

**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).

**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.

## I. BACKGROUND

### A. Frame of reference

- 1.1 Economic reforms and radical liberalization of the economy are two of the factors that have opened up new opportunities and helped bring about Chile's integration into the global economy. They also account for its dynamic growth. Sharply higher exports accompanied by export diversification, by tapping its natural advantages, have been the cornerstone of this development, thereby enabling the export sector to shake its traditional reliance on mining, although copper still accounts for 40% of total exports.
- 1.2 Nevertheless, this growth has been highly uneven, giving rise to economic heterogeneity even within particular spheres of the natural resource sector, and broad segments of business, particularly small firms, have been excluded from these opportunities, and have missed out on the dynamic growth that has been driving industries such as salmon, fruit, and cellulose. For instance, commercial fishing has so depleted fish and seafood stocks that artisanal fishing has been adversely affected, and traditional agriculture and grain and oilseed production are not competitive. In the lumber sector, forest plantations have been introduced in areas previously reserved for agriculture and native forests to meet the increasing demands of the cellulose and lumber export industries, leaving little room for development in the secondary lumber industry, mainly the concern of small businesses.

#### **Potential of the renewable natural resources sector**

- 1.3 An increase in exports, in the order of 60%, between 1992 and 1995, was generated largely by renewable natural marine, agricultural, and forest resources. It is important to note that, during the same period, the contribution to exports of raw materials coming from these sectors dropped from 12% to 9%, while the contribution of products with some degree of added value increased. This suggests that a more rational and sustainable use of these resources and an extension of the added value chain can expand the country's production possibility frontier.
- 1.4 **The aquaculture sector**, one of the most dynamic in the Chilean economy, contributes 20% of total foreign exchange earnings, with only 2% of national fisheries production by volume. Chile is the second most important producer of salmon raised in captivity and one of the principal producers of algae and mollusks. Chile's advantages in this sector have rested on two factors: (i) the environmental quality of its resources, and water and food in particular; and (ii) a rapid process of technology transfer. The degree of sustainability of the sector and its development will depend on maintaining these advantages. In this regard, a future-oriented strategy involves improving productivity and controlling

diseases, diversifying production and introducing better environmental management which ensures the permanence of activities.

- 1.5 The forestry and lumber sector has shown very significant development and, with only 4% of forestland devoted to plantations, Chilean forestry exports represent 2.3% of the world market. Chile's competitiveness has been based on: (i) the vast tracts of land suitable for forest production; (ii) sustained investment; and (iii) a large cellulose industry which ensured a basic demand. The productive development of the sector must include the attribution of greater value to uncut wood. In this regard, competitive development of the sector must consider strengthening the production chain, an element which is also beginning to emerge in the structure of exports, and the sustainability of forest resources and the development of native woods.
- 1.6 Lastly, the agricultural and agroindustrial sector has played a very important role in Chile's success as an exporter. This sector is made up of two large productive divisions: a modern exporting sector, engaged in the production of fruits, vegetables, juices, frozen foods, etc. with a production value of about US\$1,200 million; and the traditional production of commodities, such as wheat, oilseed, rice, etc., an area in which it is not competitive with the neighboring countries of Mercosur, and the conversion of 250,000 to 300,000 hectares to other crops is a necessity. The sector strategy is based on the diversification of production, including the identification of new species and varieties of crops showing high profitability and the introduction of new technologies for processing of fruit and vegetables, to reduce the environmental impact of these businesses.

#### The importance of Fundación Chile

- 1.7 Fundación Chile has been engaged in technology transfer activities since 1977. During those years, it has successfully transferred different technologies to the national production system, developing businesses which have represented the start-up of new industries. The most notable examples of this success have been the recent establishment of the salmon and trout industries, fresh and frozen berry exports, and the introduction of the country's first fruit quality control service.
- 1.8 Fundación Chile has three technical departments in the areas of agroindustry, forestry and marine resources. These departments have multidisciplinary and specialized groups of professionals, whose work is complemented by leading local and foreign consultants who join the projects or programs as required. The agroindustrial department concentrates mainly on programs to improve productivity, introducing new growing and processing technologies, and diversification of crop varieties, promoting highly profitable

species. The forestry department is committed to increasing the competitiveness of the forestry sector, introducing technologies for genetic improvement, developing the wood processing sector, and increasing the value of the environmental contribution by the sector, including the development of native woods. The marine resources department promotes activities aimed at diversifying commercial aquaculture, improving productivity in the fisheries sector, disease control, environmental management of aquaculture and coastal areas, quality assurance and certification of fisheries products (the work of Fundación Chile is described in detail in Annex II).

- 1.9 In addition, Fundación Chile is finalizing technical cooperation agreements with institutions in the United States, Japan, Spain and Canada which will assist its different sectors. Likewise, Fundación Chile has carried out programs to share its experience with similar agencies in other countries, such as Bolivia (Bolivia Exporta), Uruguay (LATU), Colombia (Corporación Colombiana Internacional) and El Salvador (FUSADE).

B. Justification for the project

- 1.10 The rationalization of the use of renewable natural resources and the utilization of environmental conditions to develop new species and production activities are a strategy which enjoys broad national support. On the other hand, diversification and specialization of production in this sector makes it easier to overcome economic and social dualism. A process of this nature involves the **transfer, adaptation and dissemination of new technologies**, the identification of new markets and products in which the country enjoys competitive advantages. Small businesses 1/ play a prominent role in these processes, because of their adaptability to new types of production and their willingness to test new markets.
- 1.11 Nevertheless, the market suffers from significant shortcomings in terms of the services available for dissemination and transfer of new technology as well as capital market development. Generally speaking, **technology development has positive externalities** and because the entrepreneur making the investment captures only some of the benefits, investors are likely to be excessively conservative, tending to invest in suboptimal technology. Finally, the technology market is extremely complex and the information available is inadequate, factors that substantially inflate

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1/ Corporación de Fomento (CORFO) defines a small business as a business with sales ranging from 2,400 to 25,000 development units (US\$77,000 to US\$800,000) and a medium-sized business as one with sales of from 25,000 to 50,000 development units (US\$800,000 to US\$1,600,000).

transaction costs particularly for smaller production units and the establishment of new activities.

