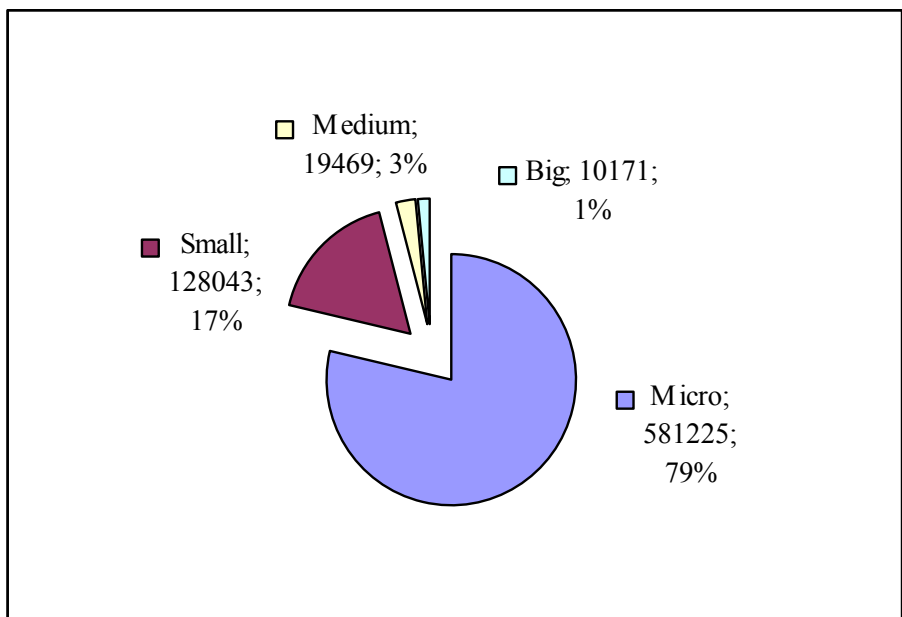
SMEs IN CHILE.

SMEs are defined according to the number of employees: micro (less than 10 employees), small (10-49 employees) and medium (50-199 employees).

The world of SMEs account for 99% of the total number of enterprises in Chile. In geographical term 48% is concentrated in the Metropolitan Region of Santiago, followed by the region of Concepcion 12% and Valparaiso with 9%.

The following sectors concentrate a high proportion of SMEs: small retail, manufactured, services, food industry.

Number and percentage of firms, year 2007 by size.



2007 Firm Total: 742.980 Source:SME Division. Minecon 2009

SMEs represent a highest percentage of businesses in Chile and offer a considerable amount of jobs (About 50%). Nonetheless, these businesses do not generate an equivalent share of profits. SMEs contribute with 14% al Grass Domestic Product.

Small and medium enterprises in Chile generates much employment and is therefore key to income and the economic well-being of many Chileans, and play and important role on poverty alleviation . Or second area of importance of the SME in Chile, is that it becomes the starting point for many new entrepreneurs, with all the impact that this means for the development of the country.

CORFO

The Chilean Economic Development Agency, CORFO, established in 1939, is the state organization in charge of promoting economic development. Throughout its fruitful history, CORFO has played a leading role in the country’s economic development. Its pioneering spirit is alive and today it supports entrepreneurs, businesspeople and innovators needing access to new technology and to technical and financial assistance in order to succeed in world markets.

According to presidential terms and according to the current Government, the CORFO management program has two priorities:

- **Small and medium-sized businesses**
- **Innovation**

Areas of action

We have four business areas (Divisions):

1. Innovation, including R&D, entrepreneurship and technological transference. CORFO, through InnovaChile, is the principal public agency in charge of promoting the innovation in all types of companies, both consolidated as new (Enterprise). It also has important lines of support addressed to research centers.

2. Investment, including promotion of foreign investments

(business opportunities, investment services, incentives, and so on).

The Executive Board of Investment and development of CORFO, aims to help and locate investment projects in Chile: private, national and foreign, in sectors of high potential and impact.

Sectors priority:

- Productive Clusters in associated with natural resources
- Global Services (Off shoring)
- Non conventional renewable energies
- Sectors and prioritized regional productive chains

3. Productive Development,

Including quality, productivity, and cluster development.

In this field of action, CORFO also helps small companies to strengthen the management of entrepreneurs through the development of skills and capabilities, and co-financing of the investment, allowing them access to new business opportunities.

In turn, CORFO supports the coordination and joint projects linked to the business development, aimed at improving the competitiveness of a territory or geographic area determined by their main economic activities or more projection.

