

# Challenges in Funding Markets for MSMEs in Chile

CORFO

April 2015



Gobierno  
de Chile

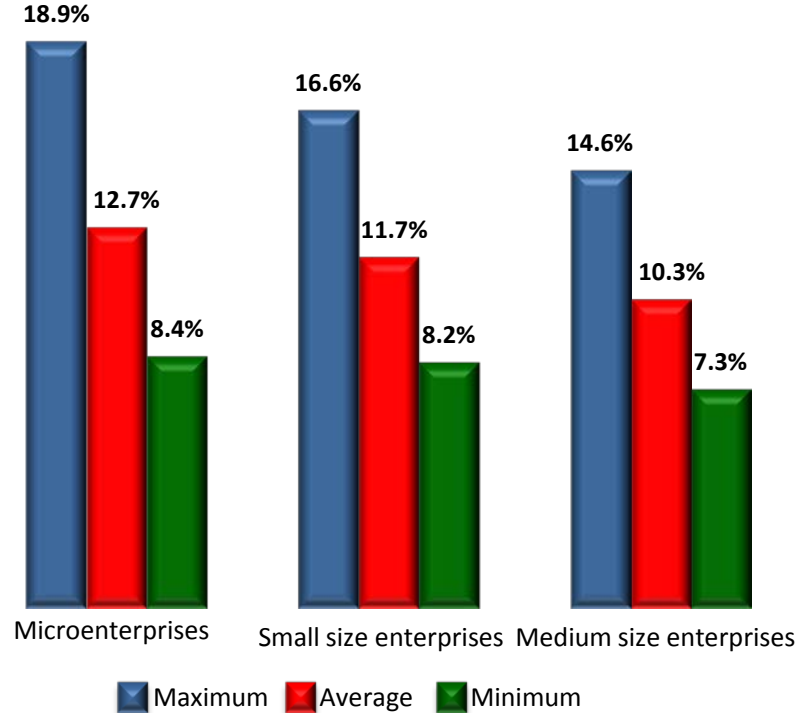
# The Chilean Financial Market Structure

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.

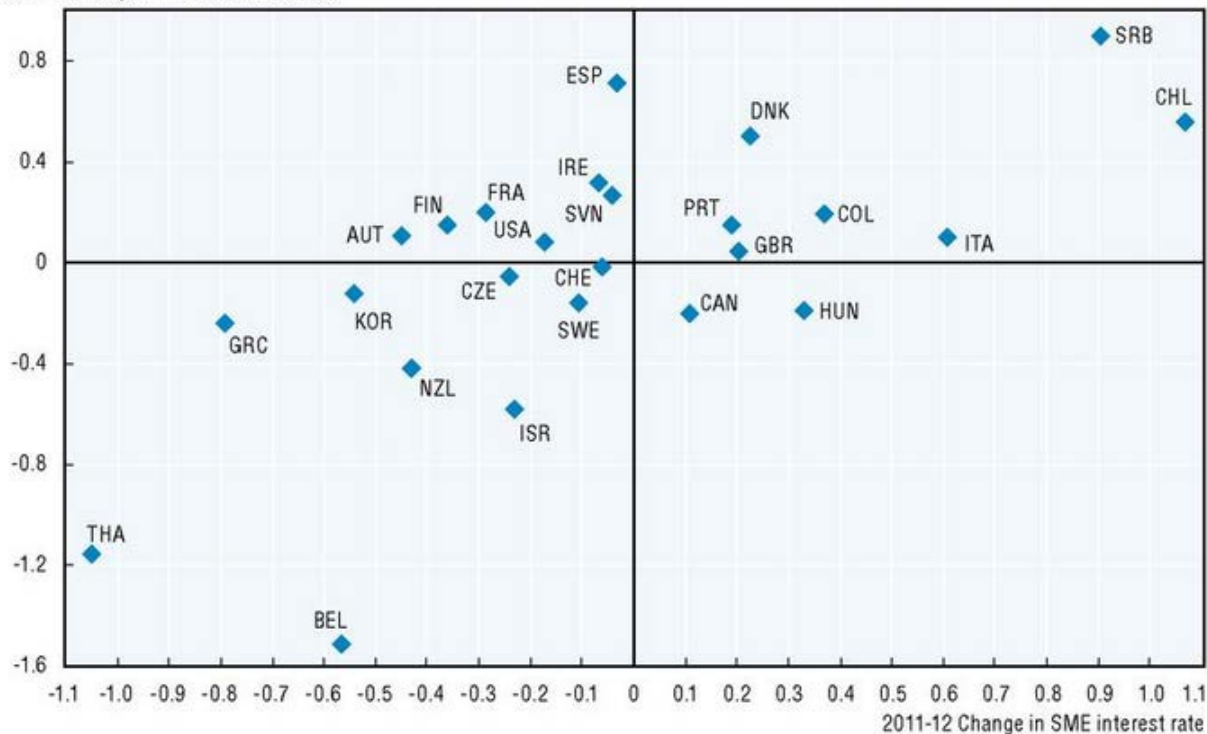
# Difference between interest rates for large and small size enterprises in OECD countries