- 1.12 **Capital markets** in countries in the region, including Chile, are not highly sophisticated. Investment in small companies is virtually nonexistent, especially when the inherent risk is high. For reasons of prudence and owing to legal restrictions, pension funds, which are an important source of funding, tend to ignore small businesses.
- 1.13 This analysis shows the need not only to facilitate the processes of transfer and adaptation of technology, but also to provide access to the capital that is needed to tap new technologies commercially. Based on the experiences of Fundación Chile, and placing emphasis on the renewable natural resources sector, this project proposes to implement a private mechanism of technology transfer through which it is possible to identify, acquire and adapt new technologies - inputs, new products, sustainable methods of processing - and provide the capital investments needed to carry out new business initiatives which incorporate these technologies.
- 1.14 The establishment of risk capital mechanisms is more likely to succeed if the context in which they operate shows a certain degree of development. Institutional mechanisms and the regulatory framework of the capital market must be adequate for funds of this nature to have a chance of operating. In this sense, then, Chile appears to be an example where the presence of these minimum conditions allows for a pilot experiment. The creation of a venture capital fund, financed largely with funds from development institutions (MIF, Fundación Chile, Euro-Chile) and with foreign private investment will make it possible to carry out a demonstration experiment and take a new step towards creating a more mature Chilean capital market.
- 1.15 Fundación Chile appears to be the ideal institution for this project because: (i) it has experience with the transfer of technology; (ii) it is a private non-profit organization with business-style management; and (iii) it has the international recognition that is needed to serve as a reliable counterpart for centers of excellence in industrial nations.

C. Bank strategy

- 1.16 The Bank's strategy is to help the countries of the region to increase their technological capacity with everything that this implies in terms of scientific competence. It is necessary to increase the resources which the country allocates to research and development until they reach acceptable international levels for the corresponding level of development. In other areas, it is necessary to establish the "specialized capacities" which are required in certain selected fields, including the rational



management of natural resources and environmental protection. In the choice of strategic areas of concentration of capacities, it is necessary to consider the identification and penetration of new niches in which Chile can compete internationally.

## II. OBJECTIVES

- 2.1 The purpose of the project is to implement a technology transfer mechanism, in which the acquisition and adaptation of new technologies is associated with a source of venture capital able to permit productive development of innovation. In this regard, the project is a pilot experiment in promoting technology transfer and the creation of new business initiatives.
- 2.2 The specific project objectives are:
  - a. to support technology transfer in the areas of agroindustry, aquaculture and the lumber industry, and contribute to maintaining the economic value of renewable natural resources;
  - b. to facilitate the establishment and development of new technology-based small businesses;
  - c. to support institutional experiments for transfer of technology from other countries in the region;
  - d. to strengthen the process of restructuring Fundación Chile which involves separating investment decisions from technical-type ones, sharing the financial risk of investments with partners outside the Foundation.

## III. PROJECT DESCRIPTION

### A. Conceptualization

- 3.1 To achieve these objectives, the project will be divided into two components: a technology transfer and adaptation program and a venture capital fund. A technology transfer fund (TTF) will be established as part of the first component.
- 3.2 The methodology used for technology transfer and adaptation will be based on the one that Fundación Chile has been employing until now. In the initial research phase, the Foundation identifies proposals for technology transfer, i.e. the development of a new product for which demand may exist in local and international markets and which

may be profitably produced in Chile. 2/ During this phase, proposals from within and outside the Foundation may be considered. Proposals from outside the Foundation would be analyzed and internalized. Those projects that are selected will pass on to a precompetitive development phase in which tests and applied research are done to determine the most appropriate productive process for developing the new product in Chile. This activity will be financed from the TTF. The Foundation will submit the project or pilot experiment to the Venture Capital Fund for analysis as a potential investment, and will identify other investors. The final stage is the commercial development phase in which the Venture Capital Fund will invest in the project and in association with other private investors will create a new company. The new companies will be sold when they have reached a certain level of maturity.

- 3.3 TTF resources will be concentrated in three subsectors: aquaculture, agroindustry and the lumber industry - based on the need to concentrate available resources for impact and demonstration effect, the high economic potential of these sectors and their potential for development on a small scale, and the installed capacities of Fundación Chile. The Venture Capital Fund may be multisectoral in nature, limiting its investments to technology-based small businesses.
- 3.4 **TTF and the Venture Capital Fund will act independently of one another**, with different modes of operation and independent decision-making bodies. The importance of maintaining autonomy in decision-making stems from the use which Fundación Chile itself has made of its broad experience. It shows a need for the structure which develops the idea and implements it at the pre-competitive stage to be different, in terms of personnel and decision-making bodies, from that which decides on its effective economic viability and the desirability of investing funds for its development.

B. Activities

- 3.5 Fundación Chile will create an Executing Unit for the administration of the first component, which will be composed of management and a board of directors. The second component, the Venture Capital Fund, will be administered independently by an investment company set up for this purpose.

1. Component I: program for transfer and adaptation of technology

- 3.6 Through this program, activities will be carried out with a view to: (i) establishing a technology transfer fund (TTF), which will

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2/ The proposals will be financed under the innovation support program with funding provided by the Foundation and outside sources.

back the pre-competitive development of a project; (ii) disseminating the results to the Chilean production system; and (iii) transferring the Fundación Chile experience to another institution in another country in the region.

#### **Technology transfer fund**

- 3.7 The TTF will be a revolving fund and will recover the resources invested based on the success of operations. The resources used in pre-competitive development of a project will be appraised and may be sold or capitalized in the new business. The receipts from sales of technology and/or equity will be deposited in the TTF.
- 3.8 The specific activities may be grouped under:
- 3.9 Examination and selection of proposals. Fundación Chile, through the Executing Unit, will submit the project proposals to the Board of Directors for selection and approval. The Committee may contract specific experts for technical and commercial assessment of the proposed project. The evaluation of proposals will be based on the following criteria: (i) their potential profitability and compatibility with the requirements of the Venture Capital Fund; (ii) the nature of the innovation and its impact on the development of the corresponding industry; and (iii) the social and environmental impact. It is expected that a significant portion of the projects will be oriented to the aquaculture sectors.
- 3.10 Project development. Each project will involve the contracting of consulting services and the use of the necessary equipment. During the development of projects, the Foundation will seek to involve private partners, so as to more readily obtain partial private investment for commercial development of the technology. The types of activities envisaged are as follows:
- a. research and development of products and/or processes;
  - b. identification of markets and establishment of marketing channels;
  - c. training of human resources, which will include the introduction of environmental management considerations pertinent to the sector and the technology, and suitable methodologies will be used to facilitate the integration of women;
  - d. the organization of small-scale producers into integrated producer organizations.
- 3.11 Search for investments. In addition to submitting the project to the Venture Capital Fund for evaluation, Fundación Chile will undertake to interest the private sector in investing in commercial development of the project. At the time the new business is created, the technology will be sold to new investors or valued

as equity in the new business. In order to have a point of reference, an independent expert will be contracted to determine the market value and nondissemination period for the technology.