According to its mission, CORFO promotes the integration of production chains of suppliers to improve and stabilize the commercial links with its clients; and also supports the preparation and development of associative projects, so that the participating companies can share projects information about markets, acquire the size needed to take advantage of the scale of the economies, to achieve greater flexibility and adaptability and access to critical competitive resources in global markets.

4. Financial Assistance

Financial Intermediation Division

Our division develops and runs programs to facilitate the access of companies to funding for productive activities by means of innovative initiatives that help working out financial market flaws, increase competitiveness, and create the conditions for business development and growth.

CORFO operates through banks and other non-bank financial institutions providing resources and security for the funding of productive activities by private companies and individuals.

Modalities of support: credits and subsidies

CORFO delivered their resources by means of various instruments, grouped into two main categories: credits and subsidies.

- **Credits.** The financial system private banking and not banking, delivered 66 % companies and 34 % students pre and post grade.

Served companies: 22.815 (99 % SMEs)

- **Subsidies.** 67% directly in companies and the rest in groups of beneficiaries (Territorial programs, universities, new business of broadcast technology or investment promotion). Companies that benefited: 97 % SMEs)

SERCOTEC

SERCOTEC offers a wide range of services to the development needs, financing and use of Information Technology (ICT) , both micro and small entrepreneurs, with the goal of increasing its competitiveness and to facilitate their access to markets.

As actors in public and private sector of each territory, CHILEMPRENDE seeks to facilitate and promote the development of business for micro and small enterprises in the predefined territories in all regions of the country.

CHILEMPRENDE includes three key aspirations of a democratic society: more opportunities, more jobs, and more participation.

In each territory CHILEMPRENDE offers advice for public and private enterprises which are grouped to business activities and the main public actors in the region: Eight ministries and the following public services: SERCOTEC, CORFO, FOSIS, SENCE, and INDAP.



PROCHILE

PROCHILE is an agency that manages the promotion of exports and belongs to the Ministry of Foreign Affairs of Chile. PROCHILE develops trade policy projects of the country.

The work of PROCHILE is based on four fundamental concepts: support to small and medium-sized enterprises in its process of internationalization; advancing of the opportunities that generate the trade agreements the country; the public-private association and the positioning of the image of Chile in other markets.

In doing so, PROCHILE has a network of offices in all the regions of Chile and in major markets worldwide. PROCHILE has developed a series of services available to the exporter in three specific areas: Orientation, actions on the trade promotion and information technologies.

PROCHILE gives for SMEs:

- Access to information relating to markets, regulations and technical norms.
- Training in matters related to foreign trade.
- Accessibility to global networks.

PYMEXPORTA

The PYMEXPORTA program is a new development tool for exporting SMEs (Pymex) that offers co-funding for consultancies, designed to overcome barriers, improve marketing channels and align exportable supply in the markets of high standards with free trade agreement.

Pymexporta is an initiative jointly developed by PROCHILE and the Chamber of Commerce of Santiago, who have signed with the Inter-American Bank of Development. Pymexporta is a technical support cooperation for small and medium export enterprises. PYMEX is in the process of inserting free trade agreements which the Government of Chile has signed into the global market.

The Pymexporta program delivers co-financed assistance by up to 80 % to PYMEX, for the recruitment of specialists, both national and International, who can advise them and enable them to overcome the obstacles identified in three lines of program assistance.

- Assistance to overcome custom duties and non-tariff barriers
- Improvement of export offers
- Development of appropriate logistics channels, distribution and marketing

SENCE:

The national Service for Training and Employment, to contribute to the increase national productivity by promoting occupational training for entrepreneurs and their workers, in a continuous way. The following are its main programmes.

1. SME- FONCAP Programme: Subsidy to the SMES and Independent Workers .

FONCAP is a fund that is made up of public resources and is administered by SENCE. It is part of a national development policy. Its objective is to increase the quality and coverage of training programmes so as to contribute to the increase in productivity and competitiveness of enterprises and the country's economy in general. FONCAP's target population is made up of low-income social sector which have difficulties to access the labour market. They are given training scholarships and other grants to improve their labour competencies and facilitate their access to a job or a productive activity.

2. Direct training subsidy for micro and small enterprises (SMEs).

This modality allows to finance training actions earmarked to workers, administrators or managers of small productive units.

3. Tax rebate for enterprises.

A tax rebate is granted by the State to enterprises who provide their workers with training, both internal and external, through Technical Training Organisations (OTECs) or through Intermediate Technical Organisations for Training (OTICs).

