

**PROGRAM FOR DEVELOPMENT AND INVESTMENT  
IN SMALL TECHNOLOGY FIRMS**

(TC-96-04-01-9)

(TC-96-08-26-9)

**EXECUTIVE SUMMARY**

**EXECUTING AGENCY:** Fundación Chile (Chile Foundation)

**BORROWER:** Chile

**FINANCING:** Modality: Combined (nonreimbursable funding and equity investment)  
Nonreimbursable funding:  
MIF: US\$ 3,000,000  
Fundación Chile: US\$ 3,300,000  
Total: US\$ 6,300,000  
  
Equity investment:  
MIF: US\$ 3,000,000  
Fundación Chile: US\$ 3,000,000  
Other investors US\$10,000,000  
Total US\$16,000,000

**TIMETABLE FOR EXECUTION:** The technical-cooperation component must be executed in four years. The Venture Capital Fund will have a duration of 10 years and the investment may be recovered beginning in the eighth year.

**ENVIRONMENTAL CLASSIFICATION:** The Environment Committee, at its meeting of August 20, 1996, classified this as a Category III operation.

**OBJECTIVES:** The purpose of the project is to establish a mechanism for transfer of technology, in which the acquisition and adaptation of new technologies is associated with a source of venture capital, to permit the productive development of innovation. In this regard, the project is a pilot experiment and specifically it proposes to transfer technology, create new technology-based small firms and transfer the experience to another country in the region.

**DESCRIPTION:** The project is divided into two components:  
  
Component I  
  
The first component consists of nonreimbursable technical-cooperation funding to develop a program for transfer and adaptation of technology. In this

component, a Technology Transfer Fund (TTF) will be set up with nonreimbursable funding from MIF and Fundación Chile, and administered as a trust by Fundación Chile. The Fund will finance technology transfer projects in their precompetitive development phase. The TTF will concentrate on the sectors of aquaculture, lumber and agroindustry and will be set up as a revolving fund, since the technology results will be sold or incorporated into the equity of new firms which apply the technologies. In addition, this component will include activities for dissemination of technology and transfer of the experience to a similar institution in another country.

#### **Component II**

Includes an equity investment by the MIF, Fundación Chile and other investors. These equity contributions are intended to establish a venture capital fund, which will support the phase of commercial development of the technology, and may finance the commercial establishment of technology-based firms. This Fund will be administered by an independent management company. The Fund envisages significant participation by private sector agencies, with which it is negotiating, something which will facilitate a market-oriented development.

The project gives priority to three significant areas: (i) attracting private investment in areas of technological risk, where the business sector is unlikely to invest alone; (ii) the industrial utilization of natural resources and diversification of exports; and (iii) decentralization of investments to areas with economic and competitive potential, where small producers have difficulty converting their activities and becoming competitive. This project will support the integration within Chile of new technology-based small businesses.

#### **RISKS:**

The following risks associated with execution of the program have been identified:

- a. implementation of projects for transfer of technology brings with it the risk of yielding results which may not be commercially applicable. To reduce this risk, the following are envisaged: (i) careful selection of project ideas, in which there is participation by representatives of the business sector; (ii) preliminary market studies, before the project is approved.

- b. The limited experience in successful commercial development of technology transfer projects. The project proposes professional and private enterprise management of the examination and selection of investments to be made by the Venture Capital Fund. In addition, participation in the Venture Capital Fund by private investors who contribute their knowledge and experience is envisaged.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

In addition to the general contractual conditions applicable to this operation, the following special conditions must be included:

As prior conditions for the disbursement of funds from the MIF contribution, the executing agency must satisfy the following special conditions:

**For Component I:**

1. Must have signed a Management Agreement, in which Fundación Chile undertakes to make its contributions simultaneously with those of MIF.
2. The Executing Unit and the board of directors of said unit must have been set up.
3. There must be agreement with the Bank on the procedure for contracting consulting services and regulations for the submission of technology transfer projects to the board of directors.
4. The Operating Regulations (Annex IV) must have been approved.
5. The executing agency, in the first six months following the first disbursement, must undertake to submit to IDB/MIF for approval: (i) a model contract for sale of technology, which must include the clauses relative to dissemination of the technology by each of the parties and the rights which this implies; and (ii) the methodology for evaluation (paragraph 7.06).
6. An exception has been requested to the policy on contracting of consultants, in that hiring and selection of consultants for amounts under US\$30,000 may be done directly by the executing agency following the procedures agreed upon with the Bank. The Bank may do an *a posteriori* sampling follow-up to verify compliance with the procedures (paragraph 4.08).

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**For Component II:**

1. Firm commitments must have been received to invest for a minimum of US\$16 million (including the MIF and Fundación Chile investment).
2. The Administrator must have been appointed.
3. The disbursements will be simultaneous with the contributions by the other investors.