#### **Technology dissemination**

- 3.12 Fundación Chile will disseminate the results of the progress of the projects financed, facilitating the incorporation of new technologies into the production system. In the case of technologies which have taken the form of business investments, it will be necessary to define a nondissemination period to guarantee investors in the new business a minimum period of exclusivity, to allow them to be compensated for the risks taken. The length of this period will depend on the technical and economic features of the technology and will be negotiated with the initial investor, whether this is the Venture Capital Fund or another private investor, at the time the technology is transferred (see paragraph 3.11).
- 3.13 There are provisions for information and dissemination activities to disseminate the technologies developed with TTF resources. Fundación Chile will disseminate the relevant information through specialized technical and commercial reviews. In addition, special meetings will be organized with experts and businessmen to present the new technology. These activities will be paid for directly by the participants and will be self-sustaining. The economic receipts from these activities, after deducting the operating costs and services used, will be deposited in the TTF.

#### **Transfer of experience to other countries**

- 3.14 In this activity, it is proposed that the Fundación Chile methodology and experience be transferred to an institution in the region to support it in better fulfilling its function of promoting technology transfer. The activities must be adapted to the specific needs of the country and institution selected for support and will involve:
- 3.15 Evaluation and identification: Through a process of analysis of the different alternatives, Fundación Chile will identify the country and institution to be supported (counterpart). The principal criteria to be considered are: (i) the viability of the counterpart institution, from a financial and technical standpoint; (ii) the organization of the institution and its integration and credibility in the local environment; (iii) the suitability of economic conditions in the country in question; and (iv) the contribution to be made by the beneficiary institution to the project itself, which should not be less than 30% of the cost of the project to transfer experience.
- 3.16 Institutional strengthening and oversight. A high-level official or former official of the Foundation will be contracted to oversee

the management of the counterpart institution. This oversight may involve up to 8 man-months, spread over two years.

- 3.17 Training. Different training initiatives will be provided for executives and middle-management in the counterpart agency, and will involve travel by the Fundación Chile personnel to the selected country and by personnel from the counterpart institution to Santiago.
- 3.18 Development of a pilot initiative. A joint initiative will be carried out in the field of technology transfer in areas in which the Foundation has capacity and which are suited to the characteristics of the target country.

## 2. Component II: the Venture Capital Fund

### **Goal**

- 3.19 A Venture Capital Fund will be set up, which, through equity investments, is to finance initiatives for the creation of new companies which incorporate new technologies. The goal of the Venture Capital Fund is that of investing in shares, bonds and other negotiable instruments and other debt securities issued by nonpublicly traded private companies which are involved in the process of technological innovation or adaptation, whether in processes or products, however which have satisfactorily passed the pre-competitive research phase.

### **Legal Structure**

- 3.20 Due to the restrictions imposed by Laws 18,815 and 18,657 which regulate investment funds for contributors residing in Chile and those residing abroad, respectively, the Fund would be structured as a nonpublicly traded investment company governed by the law on publicly traded companies. Alternative structures will be considered to maximize tax benefits for all investors. The Fund would have a duration of 10 years and the divestment would begin to occur in the eighth year of the Fund's life. If any of the investors in the Fund decide to extend the life of the Fund, MIF will have an exit mechanism which will include an option to sell.
- 3.21 The maximum authority will rest with the contributors, who will have the following powers: annually elect the members of the board of directors; annually designate the outside auditors, from a list of three presented by the board of directors; approve the changes proposed by the Administrator to fund regulations; decide on the replacement of the Administrator at the request of the latter or of the board of directors or in the case of dissolution; take cognizance of any situation which affects the interests of the contributors; decide on the liquidation of the fund; determine, if appropriate, the conditions for a new issue of contributions for the fund, setting their amount, term and price; approve the annual

report on the fund submitted by the Administrator, regarding the management and administration of the fund, and the corresponding financial statements. The board of directors will be composed of five members: two representatives from the private sector, one from Fundación Chile, one from MIF, and one from Euro-Chile. The board of directors would have the authority to make changes in investment policies or the management of liquid assets, to ensure that the Administrator complies with the fund regulations, to check that the information on the contributors is accurate and up to date, to approve the annual budget of the Administrator and other duties which are delegated to it by the contributors. The Securities Commission of Chile regulates conflicts of interest arising between the Administrator and the fund; regulates diversification and restrictions on the fund and establishes minimum information for the contributors.

### **Capitalization**

- 3.22 The Fund will have a minimum equity base of US\$6 million, of which Fundación Chile will contribute US\$3 million and MIF US\$3 million. Along with this minimum capital base, additional contributions will be obtained from local and/or foreign investors. Euro-Chile, a foundation similar to Fundación Chile but set up with equity from the European Community, has shown interest in contributing US\$2 million. Ventana, a company engaged in the administration of private international equity investment funds and located in California, which administers more than US\$160 million and specializes in companies with technological innovations, has expressed interest in contributing US\$15 million. Corporación de Fomento de Producción (CORFO) recently launched a program through which it makes investments of quasi-capital to venture capital funds as a means of supporting the venture capital industry. CORFO has indicated its interest in considering a quasi-capital investment of US\$8 million. Finally, Fundación Chile has indicated that it will try to raise US\$2 million through its local and foreign contacts. Thus, based on the initial contributions of MIF, the Fund could raise capital of US\$33 million, which assumes an additional US\$30 million, including the Fundación Chile contribution. MIF disbursements would be made *pari passu* those of the other shareholders and the first disbursement would be predicated on the Fund obtaining investment commitments of at least US\$16 million out of the total US\$33 million which they expect to raise. It is expected that 50% of the resources committed by the partners contributing to the fund will be disbursed when the Fund is closed. A year after closing, the next 25% of the committed resources will be disbursed and two years after closing, the remaining 25% of the remaining capital will be disbursed.