This tax rebate is mainly concerned with allowing enterprises that are classified by the SII as first-class tax-payers of the Income Tax Law (whether they pay Actual Income taxes or Alleged Income taxes or if they have tax exemption as a result of their lack of activity) to benefit from the tax discount or reduction or recovering the Investment in Training at the time of presenting their yearly income tax statement at the SII. The top Tax Rebate granted by the State to enterprises that adopt this modality is 1 per cent of their Annual Taxable Remuneration Payrolls. Micro, small and medium-sized enterprises whose 1 per cent of taxable remunerations are under 13 UTMs (Monthly Tax Units) can discount the investments in training up to such sum every year.

4. Pro-employe Programme.

It is a subsidy granted by the Chilean Government to enterprises that hire new employees. The purpose is to create new jobs. This Programme has been running yearly since 2001 in order to face unemployment during the months were it usually reaches its highest levels. Since its beginning, 211,598 people have been hired, many of which have continued to work in the same companies where they were first hired according to this system. Pro-employment finances 40 per cent of a minimum salary during four months, so as to pay unemployed people who are hired by enterprises during the period in which

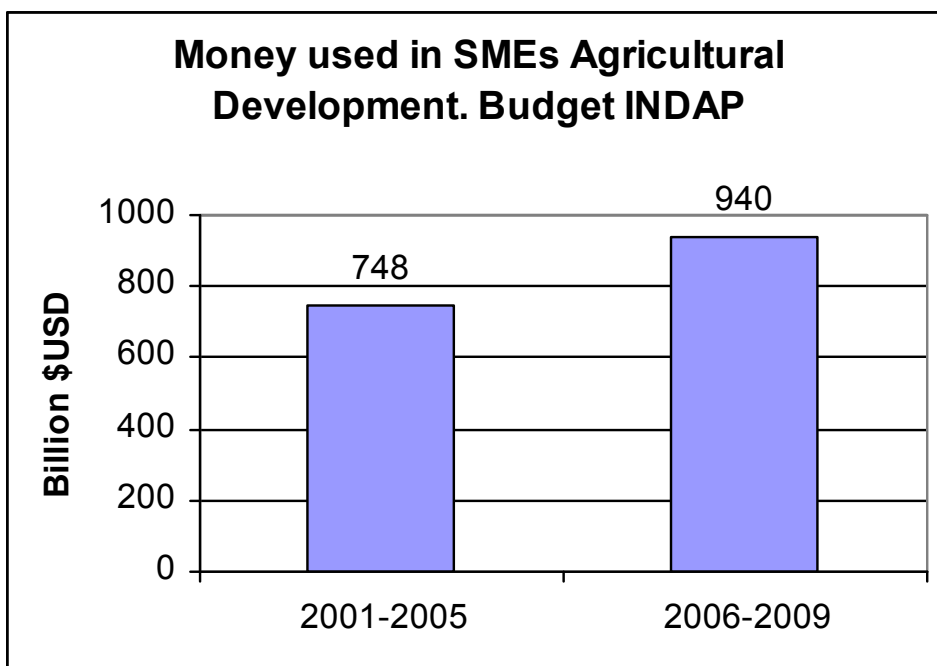
the system operates. In addition, it pays 50 thousand pesos CLP (about USD \$100) to train each of them.

INDAP

The Government Agency for Agricultural Development, INDAP, is the main service by which the state of Chile supports small-scale farming. It was founded on November 27, 1962.

As a decentralized service of Ministry of Agriculture, it has legal entity, assets of its own and the ability to assume and exercise rights and obligations.

The main objective of INDAP is to promote and strengthen the development of small-scale farming. It is present in all Regions of Chile through its 16 Regional Direction Offices, 113 Area Offices, Local Offices and 10 Traveling Offices. In 2009, were create 6 new Areas Offices.

