

# Challenges in Funding Markets for MSMEs in Chile

CORFO

April 2015

## The Chilean Financial Market Structure

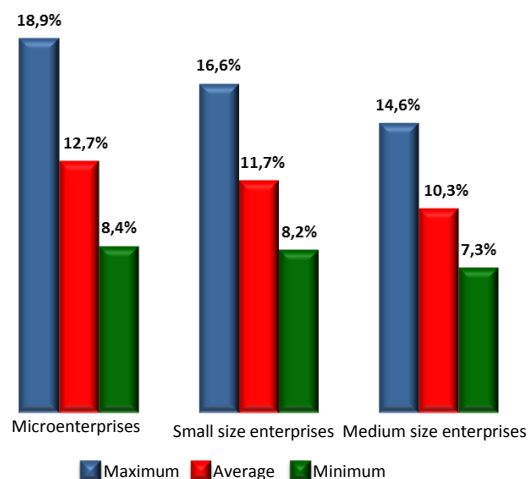
Chile has a diverse range of financial institutions that service the retail, MSME and corporate business segments.

- **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 3 billion** on commercial loans.
- There is a **significant difference** among companies of different scale **with respect to minimum and maximum interest rates** charged by financial intermediaries.

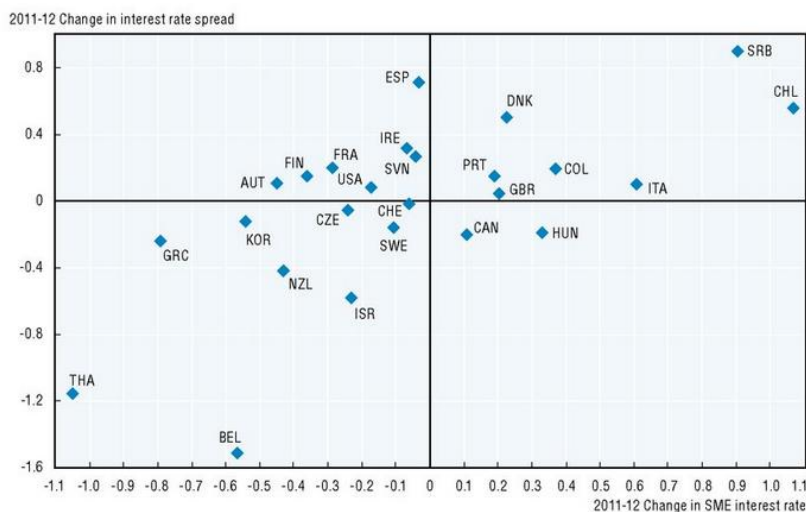
## Difference between interest rates for large and small size enterprises in OECD countries



Country	Definition of MSMEs	Spread (Difference between interest rates for 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		3,69%
Denmark		3,40%
Finland		3,23%
Italy	Under 250 employees	1,70%
Ireland		1,35%
Hungary		1,30%
Czech Republic		0,96%
Korea	Under 300 employees	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



## Public Support for MSME Financing



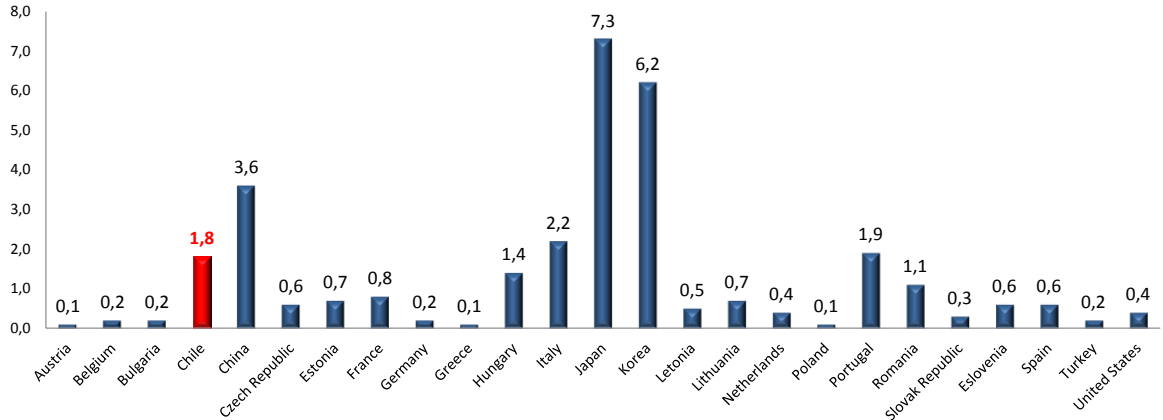
- Corfo's Investment & Financing Department's main mission is **to provide solutions in order to improve access to funding for MSMEs that seek productive development** by means of innovation and entrepreneurship, among others, developing more competitive markets, through financial intermediaries
- Corfo's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