### **Administration**

- 3.23 The Fund will be administered by an investment fund management company which plans to incorporate in Chile. The company would

obtain 80% of its capital from the Administrator and 20% from Fundación Chile. The minimum capitalization required by law is US\$300,000. The Administrator would abide by the guidelines of the Fund Regulations and, in making investments, would seek an above-average return for its investors, using for this purpose a highly qualified team of investment managers. Fundación Chile and MIF would be responsible for finding the manager of the Administrator. Following the evaluation mission and the interest shown by Ventana in participating in the Fund, it is proposed that Ventana be the Fund Administrator. Ventana has long experience in administering the type of fund proposed and Fundación Chile would contribute its knowledge of investment opportunities in Chile. Ventana would help select the Administrator and train him or her in Ventana's investment methods and practices. The Administrator would enter into an agreement with the Fund for the administration and management of the Fund's investment program, including but not limited to:

- a. identifying, negotiating and creating investment opportunities;
  - b. decision-making with respect to investment and divestment, subject to review and approval by the Investment Committee;
  - c. monitoring investments and supplying management and other services to the companies in the portfolio; and
  - d. investing liquid funds on behalf of the Fund.
- 3.24 All decision-making relative to investment and divestment according to the policies established by the Fund, will be the responsibility of the Administrator's Investment Committee, which will be composed of five or six members: a representative of Ventana, a representative of Fundación Chile, the Fund Administrator and another three members selected by the Administrator, but who are not connected with same. These members will be businessmen who can contribute their experience to the management of the Fund. The Investment Committee will be structured in such a way that it is flexible and able to respond quickly to the opportunities which present themselves.
- 3.25 The professional personnel will include a manager, another two professionals and a secretary. One of the professionals from Ventana will move to the offices of the Administrator to work full-time in preparing operations and utilizing Ventana Network resources.
- 3.26 Ventana would offer the Administrator's professional staff in-service training for three to six months in one of Ventana's offices. Working with Ventana in preparing operations would be an efficient and effective means of training professionals to manage capital investments in technology-based companies, in addition to giving them an idea of the resources and experience enjoyed by

Ventana. In this way, they could considerably improve the prospects of local operations and the appeal for the local company of working with an Administrator in which Ventana is a shareholder.

- 3.27 The Fund would publish audited annual reports, including financial statements prepared according to accounting principles generally accepted in the United States or Chile, within 120 days of the close of each fiscal year. The unaudited quarterly financial statements would be published approximately 60 days after the close of each quarter. The annual report will be audited by an international firm of outside accountants. In addition, quarterly progress reports for the project and copies of the minutes of board of directors meetings would be required.

#### **Expenses, profit distribution and incentives to management**

- 3.28 Once set up, the Administrator will receive from the Fund an annual fee, payable semiannually in advance, equal to 3% of the total committed capital of the Fund. This fee will be gradually reduced as the Fund is being liquidated, since the committed capital will be left at an amount equal to the basic cost of distribution of profits to investors. The fee will cover all operating costs (including payroll and office expenses, as well as costs of travel and professional services incurred in connection with the acquisition and disposal of investments). The legal and auditing costs will be borne by the Fund.
- 3.29 Dividends and profits will be distributed to investors *pari passu* divestments. They will be paid solely to investors in the Fund on a pro rata basis according to the following mechanism: first, all losses suffered by the Fund will be recovered; second, it will be determined whether the Fund has a value higher than the initial value of the investment; third, of the total capital earnings generated by the Fund, 80% will be distributed to Fund investors and 20% to the Administrator as an incentive. Within the Administrator, the profits will be distributed as follows: 80% to the Administrator and 20% to Fundación Chile. Each year, the Fund will distribute dividends which will be at least equal to 30% of net profits received during the fiscal year. The profits generated by the adjustment for currency depreciation will be taken into account for purposes of distribution of profits.

#### **Investment Policy**

- 3.30 It is estimated that individual investments in the Fund will average US\$750,000 with a maximum investment per project of US\$1,500,000. The Fund will consider solely those investments with the potential of generating a significant rate of return, generally above 25%.
- 3.31 The Fund will seek to create a balanced, quite diversified portfolio, and, barring exceptions to be examined on a case-by-



case basis, without committing more than US\$1,500,000 to a single company or its branches, nor more than 30% to a single industry. The Fund investment in the capital of a small business will range from 25% to 40% of same. The Fund will finance up to 50% of the total cost of the investment, and will have to channel private sector resources towards the opportunities identified. The Fund will participate in successive rounds of financing at later stages, for those investments which provide good yields. The eligible companies will be small businesses of which the control by a big business does not exceed 30% of the capital of the small business.

- 3.32 Once there is a decision to invest, the Fund will sign an investment agreement with the business receiving the investment in which the terms of said investment will be defined. The Fund will make use of its shareholder rights to ensure that the business complies with the investment contract, the business plan, and commercial and financial objectives.
- 3.33 Generally speaking, the Fund will be represented on the board of directors of every company in which it invests. In addition, the Fund will seek the right to participate in the selection of key managers or to appoint managers, if so warranted by circumstances. The Fund will require that the companies in which it has an interest submit budgets and monthly profit and loss statements in order to facilitate control of investments.
- 3.34 In structuring the investments, measures will be taken to preserve multiple exit options, including the possibility of disposal through an initial public offer, sale to strategic buyers, or to existing partners through a sales option. The selling price of an investment will depend on the industry in which it has been made; the methods of valuation used may include a percentage of sales, a multiple of earnings, and discounted cash flows.
- 3.35 The Fund will invest in new small private businesses and/or in the expansion/conversion of existing small private businesses for the purpose of introducing a new production line, using the results of the technology transfer. In this regard, the Fund will select the projects which are most worthwhile from an economic and profitability standpoint among those proposed by the TTF and also those coming from other sources, provided that they meet the criteria defining technology-based small businesses. The businesses in which the Fund invests will be mainly export-oriented, in the following sectors, among others: manufacturing, agroindustry, forestry and lumber, aquaculture, the environment, biotechnology and medical technology.
- 3.36 The Fund will invest in small businesses that are duly registered and which have the required licenses to operate. The companies must be potentially competitive and not dependant on subsidies or protective tariffs. The Fund must ensure that the companies in

which it invests comply with the environmental requirements set out in the environmental summary.

- 3.37 The Fund and the Administrator will operate independently of TTF-related activities, without being subject to pressures from the teams conducting the investigation for the transfer and adaptation of technology. However, a working relationship will be established between the Administrator, the Fund and the technology transfer and adaptation activity. The Administrator will hold informal meetings with the TTF to exchange ideas concerning the sectors where the Administrator sees opportunities in the Chilean economy. In this way, the TTF may use this information in its work of identifying and developing opportunities for transfer and adaptation of technology.