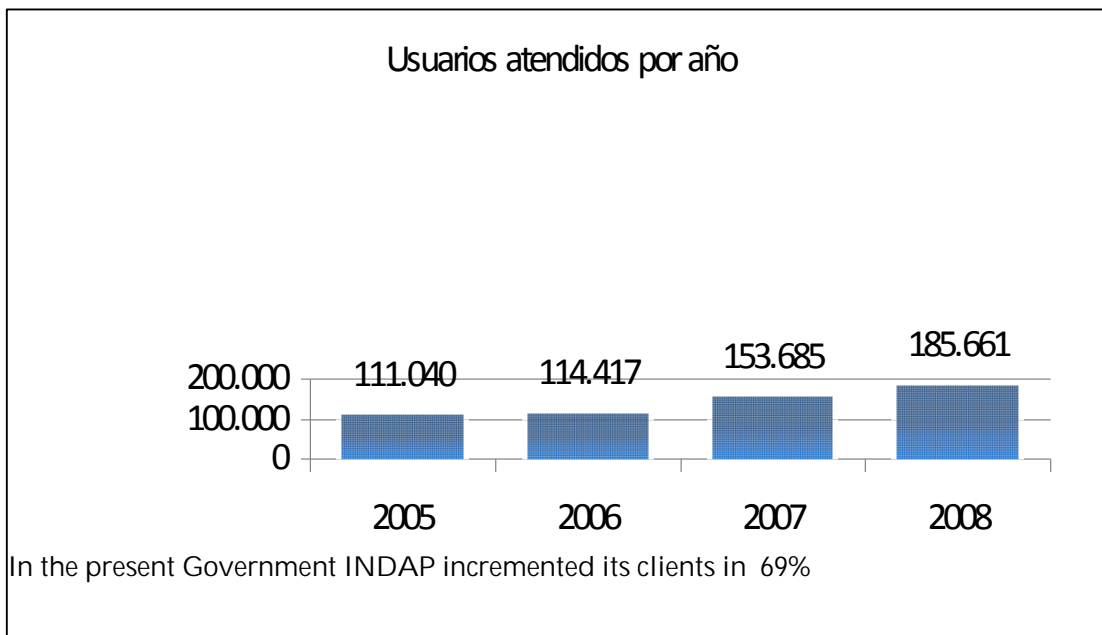


Mission

To give support through furtherance and create adequate conditions and abilities for a maintainable productive development of family subsistence farming and its organizations.

INDAP and Productive Furtherance.

INDAP is a technical institution oriented towards productive furtherance, that is, a set of actions of support for small-scales farmers and their productive environment in order to transform family subsistence farming into more efficient, competitive and self-sufficient productive units.



Family Subsistence Farming.

Small-scale farmers who work a land no bigger than 12 hectares of basic irrigation, have assets under 3.500 unit of account (UF) (about \$USD 150.000), obtain their income mostly from agricultural exploitation and work the land directly, regardless of their land possession system.

Productive Characteristics: all areas, all territories.

- It monopolizes about 44% the agricultural land.
- It contributes whit about 30% of the sector production's total value and 40-45% of yearly crops, vegetables, vineyards and cattle, plus 29% of fruit plantations.
- SMEs have the exploitation of 76% beehive, 50% berries, 54% horticulture, 55% livestock
- It mixes optimizing and subsistence objectives.

Economic Characteristics: It contributes with approximately 25-30% of the rural sector's gross domestic product, that is about 1,2 % of the national gross domestic product.

It creates more than 600.000 jobs, both directly and indirectly.

It contributes remarkably to the agro alimentary production at national level.

About 200 associative enterprises are directly or indirectly connected to international markets.

Social-Economic and Demographic Characteristics: It consists approximately of 1,2 million persons and 278.000 forest and agricultural exploitations. It represents about an 95% of the total units forest and agricultural exploitations.

Development Programs:

1. **Productive Furtherance Financing:** Financial Assistance System; It is a service that administers the credit financing system by which INDAP support productive project. It for allowing clients to gain access to investment capital provides by INDAP or other financial institutions. This program increases the number of financing sources for their projects.

Action Lines

B. Credit Program.

- I. Direct: it is a regular credit system provided directly by INDAP, which consists in short and long term loans and link credits that allow small-scale producers t gain access to State Bonuses. Link credit for irrigation and forestation are an example of this program.
- II. Indirect: it encourages private financial institutions to fulfill the rural sector's economic needs that remain outs of INDAP's reach.
- C. **Financial Articulation.** It is expected that somewhere along the development of their projects the beneficiaries are able to turn to different financing sources. This might allow INDAP to broaden its ability to support those who still remain left out of these possibilities. It involves the following methods:
 - I. Financial Articulations Bond: a financial mediator receives it for giving a loan to a potential INDAP client. It covers most of the financial institution's rural credit analysis and evaluation cost.
 - II. Delegated Administration Fund: bidding amongst bank and other institutions to administer and give loans to rural producers.

2. **Investment and Innovation Development Program (PDI).** To develop productive enterprises. It is an instrument by which INDAP encourages rural producers and their economic and productive organizations to finance their investment requirements. This program find to allow the producers to improve their response to requirements of local and foreign buyers and markets,

increase their productive capital and their permanence and growth. The opportunities that give it are the following:

- To be able to make investments within rural, industrial/agricultural, livestock and irrigation environments.
- To incorporate new items (productive diversification).
- Modernization and Technological innovation.
- To invest on infrastructure, productive equipment, animals.
- To invest on the quality of product, added values and environmental sustainability.
- To invest on technified irrigation work to make the most out of water as a resource, among others.