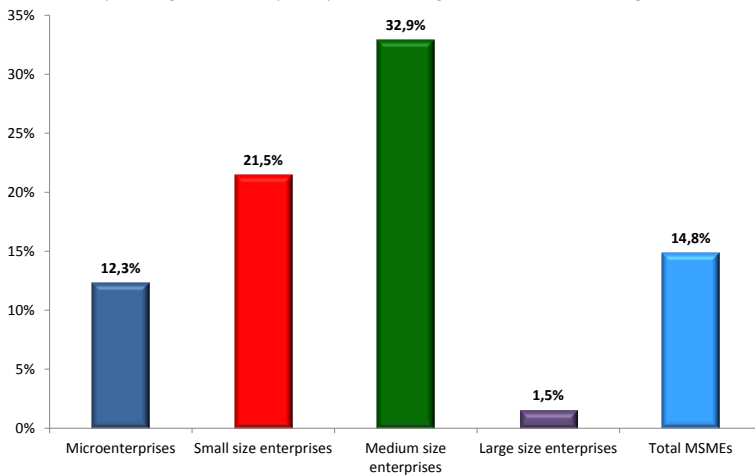


Source: SME and Entrepreneurship Financing: The Role of Credit Guarantee Schemes And Mutual Guarantee Societies in supporting finance for small and medium-sized enterprises, OECD (2013).  
Note: Data for Chile is dated December 2013

# 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



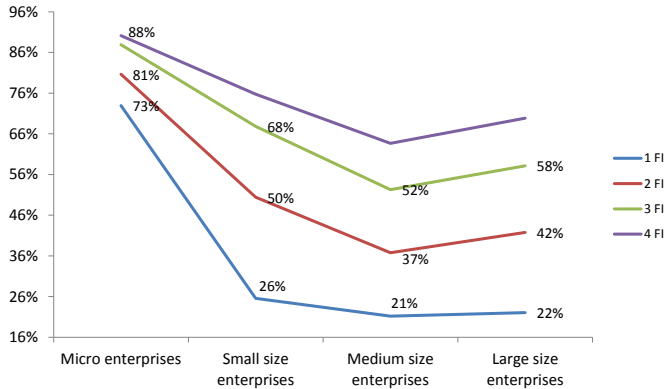
■ Approximately 15% of MSMEs in Chile access funding with the support of Corfo's Credit Guarantees Programs.

Source: Corfo, data as of October 2014

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



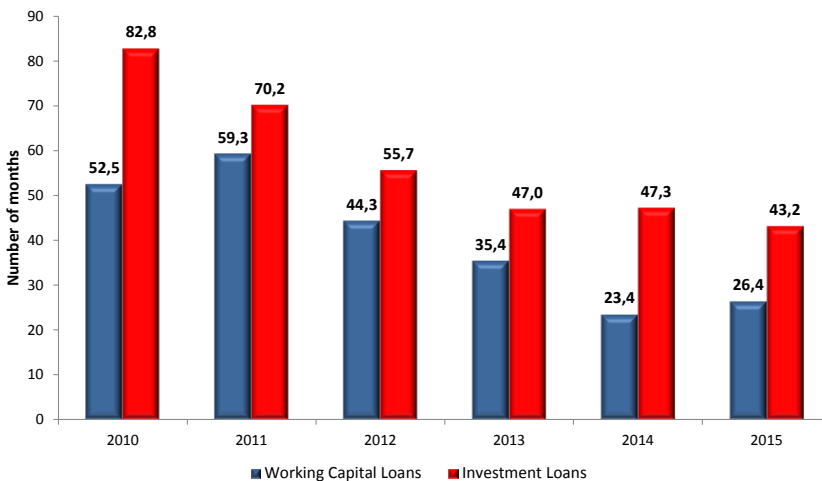
Corfo Credit Guarantees Programs: Concentration level of financial intermediaries measured as total loans according to enterprise size



- 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.

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

## 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

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## 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.