C. Cost and financing

- 3.38 The total estimated budget is for US\$12,300,000, broken down between MIF and Fundación Chile (the counterpart). The project provides for a MIF contribution of US\$6,000,000, of which US\$3,000,000 will be in nonreimbursable funds and the other half in equity. The main contribution of nonreimbursable funds (90%) will consist in the financing of a little less than one half of the technology transfer; most of these funds will be used for the contracting of services from centers of excellence outside Chile, in particular Japan, the United States and Spain. The remaining 10% will be used to finance the transfer of institutional experience from Fundación Chile, in addition to contingencies, follow-up, supervision and evaluation of the operation. The MIF contribution to the Venture Capital Fund will be US\$3,000,000, in the form of equity. The MIF resources and those of the counterpart will make it possible to create the minimum equity base for the establishment of the Venture Capital Fund (see paragraph 3.22). The counterpart will contribute US\$2,900,000 to the TTF; likewise, the Foundation will invest US\$3,000,000 in the Venture Capital Fund. The counterpart will also assume the cost of administration and office and equipment use, estimated at US\$300,000, along with the annual audits. The MIF contribution will be pari passu that of Fundación Chile, considering their relative share.

**TABLE I - PROJECT BUDGET BY COMPONENT (in US\$000s)**

|  | <b>MIF</b> | <b>CHILE FUND.</b> | <b>TOTAL</b> |
|--|------------|--------------------|--------------|
| <b>A. Administration (Comp. B and C)</b>                       | 20         | 300                | 320          |
| 1. Management and board of directors                           | 10         | 200                |              |
| 2. Overhead (secretary, communications, maintenance)           |            | 90                 |              |
| 3. Environmental training                                      | 10         | 10                 |              |
| <b>B. Technology transfer fund</b>                             | 2,650      | 2,900              | 5,550        |
| <b>C. Venture Capital Fund</b>                                 | 3,000      | 3,000              | 6,000        |
| <b>D. Transfer of experience</b>                               | 200        |                    | 200          |
| <b>E. Audits</b>   |            | 50                 | 50           |
| <b>F. Evaluation and follow-up (TTF and Risk Capital Fund)</b> | 80         |                    | 80           |
| <b>G. Contingencies</b>  | 50         | 50                 | 100          |
| <b>TOTAL</b>   | 6,000      | 6,300              | 12,300       |

**TABLE II - PROGRAM FOR TRANSFER AND ADAPTATION OF TECHNOLOGY (in US\$000s)**

|  | <b>MIF</b> | <b>CHILE FUND.</b> | <b>TOTAL</b> |
|--|------------|--------------------|--------------|
| <b>Technology transfer fund</b>          | 2,650      | 2,900              | 5,550        |
| 1. Analysis and selection (consultants)  | 50         | 50                 | 100          |
| 2. Implementation of projects            | 2,500      | 2,800              | 5,300        |
| - Consultants' fees                      | 2,050      | 2,050              | 4,100        |
| - Equipment                              | 350        | 650                | 1,000        |
| - Travel and missions                    | 70         | 70                 | 140          |
| - Other                                  | 30         | 30                 | 60           |
| 3. Search for investments                | 100        | 50                 | 150          |
| <b>Transfer of experience</b>            | 200        |                    | 200          |
| 1. Identification                        | 20         |                    | 20           |
| 2. Oversight and training by institution | 120        |                    | 120          |
| 3. Implementation of pilot initiative    | 60         |                    | 60           |

#### IV. PROJECT ORGANIZATION AND EXECUTION

##### A. Executing agency

- 4.1 Execution of the first component will be the responsibility of Fundación Chile and will be carried out over four years. The TTF will be set up as a trust with the funds from the Contribution of the IDB/MIF and the counterpart funds from Fundación Chile, which will be administered by Fundación Chile through the Executing Unit. This Executing Unit will be composed of a management office and a board of directors. The members of the board will be the President of Fundación Chile and four prominent individuals representing manufacturing, academic circles and the financial sector (one appointed by the IDB/MIF and three proposed by Fundación Chile and approved by the IDB/MIF). Of the latter, one must practice his or her profession in a foreign country which is a member of MIF.
- 4.2 For the establishment of the Venture Capital Fund, an investment company will be set up, to be administered following private sector criteria and of which the management will be independent of Fundación Chile and the TTF. MIF will have a representative on the board of directors of the Venture Capital Fund who will ensure that the legal requirements for this type of fund are complied with, in addition to seeing that strategies are followed and operating regulations respected.

##### B. Responsibilities

- 4.3 The Executing Unit will have working responsibility for the administration of the TTF, under the supervision of the board of directors. This latter will be responsible for the selection of the technology transfer projects, and for approval of the progress reports on the projects being executed and the TTF budget. The board will meet quarterly, in principle, to discuss and approve the proposals submitted. The Executing Unit will also be responsible for providing support to other similar institutions in the region (more details are given in the Operating Regulations, Annex IV). The board of Fundación Chile will be ultimately responsible for projects and will approve the strategies and Operating Regulations of the TTF.
- 4.4 The Administrator of the Investment Fund set up to administer the Venture Capital Fund will have working responsibility for same, under the supervision of the Fund board of directors and the Investment Committee, and will be governed by the guidelines of the Fund Regulations. The board of directors will be responsible for all decisions which relate to Fund policies and strategy. The Investment Committee will be responsible for decision-making

relative to investments and divestment in accordance with Fund policies. The board of directors will meet quarterly, in principle, and the Investment Committee weekly.

C. Execution: special considerations

- 4.5 As indicated in the Operating Regulations (Annex IV), (i) proposals originating outside the Foundation may be eligible for TTF funding, provided the Foundation can internalize them; (ii) the purchase of equipment will be limited to no more than 20% of the value of projects, although there may be exceptions where authorized by the Bank; (iii) the dissemination and marketing of technologies will be guided by market considerations in accordance with existing patent legislation; and (iv) funds from other programs (ex. FONDEF) may not be used to replace the *pari passu* contribution of Fundación Chile.
- 4.6 The TTF will be revolving in character and, at the end of the period of execution, the amounts held in the TTF will be maintained in same to continue as a Fundación Chile Fund and administered by it, and used for the financing of technology transfer projects.

D. Procurement of goods and services

- 4.7 According to Bank policy, the purchase of equipment must follow the rules for eligibility of goods and principles of economy and efficiency. Fundación Chile must use a competitive method which ensures that purchases are made at market prices.
- 4.8 In the selection and contracting of consulting services, Bank policy will be followed, taking care that only national consultants from countries eligible for MIF may be contracted. The selection procedures which Fundación Chile agrees to with the Bank, considering the high number of consultants, the short period for which they are contracted and the private nature of the Foundation, may include the following: (i) in the contracting and selection of consultants for amounts under US\$30,000, the Bank will do an *a posteriori* sampling follow-up to verify that the agreed-upon procedures have been followed; (ii) in the selection of firms, simplified criteria will be used with a short list of three candidates.
- 4.9 The activities related to the transfer of experience by Fundación Chile provide for hiring the same Foundation to support an institution in another country, as an exception to the conflict of interest guidelines.
- 4.10 Fundación Chile will make use of the relations built up during its years of experience with international centers of excellence in the field of applied research. Specifically in aquaculture, a priority sector for this project, Fundación Chile has connections and working experience with institutions in the United States, Japan

and Spain <sup>3/</sup>; in other sectors, the Foundation also has important institutions which are part of the cooperation network built up over its long years of experience.