3. **Degraded Land Recovery System.** It is an incentive delivered by the state through INDAP and the Livestock and Agricultural Service (SAG) to finance between the 50 and 80% of the net cost related to the carrying out of the works required to put on or more of the following programs into action:

- Phosphate fertilization.
- Chalky soil amendment.
- Establishment or regeneration of meadows.
- Soil conservation.
- Soil recovery.

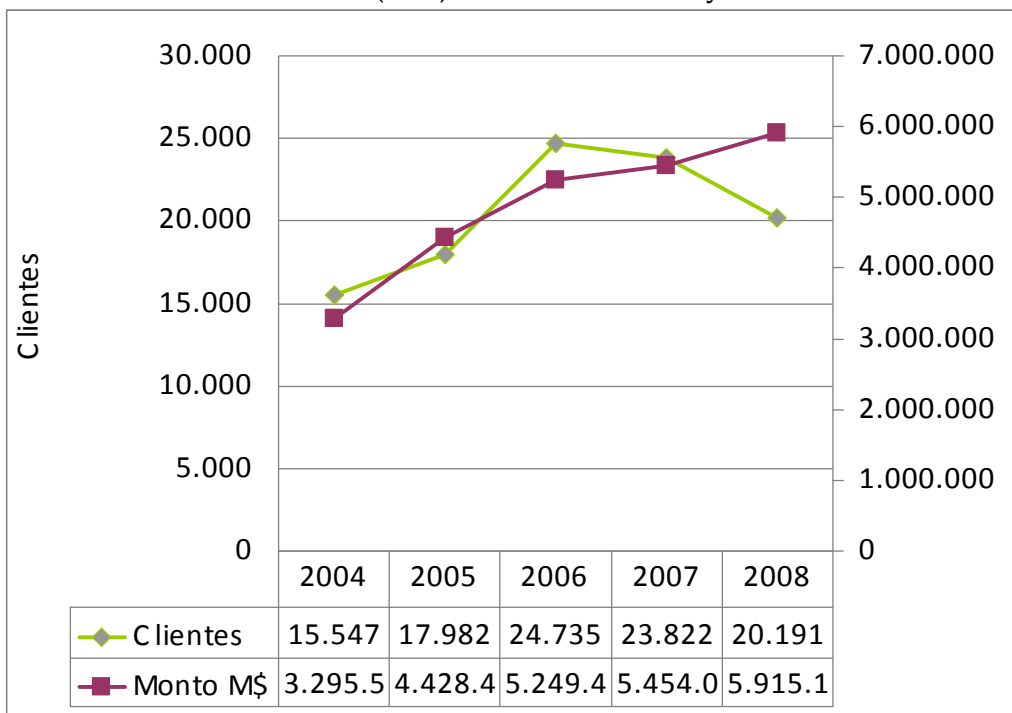
- 692.867 hectares agricultural soil have been recovered, with 191.496 farmers benefited, between 2003-2008.

4. **Technical Assistance Service (SAT).**

Technology transfer mechanisms that INDAP provides through outsourcing with private entities.

It is an instrument (public support) that target towards technical assistance, through private delivery, to producers in the technical and economical management of the productive hubs and basic economic and financial management of farms in order to contribute to an improvement in the competitiveness of productive activities and the income that they generate. The Technical Assistance Service includes production, post-production and agro-processing, management, livestock, quality control, rural tourism, and environmental management. In 2008 it adjusted to size and type of assisted farm groups (40 to 70 producers) and to subsidy level implementing Longer-term project commitments renewed (to 3 years).

Technical Assistance Service (SAT) N° client and money used M \$ CLP



5. Local Development Program (PRODESAL)

The Service for Local Development of Poor Rural Communities (PRODESAL) was created for client with small means of support. It works preferentially on the basis of alliances with municipalities and seeks to expand the capacity for forestry and agriculture by improving the degraded environment, increasing local management capacities and association between users. This work methodology meant that the assistance would be concentrated fundamentally on associative projects focused on servicing producers that were organized for economic purposes.

The instrument gives opportunities to clients to improve the production and productivity of forest and agricultural exploitations and complementary activities, to gain access to support for environmental improvement and development of associability and local management and it encourages the access to those instruments of work provided by INDAP and other public and private institutions that strengthen those actions related to productive and environmental development within the program.