Challenges in Funding Markets for MSMEs in Chile

CORFO

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The Chilean Financial Market Structure

Chile has a diverse range of financial institutions that service the retail, MSME and corporate business segments.

- **20 banks** and 4 branches of foreign banks, all regulated by the Superintendency of Banks and Financial Institutions (SBIF).

- **Financial institutions** as well as corporate and large size companies have broad access to funding, domestic and international, at competitive rates (Chilean sovereign risk is currently trading between 60 and 70 bp levels).

- **Over 1,300 Savings & Loans Cooperatives**, 7 of which are supervised by the SBIF.

- **Over 130 factoring services companies**.

- **Regulation** for major financial institutions is carried out by the Superintendency of Banks and Financial Institutions.
MSMEs funding and interest rates

Interest rates dispersion: FOGAIN (Corfo’s main guarantees program) November 2014

- FOGAIN is Corfo’s main credit guarantees program, guaranteeing over USD 1 billion on commercial loans amounting to USD 1.8 billion.
- There is a significant difference among companies of different scale with respect to minimum and maximum interest rates charged by financial intermediaries.
Difference between interest rates for large and small size enterprises in OECD countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Definition of MSMEs</th>
<th>Spread (Difference between interest rates for large and small size enterprises)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Annual sales &lt; 100,000 UF</td>
<td>8,40%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Under 100 employees</td>
<td>3,82%</td>
</tr>
<tr>
<td>Canada</td>
<td>Under 250 employees</td>
<td>1,40%</td>
</tr>
<tr>
<td>France</td>
<td></td>
<td>3,69%</td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td>3,40%</td>
</tr>
<tr>
<td>Finland</td>
<td></td>
<td>3,23%</td>
</tr>
<tr>
<td>Italy</td>
<td>Under 250 employees</td>
<td>1,70%</td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
<td>1,35%</td>
</tr>
<tr>
<td>Hungary</td>
<td></td>
<td>1,30%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Under 300 employees</td>
<td>0,96%</td>
</tr>
<tr>
<td>Korea</td>
<td>Under 300 employees</td>
<td>0,55%</td>
</tr>
</tbody>
</table>

Source: Financing SMEs and Entrepreneurs 2013: An OECD Scoreboard
Variations in the difference between interest rates for large and small size enterprises in OECD countries

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard. Excludes the Netherlands (-2.00, -2.70) and Mexico (-2.62, -2.56).
Public Support for MSME Financing

- Corfo's Investment & Financing Department’s main mission is to provide solutions in order to improve access to funding for MSMEs that seek productive development by means of innovation and entrepreneurship, among others, developing more competitive markets, through financial intermediaries.

- Corfo’s Investment & Financing Department seeks to fulfill its mission through the development of different credit guarantees and funding programs targeted at the different needs that final beneficiaries have.

- Corfo currently manages 4 credit guarantees programs and 1 funding program aimed at MSMEs.
In terms of GDP percentage, Chile exhibits a relevant penetration level in the global credit guarantees systems.


Note: Data for Chile is dated December 2013.
Coverage of Corfo’s Credit Guarantees Programs

Approximately 15% of MSMEs in Chile access funding with the support of Corfo’s Credit Guarantees Programs.

Source: Corfo, data as of October 2014
Very few financial intermediaries explain a large proportion of commercial loans

- 73% of micro enterprises loans are explained by 1 financial intermediary.
- In the medium size enterprises category, 3 financial intermediaries explain 52% of total loans.

Source: Corfo, data as of October 2014
Average term (in months) for commercial loans using Corfo’s Credit Guarantees Programs

Average term for Corfo’s main guarantees program (FOGAIN), in terms of stock, has been decreasing steadily since 2010, for working capital needs as well as for investment loans.

Source: Corfo, 2010-2015
Corfo’s Credit Guarantee Programs

- **FOGAIN**: guarantees MSME commercial loans destined for productive investment and working capital. Eight year old program guaranteeing over USD 1.8 billion in loans.

- **COBEX**: guarantees MSME export commercial loans for productive investment and working capital. Ten year old program guaranteeing over USD 250 million in loans.

- **PRO INVERSIÓN COBERTURA**: guarantees MSME long term commercial loans and leasing operations destined for productive investment. New program to be launched in May 2015.

- **IGR COBERTURA**: guarantees loans to MSMEs by means of mutual guarantee societies. New program to be launched in May 2015.
Short term and medium term policy measures for MSME funding in Chile

1. To promote greater competition among intermediaries in the Chilean financial system.
   - Focus on the development of non banking financial intermediaries and technical assistance programs.
   - Focus on new funding programs for non banking financial intermediaries.

2. To design programs that allow for improvements in basic funding features for final beneficiaries (interest rate levels, longer terms, increased loan amounts).

3. To promote mechanisms for a higher quality flow of information for better decision making by final beneficiaries.
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