E. Disbursements

- 4.11 Disbursements from the MIF contribution will be made according to Bank procedures *pari passu* the contribution of the counterpart.
- 4.12 Prior to the first disbursement, Fundación Chile must submit a timetable of disbursements, evidence of the establishment of the Executing Unit and its board of directors, agree with IDB/MIF on the procedure for contracting consulting services, the regulations for the submission of technology transfer projects to the board of directors, and approve the Operating Regulations. In addition, the unit responsible for carrying out the environmental assessment procedures must be identified.
- 4.13 Within six months of the first disbursement, Fundación Chile must 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; (ii) the methodology of project evaluation; and (iii) a procedure manual and environmental follow-up and evaluation mechanism.
- 4.14 The disbursements of Component II will be subject to firm commitments on the part of the other investors for at least US\$16 million (including the MIF contribution).

F. Complementarity with the Bank's other science and technology operations

- 4.15 A science and technology program (672/OC) is being executed, in which Bank funds have already been totally disbursed. The program acts through three funds, which channel resources in specialized fashion to different actors in the science and technology system: (i) FONDECYT, is aimed at basic research for researchers with or without institutional backing; (ii) FONTEC, which finances technology development projects of private companies with defined projects; and (iii) FONDEF, which aims at building up and developing specialized capacities of nonprofit institutions for science and technology development, both universities and institutes, in priority areas as a function of their potential contribution to the country's development.

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<sup>3/</sup> Massachusetts Foundation for Excellence in the United States, Northern Region Center Foundation in Okaido, Japan, and the Institute of Oceanography of the University of Santiago de Compostela, in Spain.

- 4.16 Both the science and technology program and this MIF project are operating within the area of technology development and its application to business. However, the objectives, the methodology and the entry conditions of the technology transfer projects differ between the two. These elements result in a complementarity between the two operations without overlapping.
- 4.17 Fundación Chile begins its projects in a very preliminary stage when only the germ of an idea exists. First, one studies the desirability of developing a new product in Chile. The idea is developed by local experts who prepare a profile, or a case study. A prefeasibility study is done, identifying producers and world markets, and the first tests are conducted in Chile with varieties of the product which require limited investment. Using the results, the costs of the project are estimated. In the next stage, the board of directors authorizes start-up of the project with a pilot facility to look at project feasibility. In this stage, the market test is begun with the units produced and costs are reviewed continually for more precise data. Nurseries, laboratories or small pilot plants are set up and partners sought for the projects in these preindustrial or precommercial stages.
- 4.18 This type of activity which will be backed by MIF differs from FONDEF activities in the following aspects:
- a. Commencement. FONDEF selects projects through public calls for tender; Fundación Chile begins exploring products with the potential for production in Chile for export.
  - b. Size. The projects financed by FONDEF are larger in scope - US\$2 million on average; the CONICYT contributions range from about US\$600,000 to US\$800,000.
  - c. Private backing. The projects to be financed by CONICYT have to belong to one or several companies while, initially, those of the Foundation normally are done on its own technical initiative.
  - d. Technology risk. The projects submitted to FONDEF have a well-defined technology so that the technological risk is practically nil, unlike the Foundation's projects which begin in an embryonic stage and are exposed to all the inherent technological risks.
  - e. Patents and copyright. FONDEF/CONICYT does not retain the patent, which remains with the technology support institution (university or institute) negotiating with the company or companies. Fundación Chile retains the patent in order to negotiate with as many companies as possible interested in the technology.

G. Promotion of women

- 4.19 The development of new products and/or technologies will concentrate on economic sectors and areas in which the presence of working women and/or business women is very significant. The project will devote the necessary attention to promoting participation by these social sectors in the development of the new initiatives, especially in rural areas; proper training activities will be carried out for this purpose (paragraph 3.10).

V. IMPACT ON THE ENVIRONMENT

- 5.1 According to the environmental summary, the preliminary analysis of Fundación Chile's capacity to set in motion a mechanism of environmental assessment and follow-up, confirmed that: (i) the degree of specialization of the professionals and the activities carried out mean that the institutions can carry out broad sector environmental assessments; (ii) the logistics and physical capacities are adequate for the activities for environmental assessment and follow-up; and (iii) the experience in environmental follow-up of the sectors by the Foundation serve to provide the environmental information needed for successful start-up of the process of proposing projects for the program.
- 5.2 Based on this background information, the following conditions are recommended for implementation of the program:
- a. As a condition precedent to the first disbursement, it will be necessary to identify, within the technical sectors of Fundación Chile, the unit charged with carrying out the environmental assessment procedures related to this program. This unit would see to proper application of procedures, classify the projects by category of environmental impact, and review and approve the EIA where appropriate. In addition, this unit could collaborate with the Project Executing Unit.
  - b. Six months after the first disbursement, it will be necessary to prepare a **"Procedures Manual and Environmental Follow-up and Assessment Mechanisms"**, in the form of a methodological guide, to serve as a basis for all the actors involved in the program and to have mechanisms available which will enable a uniform procedure to be applied; and a **Training Module** for all those involved in the program, aimed at facilitating the use of said manual.
  - c. The investment policies of the Venture Capital Fund will be adapted to the Procedures Manual and Mechanisms of



Environmental Follow-up and Assessment. The MIF representative on the board of directors of the Venture Capital Fund will ensure compliance with these environmental policies.

## VI. COMPLIANCE WITH MIF ELIGIBILITY CRITERIA

- 6.1 The proposal is compatible with the criteria which allow investment in the registered equity of nongovernmental organizations that are establishing or expanding services to microenterprises or small businesses, pursuant to Article III, section 4(c), of the Agreement Establishing the MIF. Likewise, the nonreimbursable financing component is based on the following considerations: (i) the Donors Committee declared Chile eligible for all types of financing on October 6, 1993; (ii) Chile meets the criterion of eligibility for grant funds as set out in Article 3, section 5(b), of the Country Eligibility Memorandum; (iii) the proposed project will have a significant catalytic effect on investment resources, as required pursuant to Article 3, section 5(a), of the Agreement Establishing the MIF.