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

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

2011-12 Change in interest rate spread



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).

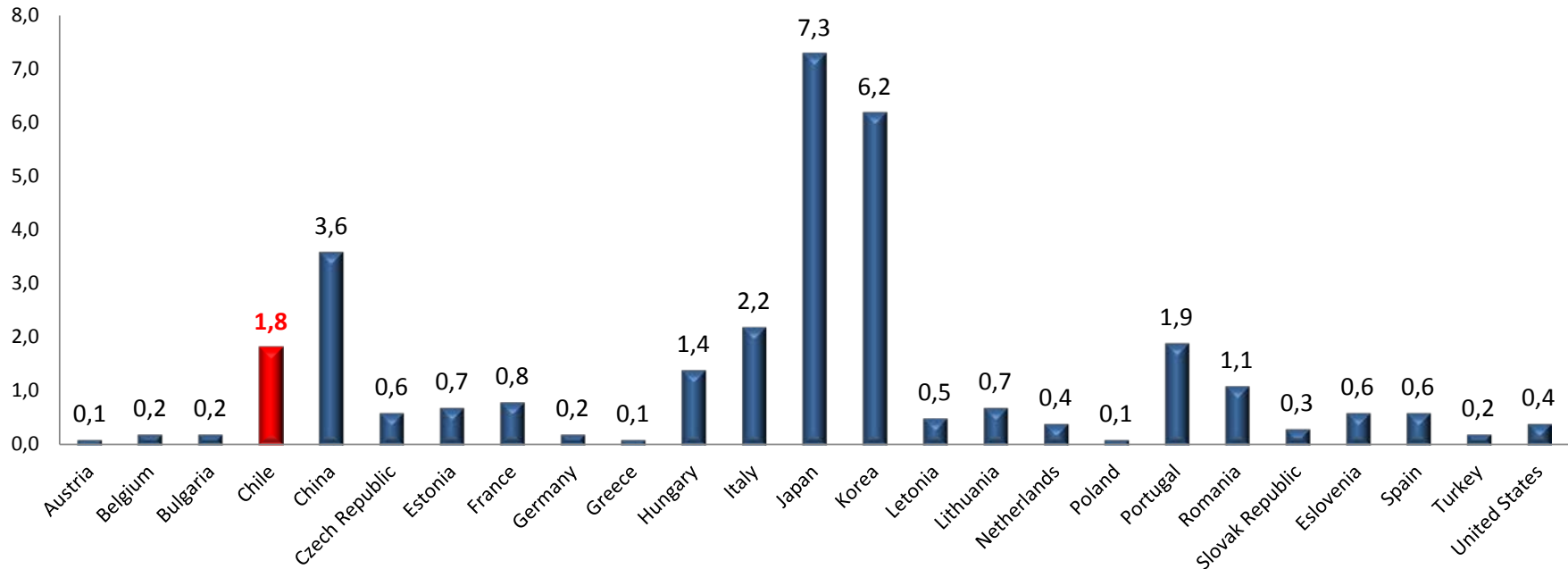
# Public Support for MSME Financing

- 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.

# World Guarantees Systems

In terms of GDP percentage, Chile exhibits a relevant penetration level in the global credit guarantees systems.

**World Guarantee Systems: Outstanding Stock, 2011**  
As a percentage of GDP

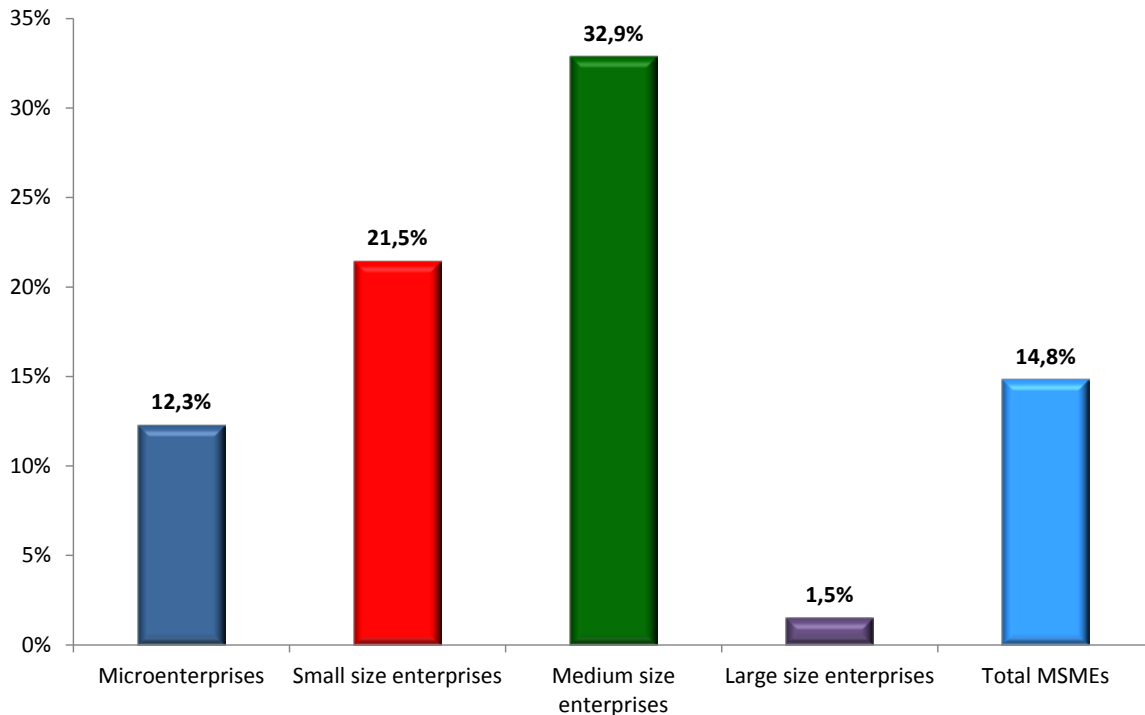


# Coverage of Corfo's Credit Guarantees Programs



## Market share of Corfo's Credit Guarantees Programs

As a percentage of total companies per business segment that have outstanding loans



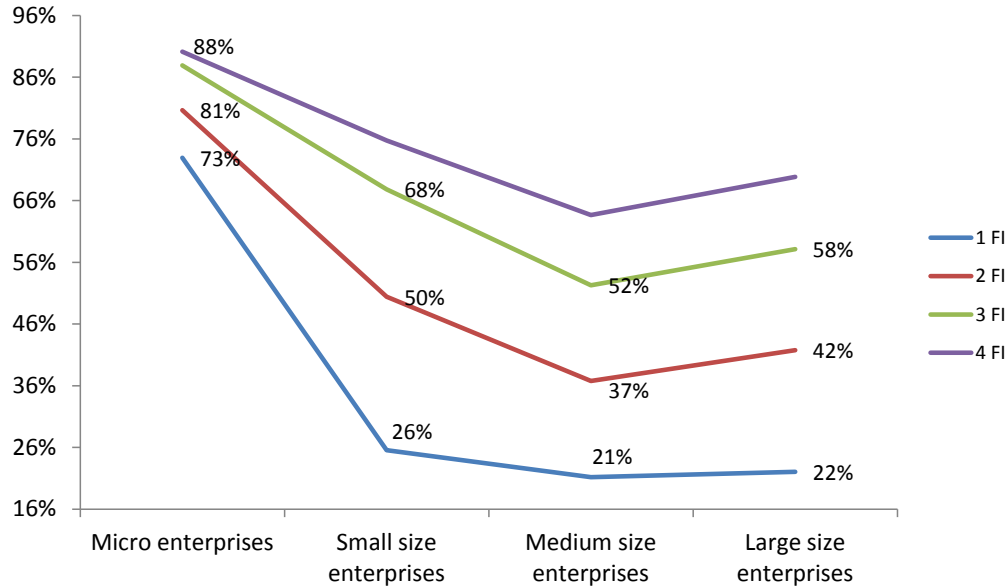
- Approximately 15% of MSMEs in Chile access funding with the support of Corfo's Credit Guarantees Programs.

Source: Corfo, data as of October 2014



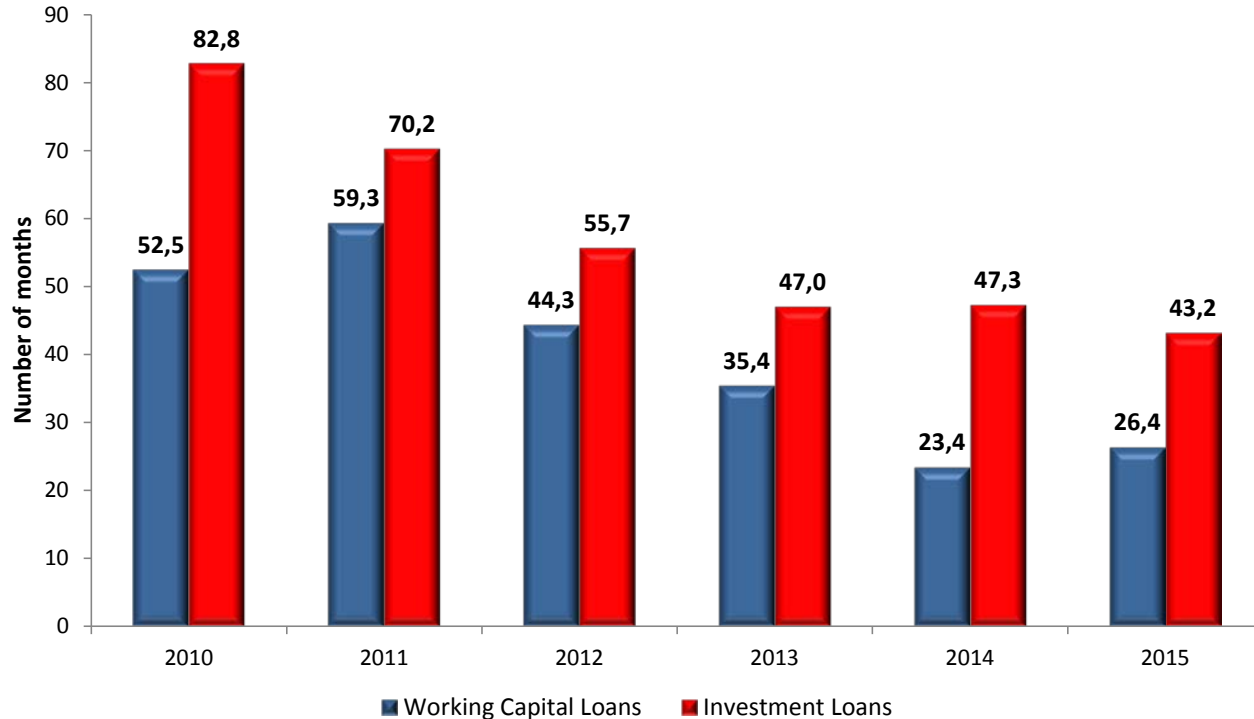
# Very few financial intermediaries explain a large proportion of commercial loans

Corfo Credit Guarantees Programs: Concentration level of financial intermediaries measured as total loans according to enterprise size



- 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.

# 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.

# 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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