## VII. FOLLOW-UP AND EVALUATION

- 7.1 The innovative nature of the project and the need to adapt it to the characteristics of technology transfer and market processes suggested intensive follow-up and three evaluations.
- 7.2 To facilitate project follow-up, in addition to the necessary financial information required in the Bank's execution procedures, twice a year Fundación Chile must submit to the IDB for its information a preliminary list of projects for analysis in the following six months. Annual visits will also be made to the Venture Capital Fund to visit the businesses in which it has invested and ensure compatibility with investment criteria and policies and in addition, ensure that they comply with the environmental regulations which the Venture Capital Fund must observe.
- 7.3 The project is considering carrying out the first evaluation 18 months after the first disbursement, the second at the end of the third year, and the third one, one year after execution is finalized. To carry out these evaluations, Fundación Chile will contract an independent consulting firm through the Executing Unit.
- 7.4 The first evaluation should focus on a review of project start-up, particularly the establishment of the TTF and the Venture Capital Fund, their operational and decision-making autonomy, the efficiency of the process of selecting technology transfer

projects, and compliance with the financial commitments of the executing agency. The second evaluation will also concentrate on the yields of the technology transfer projects, their environmental impact and their commercial development.

- 7.5 The final evaluation has two objectives: (i) to present an overall view of project execution, analyzing the successes and difficulties encountered; and (ii) to show the actual impact of the project on the introduction of new technologies, the supplying of support to an institution in another country, its impact on the environment and the sustainability of natural resources.
- 7.6 The methodology of evaluation must consider the following criteria: (i) the technology transfer projects carried out; (ii) the compatibility of the activities carried out by the TTF and the Venture Capital Fund; (iii) the number of businesses which have been successfully created; (iv) the recovery level of the TTF; and (v) the impact of the project on the production system and small businesses, in terms of employment, growth, and exports; and (vi) the effects on the environment of the innovations acquired. The Bank, through the project team and the Evaluation Office can offer technical-cooperation support in preparing this methodology.

## VIII. VIABILITY, BENEFITS AND RISKS

### A. Viability

- 8.1 The viability of the project is based on three factors: (i) the capacity, experience and prestige of Fundación Chile in technology transfer projects; (ii) the separation of decisions on innovation from decisions on investment and commercial development, through the creation of a private company to administer the Venture Capital Fund; and (iii) an undertaking from private agencies to invest in the Venture Capital Fund, to facilitate the selection of the Fund Administrator, a key element in its success.

### B. Benefits

- 8.2 The project gives priority to three important aspects: (i) attracting private investment to areas of technological risk, where the business sector would hesitate to invest alone, (ii) making industrial use of natural resources and diversifying exports; and (iii) decentralizing investments to areas with economic and competitive potential, in which small producers have difficulty in converting their activities and becoming competitive. This project will support the establishment in Chile of new technology-based small businesses.

- 8.3 In the first four years of the TTF, it is felt that 16 technology transfer projects can be carried out, at an average value of US\$350,000 each, with a maximum value of US\$450,000. In addition, the Venture Capital Fund will allow for about 44 investments, in an average amount of US\$750,000. Lastly, an agency in another country of the region will be strengthened through the transfer of the Fundación Chile experience.

C. Risks

- 8.4 Program execution entails the following potential risks:
- 8.5 The implementation of technology transfer projects involves a risk of yielding results which may not be applicable commercially. To reduce this risk, the following are envisaged: (i) careful selection of project ideas, in which representatives from the business sector will participate; and (ii) preliminary market studies, prior to approval of the project.
- 8.6 Fundación Chile has had limited experience with the successful commercial development of technology transfer projects. The project proposes professional, management by a private company of the analysis and selection of investments made by the Venture Capital Fund. In addition, the project envisages participation in the Venture Capital Fund by private investors, who will contribute their knowledge and experience to the successful commercial development of a project. Said private contributors may participate as majority shareholders in the Venture Capital Fund.

## Framework for project implementation

| DESCRIPTION   | INDICATORS   | CHECKLISTS   |
|---|--|--|
| <p>...s competitive advantages with the introduction of new ... in a context of sustainable exploitation of natural resources</p>   |  |  |
| <p>...n of a technology transfer mechanism which includes the ... and the investment phase. In particular:</p> <p>...d dissemination of technology</p> <p>...s in new technology-based small businesses, which apply new ... es</p>   | <ul style="list-style-type: none"> <li>- 80% of projects have gone on to the commercial phase and been converted to businesses</li> <li>- 80% successful investments: the companies in which investments have been made have increased sales by 20% per year</li> <li>- Reduction of the environmental impact of the new investments in relation to the corresponding sector</li> <li>- Two companies on average adopt each technology transferred</li> </ul>  | <ul style="list-style-type: none"> <li>- Reports of ex post evaluation</li> <li>- Reports of MIF representing the Venture Fund commercial information on the companies in which investments were made</li> <li>- The sectoral standards of the National Environmental Commission and the environmental impact as a component in the evaluation reports.</li> </ul> |
| <p><b>TS</b></p> <p>...<br/> <b>transfer and adaptation of technology.</b> The key element is ... of the Technology Transfer Fund (TTF) through which specific transfer projects can be carried out, in particular in the ... umber and agroindustry sectors. The Fund is of the revolving ... y the receipts from sales of technology.</p> <p>...<br/> <b>tal Fund.</b> The fund, which will be managed independently, ... the commercial phase of technological development, investment ... based small businesses.</p> | <p><b><u>Component 1</u></b></p> <ul style="list-style-type: none"> <li>- 16 projects carried out over four years: year 1 - 3 projects; year 2 - 5 projects; year 3 - 5 projects; year 4 - 3 projects.</li> <li>- TTF recovery exceeds 70%</li> <li>- Fundación Chile experience has been transferred to an agency in another country of the region.</li> </ul> <p><b><u>Component 2</u></b></p> <ul style="list-style-type: none"> <li>- Approximately 40 investments have been made.</li> <li>- Resources have been mobilized in an amount 5 times higher than the capital contribution of MIF.</li> </ul> | <ul style="list-style-type: none"> <li>- Evaluation reports</li> <li>- Progress reports</li> <li>- Audited financial statements of the Venture Capital Fund</li> <li>- Annual reports of the MIF supervisor.</li> </ul>  |

| DESCRIPTION   | INDICATORS  | CHECKLISTS  |                 |               |                   |               |   |   |
|---|---|---|-----------------|---------------|-------------------|---------------|---|---|
| <p><b>Transfer and adaptation of technology</b></p> <p>Implementation of pre-competitive technology transfer projects. The activities are:</p> <ul style="list-style-type: none"><li>Analysis and selection of projects;</li><li>Research;</li><li>Search for investors and marketing of the technology.</li></ul> <p>Dissemination of technology. For this purpose, relevant information will be made available to potential users/purchasers of the technology introduced.</p> <p>Use of the institutional experience of Fundación Chile. A similar project in another country of the region will be supported through: management assistance</p> <p>Planning</p> <p>Implementation of a pilot project for transfer of technology</p> | <ul style="list-style-type: none"><li>- The Executing Unit and the board of directors are set up for the execution and administration of the program: US\$320,000 (US\$20,000 MIF)</li><li>- Each year, at least 10 project proposals will be examined. US\$100,000 (US\$50,000 MIF) have been budgeted for examination and selection has been budgeted.</li><li>- Project implementation will have an average cost of US\$350,000, with a maximum of US\$400,000. US\$5,300,000 (US\$2,500,000 MIF)</li><li>- 20 technology dissemination activities carried out in the third and fourth years.</li><li>- In the third year, the counterpart institution benefitting from adaptation of the technology has been selected. Budget: US\$20,000 (MIF)</li><li>- In the fourth year, activities related to transfer of experience will be carried out. Budget: US\$180,000 (MIF)</li></ul> | <ul style="list-style-type: none"><li>- Progress reports</li><li>- Evaluation reports</li><li>- Annual audits of the project</li><li>- Report of completion of the experience</li></ul> |                 |               |                   |               |   |   |
| <p><b>Capital Fund</b></p> <p>Management of the Fund Administrator, an investment company, with Fundación Chile and private investor capital</p> <p>Management of the Fund and of the investments in technology-based businesses. The Fund will be composed of the following investors:</p> <table><tr><td></td><td>US\$3,000,000</td></tr><tr><td>Fundación Chile</td><td>US\$3,000,000</td></tr><tr><td>Private investors</td><td>US\$2,000,000</td></tr></table> <p>Private investors ..... contribute a line of quasi-capital</p>   |   | US\$3,000,000   | Fundación Chile | US\$3,000,000 | Private investors | US\$2,000,000 | <ul style="list-style-type: none"><li>- During the first year following project approval, the Trust has been set up.</li><li>- Close of the Fund's financial package</li><li>- It is proposed that 50% of the capital committed to the Fund be disbursed on closing. A year after the first closing, the next 25% of the committed funds will be disbursed and the remaining 25% after two years</li><li>- At least 15% of the Venture Capital Fund resources will be invested each year.</li><li>- Approximate return: 20%</li><li>- In the fifth year of the Fund, it is expected that at least 75% of resources will be invested in businesses.</li><li>- In the fifth year of the Fund, a diversification of the investment portfolio will have been achieved such that no industry represents more than 30% of the portfolio.</li><li>- The divestment will occur beginning in the eighth year of the Fund's life.</li><li>- Exit mechanisms will be used, which may include a selling option, sales to strategic partners or, where possible, through the stock exchange.</li></ul> | <ul style="list-style-type: none"><li>- Management contract</li><li>- Shareholders' agreements</li><li>- Minutes of the meetings of the board of directors of the Capital Fund</li><li>- MIF yearly evaluation report</li><li>- Audited yearly and unaudited quarterly financial statements</li></ul> |
|   | US\$3,000,000   |   |                 |               |                   |               |   |   |
| Fundación Chile   | US\$3,000,000   |   |                 |               |                   |               |   |   |
| Private investors   | US\$2,000,000   |   |                 |               |                   |               |   |   |

PROPOSED RESOLUTION

CHILE. NONREIMBURSABLE TECHNICAL COOPERATION AND EQUITY INVESTMENT FOR  
A PROGRAM FOR DEVELOPMENT AND INVESTMENT IN SMALL TECHNOLOGY FIRMS

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. To approve a nonreimbursable technical cooperation for up to the amount of three million United States dollars (US\$3,000,000) to finance a Program for Transfer and Adaptation of Technology, jointly with the Fundación Chile, with the purpose of promoting the development and the transfer of technology to small technology firms in Chile.

2. To approve an equity investment of up to the amount of three million United States dollars (US\$3,000,000) to subscribe and pay for shares in the corporate capital of a Venture Capital Fund, to be established jointly with the Fundación Chile and other investors, with the purpose of providing financial assistance to small businesses in Chile, in the form of equity and quasi-equity investments, debt obligations and other types of commercial paper issued by such businesses.

3. To authorize the President of the Inter-American Development Bank, or such representative as he shall designate, to enter into such agreements, in the name and on behalf of the Multilateral Investment Fund, as may be necessary and to take such additional measures as may be pertinent to effect the non-reimbursable technical cooperation and the equity investment mentioned in paragraphs 1 and 2 as provided in Document MIF/AT-\_\_\_\_, establishing such other terms and conditions as it considers appropriate for the adequate protection of the interests of the Multilateral Investment Fund.

4. To establish that the sums indicated in paragraphs 1 and 2 above are chargeable to the resources from the following facilities of the Multilateral Investment Fund: (a) the operation referred to in paragraph 1, to the resources from the Technical Cooperation Facility; and (b) the operation referred to in paragraph 2, to the resources from the Small Enterprise Investment Fund of the Small Enterprise Development Facility.

INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND  
**MEMORANDUM**

Original: Spanish

**File classification:**

**Date:** December 17, 1996

**To:** The Donors Committee

**From:** Donald F. Terry, Manager  
Multilateral Investment Fund

**Subject:** Chile. Program for development of and investment in small technology-based firms. Additional information (reference document MIF/AT-110)

At its last meeting, the Donors Committee was advised of the successful outcome of the negotiations with a number of private investors on their participation in the Venture Capital Fund (second component of the above-mentioned project).

We hereby confirm that on December 10, 1996, the Office of the MIF received formal confirmation from the President of VENTANA, a venture capital company, of his firm's commitment to participate in this Fund, jointly with the MIF and Fundación Chile, with a contribution of US\$15 million. The notice of confirmation, signed also by Fundación Chile's Development Manager, sets out the basic features of the Fund and its operations, as described in paragraphs 3.22 to 3.24 and 3.26 of document MIF/AT-110.

The aforesaid confirmation also mentions the possibility of a contribution to the Fund by Corporación de Fomento de Chile (CORFO) in the form of quasi-equity financing. This contribution is based on a program of support for equity operations in high-risk areas, as agreed on in talks between CORFO and Fundación Chile.

As a result of VENTANA's formal commitment, we can better establish the make up of the Fund and the contributions of the other investors (in addition to the MIF and Fundación Chile). The indicative amounts are shown below: