



Restricted Distribution
LC/BUE/R.223/A
December 1995
Original: English

E C L A C

Economic Commission for Latin American and the Caribbean

Buenos Aires Office

FINAL REPORT:

**THE CHILEAN PUBLIC SUPPORT POLICY FOR SMALL AND
MEDIUM ENTERPRISES IN THE AREAS OF TECHNOLOGY,
QUALITY AND FINANCING**

Virginia Moori-Koenig



8 ABR 1996

Opinions expressed are those of the author and do not necessarily represent the views of the Organization.

This study was supported by the International Development Center of Japan under a Project "Strategies and Industrial Policy Tools Aimed at SMEs".

TABLE OF CONTENTS

Introduction

1.	Focus of the SMEs Support Tools and Programs	1
2.	Instruments of the National SMEs Support Program and the Science and Technology Program	4
2.1	Support to SMEs in the area of <u>financing</u>	4
	a) Relative to resource availability	9
	b) Relative to access to financing	13
2.2	Support to SMEs in the <u>technological</u> transfer and <u>innovation</u> area	17
	a) Relative to financing	20
	b) Relative to technological transfer and technical assistance	23
2.3	Support to SMEs in the area of <u>quality</u> and <u>productivity</u>	28
3.	The Most Important Institutions which Support SMEs	29
4.	Main Aspects of the Government's Balance and Orientation of Future Actions	38
	a) Financing area	38
	b) Technological transfer and technical assistance area	38
5.	Conclusions	40

Annex

Bibliography

Introduction

This report aims at analyzing the present public policy and SMEs institutional support system in Chile, specially in the areas of financing, quality management and technological development. It has two main objectives. The first one is to describe public tools and programs for SMEs' financial support and the support programs provided by public and private agencies to these enterprises, specially those related to financing, quality management and technological development. The second objective is to carry out an analysis of the institutional support system and the role of public and private sector in the mentioned areas.

This study is divided into five sections. In the first one, the guiding approach of SMEs public support policy, the official definition of firms' size, and the criteria used by the government in tool design are presented. The second and third sections, deal with the main support tools related to the financing, innovation, technological transfer and management quality, including recent changes in their implementation. Additionally, there is a summary of the official view regarding the major restrictions SMEs face in the mentioned areas.

In the following sections the most significant public and private institutions supporting SMEs are described (third section), there is a summary of the official evaluation on the performance of the public policy (fourth section) and, finally, in the last section the main conclusions on the Chilean SMEs public support policy experiences are presented.

The main sources of information used for this report are the following:

- i) Official and governmental publications and reports on SMEs' financial support public policy.
- ii) Interviews with experts of public and private Chilean agencies assisting SMEs:
 - FONDO NACIONAL DE DESARROLLO TECNOLOGICO (FONTEC) (Technological Development Fund) and the GERENCIA DE DESARROLLO TECNOLOGICO DE CORFO (CORFO's Technological Development Office): Jorge Olivares Castro, Chief of the Operations Department.
 - GERENCIA DE INTERMEDIACION FINANCIERA DE CORFO (CORFO's Financial Intermediation Office): Roberto Hempel, Manager of Financial Intermediation and Jose Carballed Parodi, Chief Financial Intermediation Products Area.

- SUBGERENCIA DE FOMENTO DE CORFO (CORFO's Financial Support Section) Maria Eugenia Salas Zuñiga, Chief, Financial Support Section.
- PROGRAMA DE INNOVACION Y TRANSFERENCIA/OBSERVATORIO TECNOLOGICO/CENTRO EMPRESARIAL DE CALIDAD TOTAL/INSTITUTO DE INVESTIGACIONES TECNOLOGICAS (Innovation and Transfer Program/Technological Observatory/Total Quality Entrepreneurial Center/Technological Researches Institute): Maria Angelica Moreno, Marketing Director, INTEC.
- INSTITUTO NACIONAL DE NORMALIZACION (National Standardization Institute): Hernan Pavez Garcia, Executive Director
- CENTRO DE PRODUCTIVIDAD INDUSTRIAL (CEPRI) (Industrial Productivity Center): Mario Marcel Ahumada, President; David Quiroga Cortez, Operation Area Coordinator; Hector Goldfasrb Sklar, Studies Manager; Carlos Ary Rodrigues, Coordinator of the Labor Affairs Area.
- CENTRO NACIONAL DE LA PRODUCTIVIDAD Y LA CALIDAD (CNPC) (National Quality and Productivity Center): Eugenio Diaz Corvalan.

1. Focus of the SMEs' Support tools and Programs

SMEs' productive modernization and technological development are high priority for Chilean public policy. In 1991, the National Small and Medium Enterprises Support Program was launched, and in 1992, a new Technology and Science Program was implemented. Both programs are currently in operation, but they are being evaluated and their delivery and implementation methodology is being redefined. The coordination of the first program is in the hands of the Corporación de Fomento de Chile (CORFO) (Support Corporation of Chile), while the Ministry of Economy is in charge of the second.

Besides, recently the public and private sector have boosted initiatives and activities in the quality and productivity management areas aimed at supporting and spreading changes in management, the introduction of new models and entrepreneurial development methods and the implementation of competitiveness and productivity strategies, in the productive private sector.

The Technology and Science program, aimed at financing infrastructure, service and research projects both in universities and research institutions, and in manufacturing enterprises. It is not restricted to SMEs. However, through the instruments of the institutions involved in the SMEs Support Program, it relates with these segment of firms.

It is considered that SMEs productive modernization is a complex medium term process, involving the interaction of different factors, apart from those related to the macroeconomics and regulatory framework of the economy. Among them:

- Access conditions to market and factor resources;
- Specialized services, qualified human resources supply;
- Corporate-institutional cooperation networks;
- Entrepreneurial management and production organization;
- Competitive strategy and market extension design;
- Process and machinery obsolescence;
- Product, method and procedure standards;
- Technological capability acquisition.

The SMEs Support Program contains a set of actions and instruments aimed at systematically correcting the main restrictions faced by SMEs in their productive modernization process. It favors market strengthening and SMEs' access to it in all its dimensions: commercial, financial, technological, training, etc.

Instrument design and implementation are based on the following criteria:

- Instruments must be neutral as regards areas and sectors (horizontal type) and be turned to massive use;
- they must foster enterprise association and connection with specialized technical services supply;
- they must positively discriminate enterprises of smaller economic size;
- they must promote regionalization;
- they must correct market distortions;
- they must develop service markets from private agents with higher levels of specialization and coverage;
- they must strengthen or promote the development of second level public and private organizations.

With this focus on the program, the national government tends to become a promoting and coordinating agent for the SMEs public policy. It drops its role of direct assistant regarding this sector, to perform the function of promoting market development, facilitating access to markets and enhancing cooperation ties between entrepreneurs and institutions. Instruments increasingly tend to be managed by public agencies, ONGs, and private institutions; while specialized services are mostly provided by private agents. In the medium term, it seeks to eliminate intermediation in the operation of instruments, particularly in entrepreneurs associations.

Second and third level agencies¹ (private and public) and regional branches of the national government play a central role in promoting associative practices, rescuing local/area/regional specific features, making instruments available to local enterprises, strengthening the offer of specialized consultants, and in some cases in managing instruments.

Even though there is not a standard definition of firm size and it adjust to each specific policy, most state institutions and private ones (NGOs as well), classify enterprises size according to the following criterion:

<i>Size</i>	<i>Annual sales in Financial Units (UF)</i>
micro	less than 2,400
small	from 2,401 to 25,000
medium	from 25,001 to 50,000
large	more than 50,000

¹ "First and second level agencies" are those entrepreneurial entities gathering firms and/or entrepreneurs. In some cases, they belong to the same industrial branch, in other cases, they belong to the same territorial area. The "third level" ones group chambers and federations. The entrepreneurial association system is a "waterfall" system. At the top there are some national industrial unions, at the following level there are federation and regional chambers. Downwards, there are a large amount of sectoral chambers and entrepreneurial industrial and trade local chambers.

The Financial Unit (UF) is set by the Central Bank of Chile on a daily basis, according to the average geometric rate corresponding to the consumer price index variation of the previous month. The UF is used in financial instruments and to determine granted loans in the financial system.²

² 1 UF = U\$S 30 = 11.200 ch\$ (21-August-1995).

2. Instruments of the National SMEs Support Program and the Science and Technology Program

This section describes briefly the main instruments corresponding to the financing, innovation, technological transfer and quality management areas, and the recent changes in their methodology (refer to Table 1 and 2). Also, there is a summary of the official point of view on the main restrictions faced by SMEs. As mentioned before, the National SMEs Support Program is connected -through CORFO and its instruments- to the activities set in the Science and Technology Program of the Ministry of Economy, which mainly handles funds directed to technological innovation and development of technological transfer centers (FONTEC and FONDEF); as well as with other initiatives being implemented both at the official and at the private level.

2.1. Support to SMEs in the area of financing

The restrictions faced by SMEs are not only linked to the lack of available resources but also to the difficulty in gaining access to them:

- The little reliability of the economic information provided by the firms. This is usually incomplete, hardly standardized, and increases the cost of bank services because it obstructs project evaluation and study, loan risk assessment and the management of a large small- client portfolio.
- The high rate of indebtedness of SMEs loans due to the banks' difficulty in assessing the implicit loan risk. This is due both to the presentation of incorrectly formulated projects and to the banks' lack of analysis techniques appropriate for this segment of enterprises.
- The little development of modern loaning practices which give priority to cash flow and economic analysis rather than to real guarantee analysis.
- The high cost of loans for SMEs due to the increase in transaction costs for operations with these enterprises which result in higher interest rates and commissions and shorter loan terms.
- The SMEs' scarce possibilities of meeting the demand of traditional collateral usually required by the financial system.
- The limited development of a transparent competitive market of SMEs specialized financial consultants to act as a "bridge" between the financial system and the small entrepreneur, by organizing and submitting the required information in an adequate manner and proving project profitability with efficiency.

Within this framework of restrictions, the Program's actions and instruments are mainly oriented towards supplying resources in the long term, with grace periods and interest rates compatible with profitable investment projects, reducing the banks' transaction costs, improving firms' access to collaterals and project presentation, developing a specialized financial consultant market for SMEs, and encouraging and spreading the use of new SMEs evaluation techniques.

Instruments may be classified into two groups: a) those related to financial resource availability and b) those related to improvement of SMEs' access to financing in all of its dimensions.

Table 1. SMEs support instruments and programs

1. FINANCING AREA

a) Relative to resource availability

CORFO-BANKS Financial Intermediation Program
 CORFO-LEASING Financial Intermediation Program
 SMEs-Banco del Estado de Chile Program
 Loan line for non traditional exporters
 Line for refinancing loans oriented to purchase of capital goods and national engineering services
 Production credit card

b) Relative to access to financing

SUAF (CORFO), reducing transaction costs.
 CUBOS (CORFO), correcting guarantee deficiencies.
 CUBOS for exporters (CORFO) addressed to exports guarantee deficiencies
 ASSOCIATIVE GUARANTEE FUNDS, SERCOTEC AND ENTERPRISES, correcting guarantee deficiencies
 PRIVATE GUARANTEE FUNDS, FUNDES, ETC., correcting guarantee deficiencies.
 FONDO DE GARANTIA PARA EXPORTADORES NO TRADICIONALES DEL BANCO DEL ESTADO (FOGAEX) BANCO DEL ESTADO NON TRADITIONAL EXPORTERS GUARANTEE FUND, guaranteeing loans for exporters of non traditional products.
 GUARANTEE FLEXIBILITY, BANCO DEL ESTADO DE CHILE, promoting alternative SMEs evaluation criteria.
 CORFO CONSULTANTS RECORD, developing the specialized consultants market.

Table 1 (continued)

2. TECHNOLOGICAL TRANSFER AND INNOVATION AREA**a) Relative to financing**

FONTEC (CORFO), subsidizing and granting loans to enterprise innovation projects.

FONDEF (CONICYT), subsidizing universities, research centers and technological institutes.

b) Relative to technological transfer and technical assistance

TAF (DIFFERENT TIA), hiring subsidized specialized consulting hours.

TECHNOLOGICAL TRANSFER AND INNOVATION PROGRAM (INTEC, CORFO subsidiary), meeting specific technical assistance, and research and development needs.

TECHNOLOGY TRANSFER MANAGEMENT PROGRAM (CORFO-ONUDI), contributing to the creation of technological transfer centers).

PROFO (ANY INSTITUTION WHICH HAS SIGNED AN AGREEMENT WITH CORFO), contributing through subsidies to the formation of enterprise groups with the aim of improving competitiveness.

3. QUALITY AREA

QUALITY TAF (CORFO), subsidized technical assistance to implement quality programs.

Table 2. Financial Support System

<i>Instrument</i>	<i>Institution</i>	<i>Methodology</i>	<i>Beneficiary</i>
Financial Intermediation to ensure the cash flow of the financial system	CORFO	Bidding for multilateral external credit to finance investment projects	Leasing firms and commercial banks
SUAF to apply for credit and/or leasing, formulate or evaluate FONTEC's investment and technological innovation proj.	CORFO	Subsidizing contracts of SMEs specialized consultants. Such consultants are selected from CORFO's Consultant Record	SMEs (annual invoicing up to UF 25,000)
CUBOS to solve collaterals insufficiency	CORFO	Subsidy for insurance contracted by financial institutions. The CUBOS are the premium of such insurance and they are paid by CORFO which, in turn, offers them in bid periodically among financial institutions	SMEs (annual invoicing inferior to UF 20,000)
Small Enterprises Credit Program	Banco del Estado de Chile	Financing small enterprises' investments needs of fixed assets and or working capital, with a flexible guarantee system	SMEs (annual invoicing up to UF 25,000)
Production Credit Card for temporal financing of input purchase and for quick cash availability	Banco de Concepción	Rotating credit granted by the bank to the benefitted entrepreneur after the corresponding evaluation	Micro-enterprises and small entrepreneurs
Endorsement and Guarantee Funds to facilitate the access to short term financing	SERCOTEC and banks	Fund constituted by a group of enterprises and SERCOTEC. The bank which receives the fund opens a credit line for each member of the group for an amount equivalent to three times the deposited fund.	SMEs
FUNDES, ASIQUINTA to facilitate the access to credit	FUNDES, ASIQUINTA	Fund constituted by private foundations offering consulting services and guarantees to endorse credits to small enterprises	Enterprises with assets value between UF 2,000 and UF 25,000

a) Relative to resource availability

• **CORFO'S FUND INTERMEDIATION PROGRAM (Supporting Corporation, Public Organism depending on the Ministry of Economy)**

It aims at providing financing to the financial and bank sector with favorable term and cost conditions, so that, in turn, the banks may assign larger resources to the SMEs loan users. Acting as a financial intermediary, CORFO picks up resources from external capital markets (basically long term loans from the Inter American Development Bank, ie IDB program for 600 million dollars) and periodically holds fund bids or auctions open to the most solvent financial institutions. Under this methodology, CORFO substitutes the traditional direct loan assistance.

The local financial system (banks and other financial institutions) uses those funds to grant loans to SMEs entrepreneurs to cover investment projects of new or existing enterprises (fixed assets, not including housing). The firm must finance at least 15% of the total cost of the project with other resources. These loans are oriented towards the acquisition of capital assets, at a maximum 12 year term and with three year grace periods.

Within the framework of the agreement with the Inter American Development Bank (Program of Multisectoral Global Loan CORFO-IDB, IDB Loan 576/OC-CH), the current loan programs are:

a) IDB - BANKS: Its goal is to increase SMEs' productive capacity. Banks have been granted resources for 197.4 million dollars. They have conducted almost 200 loaning operations, equivalent to 95% of the obtained funds. The highest share is that of the manufacturing sector which received 47% of the total through 97 loan operations.

b) IDB - LEASING: Its objective is becoming a real financing alternative for the hire-purchase of new assets by entrepreneurs. Leasing enterprises have been granted 345 million dollars and have conducted 2892 loaning operations equivalent to 92% of the funds obtained. Even though leasing is gaining weight as financial instrument, SMEs have a higher participation within leasing credit systems than the rest of the enterprises. By March 1994, the credits granted to SMEs represented 29% of the total; their access to the credit having increased around 42% with respect to March 1993. SMEs' share in the total of enterprises reached 59% in March 1994, 50% more than that of the previous year.

c) CORFO - Private Enterprises Exports: Its goal is financing exports of capital assets, non durable goods and engineering and assembly services. This is the only program which does not operate

through bank bids, but under an open window concept³. CORFO's credits cover up to 85% of the amount exported, at one to ten year terms and pre-established interest rates in dollars. Goods must be new and must have a national component not lower than 25%. As of June, 1994, 126 operations had been financed, which amounted to 33.7 million dollars. Five banks had made use of those funds.

There are also other supplementary credit lines operating mostly under the "open window" methodology, with interest rates that do not distort current market conditions:

CORFO - Capital Goods and National Engineering Services (new line): Its goal is to make eligible commercial banks refinance with CORFO those termed loans -between two and eight years- granted to private enterprises for the purchase of capital goods and the contract of national engineering services. For the purpose of stating their national origin, the capital goods should meet the national integration requirement of 50%.

CORFO - Italy: It is a bilateral loan tied to capital assets imports of Italian origin. As of June 30, 1994 the funds granted by intermediation amounted to 13.1 million dollars.

CORFO - Spain: It is a bilateral loan tied to capital assets imports from Spain. As of June 30, 1995 the funds granted amounted to 7.9 million dollars. This Program was canceled because Chile, having exceeded certain economic indexes, was no longer an eligible country for Spanish subsidized loans.

CORFO - Switzerland: The resources of this loan were assigned to finance 85% of the total value of the contracts of services from Switzerland and new capital goods purchases. These should have a Swiss component not inferior to 50% of the FOB value.

CORFO - Germany (Kreditanstalt fur Wiederaufbaun, KfW): This is a recent program oriented to small and medium industries, operating under the methodology of bidding. All resources are granted to those bids with the best interest rates. Intermediating financing institutions lend the funds as loans with terms not inferior to 36 months, and they are allocated to the financing of fixed assets and associated working capital. This Program is

³ CORFO establishes loan conditions, which include different alternatives of terms and interest rate types. Commercial banks should submit the corresponding applications at CORFO's Financial Intermediation Office, including the required amount and terms. If this application is approved, the bank must sign with the Corporation the contract for opening the credit. The loan is granted by CORFO, and it is equivalent to 85% -a condition previously established- of the duly certified exports value (Exports Declaration issued by the National Customs Service for the shippings made in each operation).

focused on manufacturing industrial enterprises with annual sales neither superior to UF 50.000 nor inferior to UF 3000.

CORFO - Public Enterprises Exports: This new credit line consists of national funds and it is destined to financing public enterprises exports, which are not contemplated in the CORFO-IDB Program aimed at private enterprises.

CORFO - Postgraduate Studies Abroad: This is a new line available for private commercial banks and financing agencies to refinance with CORFO the loans granted to university professionals in order to pay for their postgraduate studies abroad (Master degree, or equivalent ones). These loans finance such studies for a minimum period of one year and a maximum of two. The amount should not exceed 90,000 dollars or their UF equivalent.

The global results of the CORFO's fund intermediation program show that fifteen banks, a financing association and sixteen leasing enterprises have participated in it. These institutions have granted resources, which amount to 638 million dollars to approximately 2700 enterprises. Leasing enterprises have bid for 54% of the total resources, indicating a growing presence through time. This is very important, taking into account its orientation towards SMEs as target market. Outcomes also show that, in the last bids, the resource demand of leasing companies widely exceeds the supply, and that this mechanism is the normal fund source. On the other hand, banks are not so attracted by this bid system. The usually submit their proposal with an attached operation and with uncertainty regarding the rate and the funds to be obtained.⁴

The conditions for entering the Program are evaluated and reviewed permanently. In that sense, CORFO has recently established the following modifications:

i) It separated resources bids, differentiating banks and financing agencies from leasing companies.

ii) It established restraints regarding loans beneficiaries in favor of smaller enterprises. In the case of CORFO-Leasing, the amount of operations per beneficiary should not exceed the equivalent of 3 million dollars and its annual sales should not be superior to 5 million dollars. Regarding CORFO-Banks, the annual amount of operations per beneficiary should not exceed the equivalent of U\$S 5,000,000 and the sales amount per year should not exceed U\$S 20,000,000.

⁴ The Bank and financial societies bid funds and interest rates in CORFO on the basis of pre-selected projects. That means they do not bid for free funds to allocate them afterwards, but for pre-granted credits.

iii) It is considering the possibility of canceling the bidding system for banks and financing agencies is being considered, at least at the level of enterprises with annual sales inferior to 3 million dollars. For that purpose, the implementation of a parallel rediscount line is under study.

• **DIRECT LOANS FROM THE BANCO DEL ESTADO TO THE SMEs**

The Banco del Estado (State institution) has a special office and specific loan lines to serve SMEs. Small enterprises receive special treatment as regards risk assessment analysis.

The Bank replaced the traditional evaluation system which defined the loan capacity of small enterprises on the basis of available guarantees and collaterals, with a collateral flexibilization model which links smaller guarantee with lower loaning risk. This model places emphasis on the quality criteria of the project and the entrepreneur's history. The minimum guarantee is 40% of the total loan and the maximum, an average 70% in the case of existing enterprises and 80% in the case of new enterprises.

It must be noted that SMEs seeking working capital loans and/or investment loans can request a subsidy for the fees of a financial consultant to draft and submit the background information requested by the bank (Subsidy Financial Assistance Program-SUAF). The banks are the institutions with authorized access to the SUAF. They have a consultant record file.

The Banco del Estado also manages a guarantee fund in order to facilitate the access to operation capital loans granted by financial institutions to exporters of non traditional goods to small and medium exporters.

The following are the existing financing lines:

- Working capital financing
- Non re-adjustable promotion loans for small enterprises
- Investment financing
- Capital goods financing via leasing
- Imports loans
- Exports loans

The loan program of the Banco del Estado has been outperforming its goals. During the 1992-1994 period the Banco del Estado granted loans for 33.5 million UF (equivalent to 837.5 million dollars as of December, 1993), small enterprises concentrating 79% of the total.

Outstanding among the credit lines is the non-readjustable small enterprises promotion line. This line grants up to a maximum

of UF 1000 at a variable term (12, 24, 36 or 48 months), with a possible grace period of up to six months. A mortgage, collateral or guarantee is required. By June, 1994, a total of almost 25,000 operations had been completed, which amounted to UF 5,5 millions (equivalent to 137.5 million dollar in December, 1993). In order to be eligible, the enterprise must have annual sales below UF 25,000 (equivalent to 625,000 dollars as of December, 1993).

- **LEASING PRO EMPRESARIO**

This program aims at financing capital goods for small and medium entrepreneurs whose annual sales do not exceed UF 15,000 (equivalent to 375,000 dollars as of December 1993), with no need of real guarantees. It can be obtained at Leasing Pro Empresario, Banestado Leasing and Banco del Estado de Chile. It operates as a machinery or equipment leasing agreement with a purchase option.

- **Banco Concepcion's PRODUCTION CREDIT CARD**

It is a credit card which operates between suppliers and industrial firms for the purchase of materials, inputs and cash advances to solve short-term cash problems. The main beneficiaries are micro enterprises.

This was an initiative propelled by SERCOTEC and Banco de Concepción and it was implemented in May 1992. This card operates in a similar way as the Consumption Card. The difference lies in that its users are industrial firms which use the card to purchase from suppliers belonging to the system.

This card allows access of firms to a permanent and automatic credit and facilitates the access to working capital and cash advances up to an amount equivalent to 30% of the quota, etc. In order to determine the credit line, an amount is established according to the entrepreneur's indebtedness capacity. This classification is performed once a year.

During 1994 the banks Crédito e Inversiones and A. Edwards incorporated this credit card to their services.

b) Relative to access to financing

- **SUBVENCION A LA ASISTENCIA FINANCIERA (SUAF) DE CORFO - CORFO'S SUBSIDY TO FINANCIAL ASSISTANCE**

Aiming at reducing the transaction costs faced by entrepreneurs and financial institutions, CORFO grants subsidized financing to the smaller size enterprises for the hiring of specialized consultants. These are responsible for preparing and submitting the background information requested by banks, financing

institutions, leasing enterprises, savings and loans cooperative institutions and the Technological Development Fund (FONTEC).

Consultants are selected from the Consultant Record for the SMEs Technical Assistance Subsidy Program⁵. Their main tasks are collecting the necessary information to fill out loan or leasing operation applications as well as making and evaluating technological innovation projects. The background information is submitted in standardized reports, on financial statements, working capital requests and investment loan requests. For short term loans and leasing operations, the consultant must draw up balance sheets, result (profit-loss) statements and cash budgets. In the case of investment projects, the consultant must also evaluate it and conduct fund flow projections. The consultant should also cooperate with the entrepreneur in the negotiations with the bank and with enterprise management as regards investment follow up.

All enterprises with annual sales (before VAT) which equal up to approximately UF 25,000 (625,000 dollars as of December, 1993) may request this subsidy. It covers up to 75% of the consultant's fees with a maximum of UF 50 (1,250 dollars as of December 1993) for leasing and other operations with a one year term, and up to a maximum of UF 75 (1,875 dollars as of December, 1993) for long term operations.

From November 1991 to June 1994, 1,221 applications were approved, the largest number being from the industrial sector (36% of the total). The program has hired 280 consultants, who performed an average of 3.7 consulting actions each.

The outcomes of this instrument are considered unsatisfactory in relation to the pursued objectives and it is currently under review. Usually, commercial banks do not take into account consulting services; and it evaluates again the proposal submitted by the firm.

- **PROGRAMA DE CUPONES DE BONIFICACION DE PRIMAS DE SEGUROS DE CREDITO (CUBOS) DE CORFO - CORFO'S LOAN INSURANCE PREMIUM BONUS COUPON PROGRAM**

In order to solve partially the SMEs' scarce capacity to offer the real collateral normally required by the financial system, CORFO created the system of Loan Insurance Premium Bonus Coupons

⁵ The following are the major requirements for participating in the FAT/SUAF Consultants Record: 1) University professionals and Consulting Agencies with a minimum working experience of three years in the entrepreneurial management area and in firm's technical assistance (credit and financial analysis or in the project evaluation area). 2) These professionals, acting individually or through consulting agencies, should bear a solid commercial background.

(CUBOS). Through this system, the demand for real guarantees is completely (in the case of leasing) or partially (in the case of banking institutions) substituted by a loan insurance.

The insurance covers at least 70% of the non payment risk of their debtors. The State subsidizes the premium of this insurance through CORFO with the CUBOS, for which, until recently, the interested financial institutions should bid. This system solves guarantee problems to have access to loan operations with almost no additional cost for the small entrepreneur.

This subsidy may be requested by entrepreneurs with net annual sales below UF 25,000 (625,000 dollars as of December 1993). Guaranteed operations should not exceed UF 3,000 (75,000 dollars as of December 1993) with terms ranging from 18 to 48 months. Operations taking advantage of CUBOS may belong to any productive economic activity, with the exception of the purchase of houses and personal use and urban transport vehicles, and operations conducted by real estate and investment associations.

From December 1991 up to June 30, 1994, there have been six bids for a total of 44908 CUBOS which have been granted to 686 enterprises. These CUBOS have granted access to loans for a total of UF 665.394 (16,6 million dollars as of December 1993). The average is: UF 665394 divided by 686 enterprises. That means UF 970 per benefitted enterprise. These data do not include the last bid. This instrument has been welcomed by leasing companies, which is not at all the case of private commercial banking.

Due to the fact that there is only one loan insurance firm in Chile participating in the program and little competitive pressure for the CUBOS, CORFO has recently decided to modify its operative mechanism recently. Financing agencies may acquire their CUBOS directly at the Support Corporation, at a price set periodically by CORFO. The price valid until October 31, 1995 is UF 0.28 per CUBO and the effective subsidy granted is 72% of the guarantee cost. They have a valid term of 365 days.

CORFO is about to launch the Exports CUBOS, a subsidy to the prime cost of an exports loan insurance to cover the external payments for small exporting enterprises. In this case it will also operate with the only insurance company in the market.

- **SERCOTEC ASSOCIATIVE GUARANTEE FUNDS** (SERCOTEC is a technical cooperation service, public agency under CORFO)

This is an initiative of SERCOTEC for the promotion of medium and small industrial enterprises. This program consists in encouraging small entrepreneurs to get together, networking, in order to build an endorsement and guarantee fund for their financial operations. For this purpose, SERCOTEC offers double the amount of the contributions and technical assistance to manage the

fund. The fund is deposited at a limited term in a bank to guarantee a loan credit for its members. The start up of this instrument depends almost exclusively on the entrepreneurs' initiative and on the bank's receiving the funds.

Small enterprises also have private guarantee Funds such as FUNDES, ASIQUINTA, etc.

• **FUNDES**

Chile belongs to a Latin American Private Foundations network. This network was created in 1985 by Swiss entrepreneurs and entrepreneurs from each Latin American country. In Chile, it was introduced in 1991. FUNDES provides the SMEs' entrepreneur with consulting services and guarantees to support credits, through its Program for Credit Access. For that purpose, it has reached agreements with Banks and financing entities. Normally, the firm submits a project to FUNDES, which analyzes and studies it, thus facilitating its application to financing entities.

The requirements are:

- * Size of the enterprise: asset value between UF 2,000 y UF 25,000. Number of workers between 8 and 50
- * Years in business: a minimum of one year
- * Credit destination: fixed asset and/or working capital
- * Amount: from UF 250 up to UF 5,000
- * Guarantee: Mortgage, or any other collateral. Insufficient guarantees -according to the demands of each bank or financing entity- are covered by the guarantee of FUNDES.

Requirements for FUNDES guarantee:

- * Guarantee amount: from 20% to 50% of the credit
- * Services: pre-credit service (this is optional and includes project preparation and bank procedures), post-credit services (this is compulsory if a FUNDES collateral is used and includes assistance and follow up)
- * Client fees: Pre-credit fees: Approximately 2% of the credit, depending on each case and with access to the SUAF/CORFO subsidy.
Collateral commission: 3% per year of the current guarantee plus VAT (value added tax).
Post-credit fees: 1% per year of the credit balance.

- **FONDO DE GARANTIA PARA EXPORTADORES NO TRADICIONALES DEL BANCO DEL ESTADO DE CHILE (FOGAEX) (BANCO DEL ESTADO DE CHILE'S GUARANTEE FUND FOR NON TRADITIONAL EXPORTERS)**

This fund is used to guarantee operation capital loans granted by financial institutions to exporters of non traditional products.

It consists of a guarantee covering 50% of the total loan up to a maximum of 212,480 dollars a year for each non traditional exporter, with a maximum one year term.

2.2. Support to SMEs in the technological transfer and innovation area

In the context of the Science and Technology Program conducted by the Ministry of Economy, there is a set of instruments and initiatives aimed at eliminating a series of restrictions which affect technological capability acquisition. In the case of SMEs, the main restrictions are assumed to be the following:

- Enterprises' unwillingness to integrate technology into their business strategies.
- Lack of practice in seeking advice for decision making purposes, the main source of information being non documented personal experience.
- Little availability of specialized technicians and professionals and lack of external consultant contracting habits.
- Limited availability of information on the market to acquire appropriate technology.
- Lack of research and development activities within the enterprises, partly due to personal or bank's resources restrictions.
- Weak, and in many cases occasional, ties with the technical and scientific public and private system.
- Lack of standards for products, methods and processes, within a framework of great ignorance on the subject of standard application and usefulness.
- Lack of financing for adaptation and products' design.
- Little development of technical assistance and information services supply.
- Absence of a structured relevant information system to assess their productive performance.

Instruments and actions in this area may be classified in:

- a) relative to the financing directed to incentive the firms' innovation potency and boost their research and development capacity and quality;
- b) relative to technical assistance and technological transfer.

Table 3. Technology, Technical Assistance and Quality Management Support System

<i>Instrument</i>	<i>Institution</i>	<i>Beneficiary</i>	<i>Modality</i>	
FONTEC: to support firm's technological innovation	CORFO	Private enterprises	<ul style="list-style-type: none"> * Technological Innovation Projects up to U\$S 100,000 * Technological Innovation Projects with a total cost of more than U\$S 100,000 * Technological Infrastructure Projects submitted by a firm * Technological Infrastructure Projects submitted by three or more firms * R&D and Scientific and Technological Projects 	<ul style="list-style-type: none"> * Subsidy and risk credit * Subsidy and risk and shared benefit credit * Technological Support credit * Technological Support credit and partial subsidy * Technological Support credit
FONDEF: to enhance R&D capacity and scientific and technological services in productive areas	CONICYT	Universities Technological Institutes Research and Development Centres	<ul style="list-style-type: none"> * R&D projects with immediate transfer of outputs to the productive sector (less than four years) * R&D projects with gradual transfer of outputs to the productive sector (more than four years) * Scientific and Technological Infrastructure Projects * Scientific and Technological Services Projects 	<ul style="list-style-type: none"> * Transfer * Transfer * Transfer * Transfer
FONDECYT: to stimulate top level scientific and technological research	CONICYT	Researchers and research entities	<ul style="list-style-type: none"> * Scientific Research Projects * Technological Research Projects 	<ul style="list-style-type: none"> * Transfer * Transfer

<i>Instrument</i>	<i>Institution</i>	<i>Beneficiary</i>	<i>Modality</i>
PGTT: to design, implement and administrate CTT	CORFO-UNIDO	National private enterprises (in associations)	Provides technical assistance and facilitates FAT and PROFO resources
FAT: to finance technical assistance which may include quality, management, design, processes and new technology issues	CORFO and ITOs (intermediate agents)	SMEs, individually or in associations	Subsidizes the fees of the consulting agency or of the independent consultant hired for technical assistance. It is composed of six modules and the consultant is selected from the Consultant Record
Quality-FAT: to implement quality systems	CORFO	SMEs, individually	Subsidizes the fees of the consulting agency or of the independent consultant hired to implement quality programs. It is composed of six modules and the consultant is selected from the Consultant Record
PROFO: to gather entrepreneurial groups or technological centers	CORFO SERCOTEC ASEXMA SERNATUR and other intermediate agents	SMEs, in associations	Subsidizes its formation and the pre-formation of research centres. One of the subsidized activities is a manager's fees.
Innovation and Technological Transfer Program	CORFO's INTEC	Firms	Operates with financial support instruments such as FAT and FONTEC

a) Relative to financing

The Science and Technology Program -with IDB and Government funds- coordinates three financial tools. Each of them have different users and goals: FONTEC, FONDEF and FONDECYT. Even if these tools do not establish restrictions regarding the size of the users, the SMEs are their target clients.

- **FONDO NACIONAL DE DESARROLLO TECNOLOGICO Y PRODUCTIVO (FONTEC) de CORFO (CORFO NATIONAL TECHNOLOGICAL FUND FOR AND PRODUCTIVE DEVELOPMENT)**

FONTEC -which is managed by CORFO- has resources for about 30 million dollars for a four year period, which are oriented to financing private firms' technological innovation and infrastructure projects. It is a combined loan-subsidy system and it is open to all entrepreneurs, although it supports SMEs' initiatives solving their application problems (they apply for SUAF to prepare and submit their project to the FONTEC). It should be remarked that FONTEC is the only of CORFO's loans that is a "first-floor window" loan (i.e. direct customer service for credit operations).

FONTEC operates the following lines of financing:

- a) Shared risk and promoting financing for technological innovation projects seeking significant improvements or the development of a new product or productive process. It is oriented towards private enterprises or entities from the productive sector, and up to 80% of the total execution costs is financed, according to the nature and cost of the project, through a combination of subsidy and loan. The subsidy covers a maximum of up to 300.000 dollars.
- b) Loan and subsidy line for investments on technological infrastructure and technological transfer centers (TTC). In this case, the loans are meant for groups of at least five enterprises from the same productive sector requiring a "center" to conduct research and development projects, technological services and technology transfer. This line covers up to 80% of the cost of the project and can grant a subsidy for up to 32% of the amount financed by FONTEC.
- c) Reimbursement line for technological support for scientific and technological service projects. This line may be used by projects of any size and covers up to 80% of the costs. It finances enterprises which need to implement or contract support activities related to entrepreneurial technological development, activities aimed at improving the firm's technologies transfer and/or activities aimed at marketing the achieved innovation. The enterprises apply to this financing line with a project prepared

according to certain guidelines. This type of financial support must be reimbursed and does not allow any subvention. It covers up to 80% of the project's total implementation cost.

Depending on the nature of the projects, FONTEC's financing to enterprises covers -in a total or partial way:

- * management and research personnel
- * support personnel
- * use of capital goods and infrastructure
- * intangible acquisition
- * diagnosis analysis
- * planning and technological management project

The financial fund is formed by contributions from the National Government. Its users are researchers and public and private entities.

Since its creation to February, 1995, FONTEC has approved 313 projects for a total of 40.9 million dollars, amount in which enterprises participate with 52% and the fund with 48%. The average size of each project is 127.000 dollars and its period, 18 months. The fund is expected to be exhausted by the end of 1995.

Out of the total approved projects, 75% were granted to small, and medium enterprises (with an annual sales amount inferior to 1 million dollar). It must be noted that the large enterprises' share of the loaned amount did not exceed 30% and that the enterprises' contributions were in no case lower than 40%.

The enterprises holding FONTEC projects regularly look at the introduction of new products in the market and use of information tools; less frequently, to reengineering and supplier development techniques and systematic training programs. Only few projects may be considered as holding "high technology" and the average probability of implementing them ranges between medium and high (50% to 70%). In the case of small enterprises, the projects could not have been carried out without FONTEC's support and in the case of large ones, its implementation would have been considerably delayed.

In general terms, FONTEC has been favorably evaluated. The most frequent difficulties encountered have to do with the lack of capital for productive upgrading and the marketing of projects and, less important, with the lack of search for technical and market information previous to its approval.

Significant changes in FONTEC's operative implementation are currently under study. In 1996 the "first floor" loan component will be replaced by "second floor" procedures, maintaining the subsidies. In that sense, a mechanism is being developed through which FONTEC will offer the commercial banking up to 60% of the

funds to finance relatively large projects (with a credit of not inferior to UF 12,000) and with an eligibility certification granted by FONTEC.

Additionally, as a new activity, FONTEC will continue financing entrepreneurial technological missions. The average mission financing reaches 60,000 dollars, nine missions having been performed as of today.

It is worth remarking that, among FONTEC work subjects, firms's management innovation is not considered, unless it is part of a wider innovation. This is due, partly, to the existence of the FATs and PROFOS which may be oriented towards that particular issue.

- **FONDO DE FOMENTO AL DESARROLLO CIENTIFICO Y TECNOLOGICO (FONDEF) DE CONICYT (CONICYT SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT SUPPORT FUND). Scientific and Technological Research Council dependent on the Ministry of Education.**

FONDEF, which is managed by CONICYT, handles about 65 million dollars in public resources for a period of four years. This amount is expected to increase soon, with the contribution of 92 million dollars from research entities and participant enterprises.

This fund is meant to finance non profit projects and national institutions connected with research and development (R&D) in universities, R&D technological centers and institutions (e.g. CORFO's subsidiary institutes), small and medium groups of entrepreneurs from the same branch of activity or region who developed a associated project with universities or research centers. It finances research and development projects with immediate result transfer possibilities, long term transfer projects, technological and scientific infrastructure projects, and scientific and technological services projects. FONDEF focused its activities to support pre-competitive and long-term R&D projects, and in pre-competitive associative R&D infrastructure, co-administrated between institutes and enterprises. The associations between institutes and universities, and enterprises will become its major clients.

Unlike FONTEC, which evaluates each project submitted by enterprises, FONDEF is a fund which may be bid. In the two bids performed so far, 375 projects were submitted. In the first bid, 99 were selected and in the second, 46. The projects represent 149,6 million. There were three sources of financing of the total costs: FONDEF, with 41%, universities with 44%, and the beneficiary entrepreneurs with 15%. The average size of each FONDEF project is of 1.5 million dollars and its duration ranges from three to four years.

The users of FONDEF are mainly traditional universities concentrating 77% of the financed projects, and the research institutes and centers receive the remanent. The counterparts of FONDEF projects are mostly medium enterprises.

In order to create a favorable atmosphere towards innovation in the public opinion, FONDEF has promoted an Innovation Cultural Program. Eight universities were invited to participate, together with approximately 15 major enterprises.

- **FONDO NACIONAL DE DESARROLLO CIENTIFICO Y TECNOLOGICO (FONDECYT) NATIONAL SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT FUND (CONICYT) (Technological and Scientific Research Council dependent on the Ministry of Education)**

The FONDECYT finances high quality research projects. Presently it has 1022 ongoing projects, in areas such as biology, medical sciences, engineering, physics, chemistry, etc. The financial fund is formed by contributions from the National Government. Its users are researchers and public and private entities. Its operative mechanism and objectives are under review. Universities and institutions related to technological development apply to the fund submitting specific programs. This mechanism is a significant financing source that, sometimes, replaces the State financing for those institutions.

b) Relative to Technological transfer and technical assistance:

- **THE TECHNICAL ASSISTANCE FUNDS (TAF) administrated by the different TIA (Public and Private Technical Informing Agencies which operate the fund)**

This is a subsidy which allows the small and medium entrepreneur to finance up to 75% of the fees of a consulting enterprise or hired independent consultant, which can not exceed UF 75 (equivalent to 1,875 dollars as of December 1993). The technical assistance is aimed at improving the overall enterprise management and at solving operation and market specific problems in a short period of time.

Generally speaking, the consulting agreements belong to two types of programs: a) Diagnosis Program: it identifies enterprise problems and suggests solutions. b) Development Program: it carries out the solutions and recommendations of the diagnosis program. According to each case, it includes technical assistance specialized in quality, design, management systems, etc.

Technical assistance may be hired individually or by several enterprises with a common goal and the consultant is selected from CORFO's approved consultants data-bank record.

The TAFs are managed by second level agencies, specialized in the area in which they operate. These specialized agencies are called Technical Information Agency (TIA). Their main functions are rating the consultants' competence, updating the consultants record (approved by CORFO), evaluating the quality and timeliness of the consulting services provided and advice the entrepreneur on the adequate course.

At present, small and medium entrepreneurs may get assistance from ten specialized TAF available, each with its corresponding TIA and consultant record. Most of these TAF are under implementation process, except for the SMEs TAF and the Transport TAF.

- 1) Multisector TAF: the TIA is CORFO and a large group of public and private institutions.
- 2) Tourism TAF: the TIA is the National Tourism Service.
- 3) Transport TAF: the TIA is SERCOTEC, a CORFO subsidiary and the subsidy is collective only.
- 4) Communication media TAF: the TIA is the Asociación de Radiodifusoras de Chile (ARCHI) (Radio Broadcasting Association of Chile).
- 5) Manufactured goods exporting SMEs TAF: it is aimed at exporting small and medium enterprises and the TIA is the Asociación de Empresas Exportadoras de Productos Manufacturados (ASEXMA) (Manufactured Goods Exporting Enterprises Association)
- 6) Agriculture and Cattle Raising TAF: it subsidizes consulting services to sector medium enterprises registered in Technological Transfer groups from the Instituto de Investigaciones Agropecuarias (INIA) (Agricultural and Cattle Raising Research Institute). The Technical Informing Agency is the INIA.
- 7) Cooperative Enterprises TAF: it subsidizes enterprises ruled by the General Cooperative Enterprises Law or having analogous goals. The TIA is the Confederación de Cooperativas de Chile (COFECOOP CHILE) (Cooperative Enterprises Confederation of Chile).
- 8) Training TAF: this TAF subsidizes consulting activities aimed at identifying training needs and the very implementation of the courses. It has four modules: diagnosis of needs, training program creation, entrepreneur system maintenance training and course execution. The TIA are the SENCE (National Training and Employment Service depending on the Ministry of Labour) or CORFO itself. These agencies group enterprises with the aim of organizing, scheduling and supervising training activities for the grouped enterprises.

9) SMIEs TAF: it is directed to the small and medium industrial enterprise. The TIA is the Servicio de Cooperación Técnica (SERCOTEC) (Technical Cooperation Service), a CORFO subsidiary.

10) Quality TAF: It is aimed at implementing quality system. The TIA is CORFO.

During 1993 and the first half of 1994, assistance activities were conducted for a total of 310 million Chilean Pesos (equivalent to 756,000 dollars as of December 1994), and benefitted almost 1000 enterprises. Although it offers a small coverage it shows a growing evolution. However, it should be noted that, until recently, this subsidy could be applied for only once, which limited the submission of greater scope projects requiring larger investments and complex technical assistance. In addition, the limit set for subsidies restricted consulting activities to simple or specific problem solving services (general managerial topics, and product commercialization or distribution).

Recently, the operative implementation of the TAF has been changed:

i) The only TAF maintaining its own identity is the Quality-TAF, which is now bid fund because the demand exceeds the supply. The supply of consultants specialized on SMEs Quality is poor, and a previous evaluation of applying enterprises is needed to determine if they meet the requirements to implement a quality system.

ii) FATs were divided into six modules so that they can be recurrent in the same enterprise. Experience shows that enterprises have problems in more than one area and, therefore, a more integral -and sometimes, a more complex- assistance is needed.

iii) A subsidy of up to 75% of the consulting fees is maintained. It cannot exceed the 75 UF, in the first two modules. In the following, the subsidy decreases, increasing the contribution of the enterprises.

iv) The possibility of increasing the subsidy for small enterprises is being considered, maintaining the mentioned procedure.

v) At present, they are working on improving the record of consultants endorsed by CORFO. In that sense, a categorization and training system is being designed. Even if the training areas have not been defined, it is considered that there are very few consulting agencies with adequate techniques to work with SMEs.

- **PROGRAMA DE GESTION EN TRANSFERENCIA DE TECNOLOGIAS (PGTT) DE CORFO-UNIDO (CORFO-ONUUDI TECHNOLOGY TRANSFER MANAGEMENT PROGRAM)**

This program is part of a CORFO-ONUUDI SMEs productive modernization program and its goal is to contribute to the creation of groups of at least ten national entrepreneurs who can design, implement and manage their own Technology Transfer Centers in order to meet their technological needs. The program supports and advises entrepreneurs groups for the creation of their own TTC during the following stages:

- creation of the basic business group
 - determination of the TTC's objectives and purposes
 - drawing up of the TTC project to be sent to the Program's financing sources
 - technical assistance from national and foreign experts
 - development of a training program for TTC managers
- **INTEC (Instituto de Investigaciones Tecnológicas) (Technological Research Institute, a CORFO subsidiary) TECHNOLOGICAL INNOVATION AND TRANSFER PROGRAM)**

INTEC, a subsidiary of CORFO, hosts this program. It is aimed at meeting the enterprises' technical assistance, research and development needs in the following areas:

- Product design and testing
 - Process design, adaptation and automation
 - Technology searching, evaluation and selection
 - Material inputs analysis
 - Environmental diagnosis, forecast and control
 - Quality management
 - Customized training for the adoption of new technologies
 - Financial support instruments such as FAT and FONTEC are used.
- **CORFO's FINANCIAL SUPPORT PROJECTS (PROFO), operated by Institutions which signed agreements with CORFO**

They are organized by groups of entrepreneurs from similar or complementary sectoral branches and from the same location, who are willing to commit themselves to the fulfillment of a shared project that may allow them to improve competitiveness. These groups propose forming a "PROFO" in CORFO together with any institution which has signed agreements with CORFO (e.g. SERCOTEC, SERNATUR, ASEXMA, etc.).

The activities that may be financed with PROFO funds are

- PROFO manager's salary
- Technological transfer Seminars
- Exhibitions
- Sampling and counter sampling
- Consulting services
- Travel abroad
- Training
- Purchase of specialized books and magazines
- Research and market studies
- Purchase of minor equipment

Each PROFO may obtain a CORFO subsidy equivalent to 70% of the overall costs, the rest must be financed by the entrepreneurs. Those who can benefit from the subsidy must be small and medium entrepreneurs with annual sales not exceeding UF 100,000 (equivalent to 2.5 million dollars as December 1993). It must be noted that PROFOS may incorporate higher sales level enterprises but these may not account for more than 30% of the group. The firm groups, as PROFOS, are eligible to gain access to other financing sources such as PROCHILE or union association funds⁶.

So far, these PROFO have been formed:

PROFO SERCOTEC: aimed at the small and medium industrial entrepreneur. There are 13 of them in operation throughout the country grouping a total of 190 enterprises.

PROFO ASEXMA: there are 13 PROFO of enterprises affiliated to ASEXMA. Overall, they reach a total of 126 firms.

And finally, there is also a significant number of PROFO formed by CORFO. Generally, these are directed to the textile sector.

So far, the largest number of PROFO has been formed by SERCOTEC and ASEXMA. SERCOTEC's budgeted amount for these projects in 1994 reached 606 million dollars, 200 million of which would be provided by CORFO. In the case of ASEXMA, 159 million dollars would come from CORFO, and 90 million would be contributed to the project by the entrepreneurs.

It is worth noting that the different tools supporting technical assistance are not excluding, i.e. they are cumulative in the sense that the firms may belong to a PROFO and get a TAF individually, and recurrently (six times). The PROFO is considered one of the tools with greater potentialities.

⁶ Trade Unions Funds: It refers to public funds managed and administrated by intermediate associations (i.e. Exports-FAT, ASEXMA).

3.3 Support to SMEs in the area of quality and productivity

CORFO considers that the quality and productivity issue of a major importance for strength competitiveness in the next decade. For this purpose, CORFO manages by itself one of SMEs technical assistance tools (TAF-Quality) and has promoted together with the private sector and trade union entities, initiatives aimed at fostering the introduction of updated managerial and organizational forms (National Center for Quality and Productivity and Industrial Productivity Center). These are described in the section related to SMEs supporting institutions.

- **CORFO QUALITY TECHNICAL ASSISTANCE FUND (QUALITY TAF)**

This Fund subsidizes SMEs from any sector to hire technical assistance for strengthening quality system implementation processes. This fund has been operating for two years and it is granted through bids.

The program has six modules: diagnosis, training in the concept of quality, quality system planning, management process in quality systems, production processes in quality systems and quality project design. The TIA is CORFO. The entrepreneur's contribution to financing increases along the project, in the sense that the first modules receive a 75% subsidy with a maximum of up to UF 75, which is gradually reduced in the following modules. The Quality TAF is individual, that means it is not associative.

CORFO has organized two bids so far; 200 enterprises applied, and 50 qualified. The eligible enterprises should meet certain requirements related to legal and financial aspects, and to their managerial development level. Thus, they are eligible through a grade system with different conditions set by CORFO. In some cases, the corporation visits the enterprise to evaluate its actual possibilities of implementing a quality system and to suggest alternatives of technical assistance. The most advanced firms in the Quality TAF are presently in the third module.

3. The most important institutions which support SMEs

- **CORPORACION DE FOMENTO (CORFO FINANCING CORPORATION), a public body operating at national and regional level.**

CORFO is a multi-sector public agency working on behalf of the Ministry of Economy. At the same time, however, it has autonomy and has the rank of Ministry (its Vice President has the rank of Minister). Its board is constituted by different State Ministers and representatives of the Executive. Despite this institutional complexity, CORFO has flexibility to create and implement tools and handle funds.

The corporation is the most important public institution oriented to the promotion of the updating and development of Chile's productive structure. Traditionally, it operated as support banking, which main task was granting loans, conditioned to technical assistance. From 1991 onwards, CORFO becomes a second and third level institution, aimed at developing services markets, facilitating the access of SMEs and encouraging the productive and competitiveness updating.

It is also responsible for the administration and coordination of the SMEs Support Program set forth in 1991. CORFO is in charge of implementing its corresponding working areas, establishing the interinstitutional coordination mechanisms and creating intermediate institution administration and management capabilities. The following are the funds and programs it operates: FONTEC, TAF, Quality TAF, SUAF, CUBO, FINANCIAL INTERMEDIATION and PROFO.

CORFO includes the following offices, institutions and subsidiaries services:

Financial Intermediation Office
 Technological Development Division
 Investment Support Office
 CORFO Regional Departments
 Institutes and subsidiaries: IFOP, INTEC, INFOR, INN and SERCOTEC

- **SERVICIO DE COOPERACION TECNICA (SERCOTEC, TECHNICAL COOPERATION SERVICE, a subsidiary of CORFO)**

This institution depends from CORFO and has a long history of industrial SMEs financing at a national level. It has 21 offices throughout the country.

Its activities are basically oriented to financing productive development and modernization for small and medium industrial

entrepreneurs and artisans. In coordination with PROCHILE, it also develops promotion activities for exports.

The following are its most important activities:

- Individual and/or group specialized technical assistance.
- Competitiveness promotion through the development of associative self-help models among enterprises.
- Promotion and explanation among enterprises of the support instruments available to SMEs.
- Exports promotion.
- Entrepreneurial training and information.
- Support to participation in regional and international fairs and exhibitions.
- Development of self-diagnosis methods for entrepreneurs to evaluate their international competition capabilities.

A Centro de Información Empresarial (Entrepreneurial Information Center) functions within this agency. It consists of different processed information services (technical, technological, service, etc.) and has international data base access capabilities.

The main financing instruments managed by SERCOTEC are: SMIEs TAF, with CORFO resources; Transport TAF, with CORFO resources; Micro enterprise TAF, with FOSIS⁷ and PROFO resources. In the case of their SMIEs TAF, a significant part of the resources is destined to financing enterprise management linked activities.

- CORFO SUBSIDIARY INSTITUTES

The CORFO's Technological Development Office is in charge of five subsidiary institutes, which are private cooperations devoted to technological research and transfer. In the framework of the modernization process of the State set forth by this Government, these institutes are redefining their roles and operation modalities. A major part of their budget comes through bid contracts (FONDEF and FONDECYT) to finance both facilities, equipment and staff training, and to develop activity programs. From 1977 onwards, the fiscal contribution disappears, and they will have to self-finance themselves through the income of the competitive service projects.

⁷ FOSIS: Solidarity and Social Investment Fund. Public entity which started operating in January 1991. It aims at assisting poor people on social and productive aspects. Its main programs are: Micro-enterprise Support programs, Peasants and Indigenous Population programs, programs for Young People, programs for Promotion and Development of Extremely Poor Localities and programs supporting community development initiatives.

1. Centro de Información de Recursos Naturales (CIREN) (Natural Resources Information Center) Its goal is to establish and keep updated an information system on natural resources in the country. This system is available to any entrepreneur or firm.

2. Instituto de Fomento Pesquero (IFOP) (Fishing Financing Institute): Its goal is to promote the innovative capacity of the sector. This institute has always be closely related to the technological development of the sector. Its most relevant activities are:

- i) promotion and implementation of quality control programs according to the new exports norms;
- ii) research projects management;
- iii) delivery to the private sector of the IFOP research outcomes; and
- iv) organization of biologic-oceanographic researchs.

3. Instituto de Investigaciones Tecnológicas (INTEC) (Technological Research Institute): It is now in a process of change, redefining towards second level functions to boost innovation introduction in the productive sector and supplement market weaknesses. In the past, this institution offered a wide range of services, not always related to the demand's specific needs and/or requirements. Among its new activities, the most relevant are:

- i) supporting the creation of technological interchange entrepreneurial centers (such as the Total Quality Entrepreneurial Center, composed of approximately 27 enterprises);
- ii) strengthening the environment and automatization areas of the institute;
- iii) stimulating firms to introduce innovation by being consultants of Quality-TAF;
- iv) training consultants specialized on quality with their techniques. For that purpose, they applied to the FONCYI and won a project to develop this kind of training; and
- v) increasing the technological park.

4. Instituto Forestal (INFOR) (Forestral Institute): its main task is researching the forestal sector development. It transfers the outcomes of its researches through technical meetings, seminars and round tables. It also organizes training workshops.

5. Instituto Nacional de Normalización (INN) (National Standardization Institute): its activities are mainly focused on:

- i) creating technical norms at national level;

- ii) developing and administering the National Voluntary Accreditation System of Certification Bodies⁸, applicable to quality systems according to the ISO 9000 standards;
- iii) developing and administering the National Metrology Network;
- iv) developing and divulging these activities; and
- v) representing the country before international technical organisms, related to its objectives.

The INN is member of the ISO (International Organization for Standardization), COPANT (Pan-American Technical Standard Commission), PASC (Pacific Area Standards Congress), and ILAC (International Laboratory Accreditation Conference).

In 1995, it is expected that the Congress passes the law on Quality Certification for Exports Products.

• **BANCO DEL ESTADO DE CHILE**

This is the major public institution granting direct loans to small and medium producers through the Small and Medium Enterprise office. To make access to loans easier, the Bank works with instruments such as SUAF.

SMEs use credit services from commercial banks, but only the Banco del Estado has a specific credit program addressed to small enterprises and a preferential treatment characterized by its flexibility regarding collateral demands.

There are remarkable differences in SMEs access to the different Chilean banks. The figures available as of August 1993 show that:

i) Five banks granted 52.3% of the credit amounts assigned to SMEs: Banco de Chile (18.4%), Banco del Estado (11.6%), Banco Osorno (7.6%), Banco de Santiago (7.5%), Banco Crédito (7.2%).

ii) These five banks concentrate 53.1 of the total SMEs with commercial banks' loans: Banco del Estado (14.5%), Banco de Chile (12.4%), Banco de Crédito (10.0%), Banco de Santiago (9.1%), Banco Osorno (7.1%).

iii) The following are the banks in which the SMEs debts in the total debt exceed the average recorded for commercial banks: Banco de Desarrollo (36.8%), Banco Concepción (29.5%), Banco BIHF

⁸ National Voluntary Accreditation System of Certification Bodies: This is a voluntary system aiming at classifying certification bodies. It also has a record of certification bodies which may be consulted by firms requiring quality certification.

(28.7%), Banco Sudamericano (25.3%), Banco de Chile (25.1%), Banco del Estado (24.4%), Banco Crédito (22.8%) y Banco Osorno (22.7%).

iv) These are the banks where the share of SMEs clients in the total set of clients exceeds the average recorded for commercial banks (35.6%): Banco de Chile (47%), Banco O'Higgings (47%), Banco Santander (45.8%), Banco de Santiago (42.8%), Banco de Edwards (42.5%), Banco Osorno (41.2%), Banco Crédito (40.9%), Banco Sudamericano (39.0%), Banco Concepción (38.1%), Banco Citibank (38.0%), Banco Security (36.9%), Banco BIHF (36.8%).

• **DIRECCION DE PROMOCION Y EXPORTACIONES DE CHILE (PROCHILE)
(PROMOTION AND EXPORT ADMINISTRATION OF CHILE)**

PROCHILE and SERCOTEC are the two state agencies devoted to exports promotion. Since it was created in 1975, PROCHILE is in charge of promoting Chilean products abroad, and therefore, it centralizes promotional support for the exports sector in foreign markets. As has been indicated, SERCOTEC finances SMIEs modernization and works jointly with PROCHILE to promote exports. Through an agreement, SERCOTEC has access to PROCHILE's support instruments and to its infrastructure abroad.

This agency was designed as a promotion tool of a general nature. However, it works directly with mostly small and medium enterprises with little or no exporting experience. For its promotional work, it has a network of 34 commercial offices distributed throughout Latin America, Europe, Asia, Oceania, Africa and the Middle East.

These are among its most important activities:

- Organizing meetings between exporters and customers
- Organizing commercial missions and international exhibitions
- Organizing exporters' committees at firms.
- Keeping up relationships with international agencies
- Identifying markets.
- Reporting and advertising the characteristics of international markets.
- Supporting introduction into markets with improvement opportunities so as to add prestige to the quality of Chilean products.
- Participating in binational and multinational negotiations.
- Designing the Financial Support Program for Exports of Small and Medium Enterprises.
- Offering advice to exporters.
- Offering a specialized library to exporters.

PROCHILE provides support basically to groups of exporters called "exports committees", formed either by firms themselves or by other institutions (SERCOTEC and ASEXMA). Several of these committees have been formed from PROFOS. Currently, there about 70 committees in PROCHILE, each with an average of ten enterprises.

PROCHILE manages two FUNDS: the Exports Promotion Fund and the Exportable Supply Development Fund. In order to gain access to these funds, the entrepreneurs must be part of an exports committee project and, in some cases, an additional requirement must be met: the individual exports must not exceed 2.5 million dollar a year.

Those firms which do not enter into a group or which are in the process of doing so receive also assistance in different subjects: export procedure, market and fair information, contact with the external network, etc.

- **CENTRO NACIONAL DE LA PRODUCTIVIDAD Y CALIDAD (CNPC), (NATIONAL PRODUCTIVITY AND QUALITY CENTER), CORFO Committee**

The Productive Development Forum decided by consensus the creation of the National Productivity and Quality Center. Recently it has started operating under the form of a CORFO Committee, with a board consisting of three State ministers, two representatives of the Workers Trade Union (Central Unitaria de Trabajadores -CUT), and two representatives of the Production and Commerce Confederation (Confederacion de Produccion y Comercio-CPC). This center will be a private corporation of tripartite nature. It will be autonomous from the State but will have the active participation of ministers in its board.

The most relevant objectives of the Center are:

- Promoting and implementing initiatives aimed at changing the firm's management style, allowing the shift from confrontation to entrepreneurial cooperation.
- Developing proposals to boost the coordination among the public, entrepreneurial and trade union sectors to enhance productivity and quality.
- Developing and strengthening initiative and action capabilities of institutions providing consulting and training services in the field of productivity and quality.

Some tasks will be developed by the Center and others will be performed by giving incentive and support to other institutions. The most relevant activities it intends to perform are: the National Program of Diffusion, the creation of the National Quality Prize, the establishment of a national information network, the development and operation of laboratories for video creation and edition supporting firms' management updating, the development of

sectoral productivity analysis, the boost and support of a national movement towards tripartite technological missions, the diffusion of international and national experiences on total quality.

- **CENTRO DE PRODUCTIVIDAD INDUSTRIAL (CEPRI) (INDUSTRIAL PRODUCTIVITY CENTER) Private institution recently created by Trade Union Associations and Manufacturing Enterprises**

This center is created recently following an ASEXMA's initiative, and its counselor board includes ministers and trade union associations members. It also counts with the support of CORFO, CNPC, ILO (OIT), UNIDO-PROPYME Project, GTZ (Germany) and ECLAC-UNIDO.

CEPRI supports and assists enterprises in the definition and implementation of its productive and competitiveness strategies. As regards the development of its activities, special emphasis will be placed on the introduction of new models, methods and updated entrepreneurial development management. Also, it will focus on a culture based on the protection of the environment.

For those purposes, the CEPRI provides integral consulting services -individually or in groups-, which ranges from relative competitiveness diagnoses to national and international consulting services according to their requirements. Besides, it provides general and specialized information and training through seminars, conferences, etc.

The main services provided by CEPRI are:

- Analysis of productivity and competitiveness among enterprises, benchmarking method.
- Enhancement of work quality and productivity, "5 S" method.
- System of productivity and performance indicators for manufacturing enterprises.
- Courses of practical formation "Greater productivity and a better workplace"

The CEPRI is a CORFO's private operator, which allows it and administrate public support resources, such as PROFOS and TAF. Due to its own function, it promotes the linkage with FONDEF, FONTEC and SUAF.

- **FUNDACION EMPRESARIAL EUROPEA-CHILE (EUROPEAN-CHILE ENTREPRENEURIAL FOUNDATION)**

This institution was recently created jointly by The European Community and Chile, with the aim of supporting and financing

economic, technological and business cooperation between European and Chilean enterprises. Although it is not specifically designed for SMEs, this segment of firms really constitutes its major client.

These are among the main services it provides:

- The necessary information to European enterprises to analyze business potential in Chile.
- Identification of productive sectors with a high level of development in both regions in order to organize meeting events.
- Support enterprises which have made European-Chilean business contacts.
- Organization of business rounds in Chile and Europe.
- Arrangement of visits from European firms.
- Marketing services.
- Cofinancing market research and financing up to 50% of joint venture capital.

It must be noted that it was through this Foundation that contacts between the Wood Industrialists Association and Catas, the major Italian agency devoted to furniture certification, were generated. This will give rise to the formation of a technological development center in Chile.

Also, the Foundation coordinates and organizes the ISO 9001 Quality Certification Program for Chilean software enterprises. This initiative was fostered and created by the Committee of Software Enterprises, which also constitute an ASEXMA PROFO. Financing will be provided by PROCHILE and the participating enterprises.

• **INTERMEDIATE ASSOCIATIONS: ASEXMA**

Worth mentioning among them is the ASOCIACION DE EXPORTADORES DE MANUFACTURAS (ASEXMA) (MANUFACTURED GOODS EXPORTERS ASSOCIATION), an exporters chamber and agency which provides support mainly to medium enterprises located in Santiago.

ASEXMA does not only provide support services to enterprises, implementing tools and State resources (PROFO and FAT), but submits proposals to the public sector aimed at improving the environment conditions of Chilean exports. In that sense, it has boosted the creation of an Industrial Productivity Center and has developed a proposal for formulating a new exports policy.

These are among the most important services it provides to its members:

- Providing information and training services.
- Promoting the exports of its members.
- Supporting the organization of the exports committee to gain access to Prochile's Exports Promotion Fund.
- Providing advice in exports strategy elaboration.
- Aiding firms organized into committees in bidding for PROCHILE's export promotion fund
- Providing advice on financial support instruments.
- Acting as a link with PROCHILE's external network.
- Administering public funds of technical assistance and of projects for financial support for small and medium exporters.
- Granting prizes to manufacture exports excellence.

About 18 committees and approximately 13 financing projects are functioning in this institution (Footwear PROFO with 9 enterprises, Software PROFO with 14 enterprises, Industrial Security PROFO with 9 enterprises, Wine II PROFO with 13 enterprises, Electrification PROFO with 8 enterprises, Wines of Maule PROFO with 12 enterprises, Electronic PROFO with 9 enterprises, Autoparts PROFO with 8 enterprises, Ship PROFO with 8 enterprises, Toys PROFO with 8 enterprises, Wines of Maipo PROFO with 7 enterprises, Wooden Housing PROFO with 6 enterprises, Industrial Productivity PROFO with 15 enterprises).

4. Main Aspects of the Government's Balance and Orientation of Future Actions

The mentioned modifications in different tools and programs, in their implementation and mechanisms are part of the Government's process of evaluation regarding the efficiency and performance of SMEs policies during 1992-94.

a) Financing area

The results of the implemented measures indicate a significant increase in the credit access and formal financing of enterprises in general, and particularly of the small and micro enterprises. However, the impact of the official instruments is less than the expected, partly because the instruments are relatively new and their deficiencies and lack of flexibility are still being corrected.

The described instruments are essentially oriented towards working on the loan demand side, that is to say, on the firms' side. Very little has been done on the supply or bank system side. There is now a proposal to develop a fund to strengthen the loan supply to SMEs, with the development of new private financial institutions. Their exclusive aim would be making it easier for new and small enterprises to obtain financing through loans, capital contributions, endorsements or loan insurance.

Additionally, Fund resources would be assigned to provide technical assistance to financial institutions which would operate with the program to solve deficiencies and limitations in order to efficiently serve enterprises with a smaller relative size.

b) Technological transfer and technical assistance area:

The main conclusions which may be drawn from the analysis are:

- There is an appealing availability of funds for technological development and productive modernization, but more efficient coordinating and articulating actions are required.
- There is a relatively low degree of knowledge and usage of the available instruments by the SMEs.
- It is necessary to progress further in promoting the massive use of instruments in the entrepreneurs chambers and/or consultants associations and in other entrepreneurial association methods (technological transfer centers).
- Technical assistance is specially oriented to solving short term problems and providing standard, simple consulting services for the solution of specific problems. This fact limits the

presentation and execution of much more complex projects with a wider scope.

- The information and some consulting services are hardly developed.
- New policies and actions are required to:
 - i) assign specific grants for more tailored consulting services associated to the development and quality potential of the enterprise;
 - ii) give greater flexibility to TAF, as a short term alternative;
 - iii) design a technological transfer action plan so that SMEs modernization improves the technological basis and integrates technology issues into the enterprises' business strategy;
 - iv) design the Second Science and Technology Program;
 - v) define a new quality and innovation regulation system;
 - vi) strengthen the National Productivity and Quality Center.

5. Conclusions

1. During the Government of President Patricio Aylwing efforts were concentrated in designing and implementing an active policy to update and promote SMEs development in most of the aspects related with their operation. SMEs support still is a vital political issue of the present Administration, which focuses in correcting deficiencies in the tools's functioning, and in improving the coordination among involved institutions.

2. The guiding approach to public policy supporting SMEs is based, basically, on achieving markets, facilitating SMEs' access to new markets, and strengthening the cooperation linkages between entrepreneurs and agencies. The traditional approach of direct assistance to firms is being substituted, promoting the development of public and private institutions with "second floor" functions.

3. SMEs' policies are implemented through a significant public and private network, where CORFO is the core agency.

4. Many action lines encourage the association of firms and the active participation of enterprises, as a means of boosting their key operation areas, enhancing their development, promoting the general use of tools, and developing scale economies.

5. In the area of financing, the funds come from public resources and many international sources (IDB, Italian, Swiss, German Cooperation, etc.). Some of those resources are orientated towards smaller firms.

6. At official level, there has been a policy performance review, which has motivated significant changes in their implementation, together with the creation of new conditions. There is a tendency in the public action to move towards:

- making instruments and initiatives more flexible so as to have a more integral comprehension of SMEs situation;
- maintaining subsidies and increasing them indirectly through flexible tools;
- conditioning the access to certain financial lines to increase their orientation towards SMEs;
- giving Quality-FAT an identity of its own and training quality specialized consultants to assist SMEs
- promoting initiatives which stimulate a change in management style.

7. Given the short period of implementation most of SMEs support tools have had, there is consensus in that it is necessary to go on evaluating their performance and to advance in the definition of new actions within the mentioned guiding approach.

ANNEX

Major Characteristics of Chilean Financial Instruments and Access Conditions for SMEs

1. IDB GLOBAL MULTISECTORAL LOAN (INTER AMERICAN DEVELOPMENT BANK-576/OC-CH)

a) Program for banks and Financial Societies (Bases for fund bid Nº 67)

Financial Conditions:

Objective	Financing up to 100% of the amount of eligible subloans, destined to investment in capital goods, according to the Programs's rules.
Maximum Amount	The operation amount per beneficiary should not exceed 5 million dollars
Currency	UF or U\$S
Terms	From 1 to 10 years
Interest rate	Rate at which the bank gets the funds bid from CORFO, plus the margin charged to the client
Grace period	Up to three years
Service	Semi-annual installments

Requirements

Enterprise	Natural or private legal individuals whose annual sales volume does not exceed the equivalent to 20 million dollars.
Type of activity	All economic sectors, except housing, city planning, purchase of real state and transportation goods for personal use

b) Program for financing Private Enterprises Exports (Basis for resources use)

Financial Conditions:

Objective	Financing up to 85% of the amount of capital goods, durable consumption goods, and engineering and assembling services exports, performed by private enterprises established in Chile.
Currency	U\$S
Terms	From 1 to 10 years

Interest rate Rate at which the bank gets the funds bid from CORFO, plus the margin of the foreign bank involved.

Grace period Up to one year. For those enterprises requiring a long manufacturing or delivery term, special grace periods may be considered, with a first expiration at 18, 24 or 30 months.

Service Semi-annual installments

Requirements

This financing is applicable to goods manufactured in the country with fully national inputs, as well as to goods which manufacturing involves semi-manufactured imported raw material and spare parts articles -with a CIF value not superior to 75% of the FOB value of the corresponding goods, and which, during the process of manufacturing have been transformed, becoming a different element.

Regarding exports of equipment and elements which, as a whole, forms a productive unity or final good which needs to be assembled at the destination country, the components may meet, as a whole, the condition of minimum 25% integration. These operations may incorporate goods and equipments fully imported (i.e. with no level of integration) which, however, should not exceed 50% of the operation value.

c) Program for Leasing Enterprises (Basis of Bid, Nº 66)

Financial Conditions:

Objective The resources assigned to leasing enterprises in this Program's bids will be destined to finance up to a maximum of 85% of the goods value involved in eligible leasing contracts.

Currency In UF or U\$S

Terms From 3 to 5 years

Requirements

The amount of operation per beneficiary -including original amounts of current operations- financed with resources assigned in previous bids of this Program, will not exceed the equivalent to 3 million dollars. The value of the operation is the value of goods involved in the corresponding leasing contracts.

The annual sales volume of beneficiaries should not exceed the equivalent to 5 million dollars.

The funds assigned through this bid must not be used to finance leasing contracts involving station wagons, vans, jeeps and other similar vehicles for transporting passengers.

2. Financing line for Postgraduate Studies Loans

Financial Conditions:

Objective

This line is available for private commercial banks and financing societies to refinance with CORFO the loans assigned to university professionals with the purpose of covering postgraduate studies -abroad, and at Master, doctoral or equivalent level- expenses.

The loans will be financed studies for a minimum of 1 year and a maximum of 2 years.

Maximum amount

The loans will not exceed 90 million dollars or its UF equivalent. The line will allow the refinancing of loans up to 100% of its total value.

Terms

From 4 to 10 years

Interest rate

The loans will be granted by the Corporation with a fixed rate set periodically to the banks. The interest will be accrued on debit balances and they will be paid at the same dates as the amortization payment.

Grace period

Up to 48 months.

Requirements

The applicants must be Chilean, have a university degree from a, at least eight-month duration course, granted by a top level university, have academic endorsement granted by the International Cooperation Agency, Fulbright Commission or other similar entity established for such purpose.

3. Refinancing Line of Loans destined to Capital Goods Purchase and National Engineering Services Contracts (Available for eligible commercial banks as financial intermediates of CORFO-BID Multisectoral Program 576/OC-CH)

Financial Conditions:

Objective	This line is available for the banks to refinance with CORFO loans granted to private enterprises established in Chile, for the purchase of capital goods and the contract of national engineering services, with terms ranging from 2 to 8 years.
Currency	National currency
Terms	From 2 to 8 years
Interest rate	The Corporation will set periodically the interest rates for each of the term, readjusting and interest rate types described in the rules.
Grace period	Up to twelve months

Requirements

Amount to be refinanced	This line will allow the refinancing of loans for an amount equivalent to 100% the value of the eligible capital goods and national engineering services.
Type of goods	New capital goods and annexed services of national origin. For the purpose of determining the national origin, the goods will meet the requirement of 50% national integration.

4. Leasing Operations with Bonus Credit Insurance

Financial Conditions

Amount	Minimum 150 UF
Currency	UF or U\$S
Forms of Payment	Monthly rents, in advance or expired. The first one a month after reception of the good.
Purchase option	The value of a monthly rent paid at termination of the contract.

Requirements

SMEs size	Being an entrepreneur with total net sales between 2,400 UF and 20,000 UF per year (before VAT); with a patrimony superior to 10,000.
Type of activity	All economic sectors, except real state, housing, purchase of vehicle for personal use and collective urban transport.
Operation amount	Maximum of 3,000 UF, including the cash amount, leasing rents and the purchase option final installment.
Cash installment	Maximum of 15% of the operation amount
Contract term	Minimum of 18 months and a maximum of 48 months
Enterprise Life	Minimum of 12 months in business
Enterprise patrimony	Minimum of 800 UF (net patrimony)
Guarantee	Real guarantees cannot be demanded from leasing enterprises.

5. Banco de Concepcion - Credit Card for Production

Financial Conditions

Objectives	Financing the acquisition of raw material and other productive inputs, tax and social security payments and to get cash advancements.
Amount	To determine the credit line a quota is established according to the indebtedness capacity of the entrepreneur. The cash

advancements have a maximum of 30% of such quota.

Requirements

Those entrepreneurs meeting the requirements established by the bank regarding commercial reports and indebtedness capacity. Being a client of Concepcion Bank is not required. The credit is available in any of the 55 branch offices of Banco de Concepcion.

6. Banco del Estado de Chile - Non-readjustable Support Loan for Small Enterprises

Financial Conditions

Objective	Financing needs of investment in fixed assets and/or working capital for small enterprises
Maximum amount	Up to the equivalent of 500 UF
Currency	Peso
Terms	12, 24, 36 or 48 months
Interest rate	Market interest rate (restated every 12 months)
Grace period	Up to six month (except the interest)
Service	Fixed monthly installments (restated every 12 months according to the current interest rate in the market.
Guarantees	Mortgages, collateral -owned or belonging to third parties-, amounting to 100% of the credit and duly qualified by the corresponding bank office, with no special guarantees.

Requirements

Natural or legal individuals, with business in any sector of the economy and an annual sales volume inferior to 25,000 UF.
The credit is granted at the Small Enterprises Section of the Banco del Estado de Chile, headquarters or branch offices.

7. Banco del Estado de Chile - Loan for Small Enterprises

Financial conditions

Objective	Financing fixed assets and/or working capital of existing or new enterprises
Maximum amount	It depends on the project and the indebtedness capacity of the entrepreneur.
Terms and service	Working capital financing: up to a maximum of two years, with quarterly, semi-annual or annual debt service Investment financing (capital assets and, in qualifying cases, working capital associated to the project): from three to ten years. The service may be monthly, quarterly, semi-annual or annual with the possibility of a grace period.
Guarantees	Real guarantees (mortgages, collateral) owned or belonging to third parties, the amount of which depends on the bank's qualification factors.

Requirements

Formal natural or legal individuals performing productive or service activities in any of the sectors of the economy, with annual sales inferior to 25,000 UF.

They must submit economic and financial feasibility projects, which can be financed through the Subsidy to Financial Assistance (SUAF).

The credit is granted at the Small Enterprises Section, Banco del Estado de Chile, headquarters or branch offices.

8. CORFO - Subvención a la Asistencia Financiera (SUAF) (Subsidy to Financial Assistance)

Financial Conditions

Objective	Financing the elaboration and presentation of background information demanded from banks, financial entities, leasing firms, save and credit societies
-----------	--

and the Technological Development Fund (FONTEC).

Conditions

It finances the contract of the professional who prepares the project. CORFO subsidizes up to 75% of the consultant's cost, granting a maximum of 50 UF for leasing operations and others with up to one-year term, and a maximum of 75 UF for long term operations.

Requirements

Natural or legal individuals developing productive activities of goods or services, and showing annual sales -with no tax- of up to 25,000 UF.

They must apply to financing operations through a leasing or credit for a minimum amount of 300 UF and they should not be indebted with CORFO and SERCOTEC.

To have access to the SUAF, the entrepreneur must choose a consultant from a list issued by CORFO and sign a contract with him according to the modality advised by CORFO. Each eligible enterprise shall receive this subsidy system only once (except for FONTEC).

* Note: At present, this subsidy is in a process of redefinition.

9. Support Projects

Financial conditions

Objective:

Supporting associations among entrepreneurial belonging to similar or complementary branches or with the same location.

Modality:

It organizes a group of entrepreneurs willing to carry out a shared project allowing them to improve their competitiveness. These entrepreneurs apply for the creation of a PROFO in CORFO or any institution having an agreement with CORFO (ASEXMA, SERCOTED, SERNATUR, CINE CHILE, etc.)

Each PROFO can be granted a subsidy from CORFO equivalent to 70% of the total

costs. The remaining 30% must be financed by the entrepreneurs. The activities and expenses it finances are:

- Salary of PROFO's manager or any other support personnel
- Seminars on technological transfer and others
- Exhibitions
- Sampling and countersampling
- Consulting Services
- Travels
- Training
- Purchase of specialized books and magazines
- Researches
- Purchase of minor equipment
- Other operational expenses

This subsidy has the duration and covers mainly the start-up of the project.

Requirements

Medium and small entrepreneurs with similar or complementary business and located in the same place, demonstrating net annual sales not exceeding 100,000 UF. Nevertheless, PROFOs may include enterprises with higher sales level which shall not exceed 30% of the total firms integrating the PROFO.

10. Banco del Estado de Chile - Fondo de Garantía para Exportadores No Tradicionales (FOGAEX) (Guarantee Fund for Non-Traditional Exporters)

Financial Conditions

Objective

To guarantee loans for operation capital granted by financial institutions to non-traditional exporters.

Conditions

It is a guarantee of up to 50% the amount of the loan in local or foreign currency, with a maximum equivalent to 212,480 UF (readjustable annually according to the price index, relevant for the Chilean foreign trade) for each non-traditional exporter and with a annual commission of 1% on the guaranteed capital balance.

Requirements

The exporters of non-traditional products, these being the products that: Stay within the simplified reimbursement system (Law N° 18480)

Do not stay within the mentioned system but their exported amount does not surpass the average of 15,936,060 dollars in the last two years (the amount is determined according to the price index relevant to the Chilean foreign trade and other demands of the market).

The exporter should present his export operation in any commercial bank that has bid for the right to use the Fund at the Banco del Estado.

11. Guarantee and Endorsement Funds

Financial conditions

Objective

Facilitating a fast access to short term financing need, specially small and micro enterprises' cash needs.

Conditions

A group of members of an entrepreneurial association establishes a fund through individual contributions. This fund is deposited at a fixed term in a bank to guarantee a credit line for its members.

SERCOTEC supplies a loan for an amount equal to the one gathered by the group, which is deposited, thus increasing the guarantee fund.

The bank receiving the deposit opens a credit line for the members of the group, for an amount equivalent to three times the deposited fund (entrepreneurs' contributions plus SERCOTEC's loan). This deposit becomes the sole guarantee of such line, and the evaluation to grant this credit line is performed once in the year.

The characteristics and conditions of the SERCOTEC's loan and the operation proposal of three banks are described in the following section.

a) SERCOTEC's Loan

Amount	Equal to the fund gathered through the contributions of the members of the group or society.
Terms	Five years, with no capital amortization during that period, and with the possibility of renewing it upon expiration depending on the evaluation of the group's behaviour.
Interests	During the grace period of the capital amortization, at the lowest market rate or at 50% of the interests perceived by the deposit.
Guarantee	Solidary endorsement from each member of the group, for an amount equal to his own contribution.

b) Bank Credit Lines

Financial Conditions

Amount	It depends on the payment capacity, with a maximum equivalent to three times its contribution plus the proportional share of the SERCOTEC's loan.
Terms	To be agreed with the bank. It may be extended up to 24 months (Banco Edwards)
Interests	Fixed, at current interest rate for non readjustable operations.
Guarantees	The deposit is its sole guarantee.

Requirements

i) Banco del Estado

Create legally constituted groups

Ideally, organize a legal individual (close chartered company) with the specific purpose of administrating the resources gathered by groups which, in this case, do not need to have legal constitution, and supply the Bank with the necessary guarantees.

Each member must submit sound commercial reports,

i.e. should not have protested or unpaid documents, or be in default in the financial system.

Submit all the background information required by the Bank as supporting documentation.

Minimum amount per operation, approximately 350,000 dollars

ii) **Banco Edwards**

- Minimum of two years in business
- Sound commercial reports
- Minimum average monthly sales of \$ 1,000,000
- Maximum credit per member equivalent to 1,5 month of demonstrated sales, if such amount can be endorsed by the Fund.
- Maximum credit term of 24 months
- Normal documentation on situation status of beneficiaries including tax declaration.
- Minimum amount per operation \$ 1,100,000

iii) **Banco del Desarrollo**

This bank offers, besides loans for working capital, credits for fixed assets with amounts ranging from 50 UF to 800 UF, and terms from 12 to 48 months at a rate of UF plus 11% annually.

For working capital there are loans ranging from \$ 150,000 to \$ 4,000,000 with terms from 30 to 90 days, at the current interest rate for non readjustable operations.

The requirements to enter the Fund in both lines are the following:

- Minimum of three years in business
- Sound commercial reports, i.e. with no protests during the last two years. Should there be any, a satisfactory explanation must be provided. If there are protests previous to the last two years, they should be paid and endorsed.

- Normal documentation usually required by the Bank.

12. CORFO - Fondo Nacional de Desarrollo Tecnológico y Productivo (FONTEC) (National Fund for Technological and Productive Development)

a) Line 1: Financing of Technological Innovation Projects

Objective This financing is granted by FONTEC to implement private enterprises' projects to carry out technological research and development activities clearly aiming at incorporating significant improvement in the productive process, at implementing a brand new productive process, or at developing a new product line or major improvements to existing products.

Financing modality Through this modality, FONTEC will finance a research and technological development projects involving incentives such as granting support subsidies and loans, applied according to the total cost budgeted for their implementation and the estimated technological benefit and risk of each project.

Maximum amounts i) If the total cost in national currency is not superior to the equivalent of 100,000 dollars, FONTEC will be able to finance up to a maximum of 60% of the total cost of the project under the subsidy modality.

ii) If the total cost exceeds the equivalent of 100,000 dollars, FONTEC will be able to finance up to 80% of the total cost of the project, and over such financing, include an element of maximum subsidy defined according to the following table:

SECTION	TOTAL COST PER SECTION (U\$S)	MAXIMUM SUBSIDY PER SECTION (%)	MAXIMUM SUBSIDY ACCUMULATED (U\$S)
1	Up to 100,000	60%	60,000
2	from 100,001 to 200,000	40%	100,000
3	from 200,001 to 300,000	20%	120,000
4	300,000 and more	10%	120,000 plus 10% of the maximum cost over 300,001 dollars

Two subsidy levels are considered:

i) In the case that, when the project is completed, the enterprise does not wish to acquire exclusive rights on its outcomes, the subsidy will be counted as such in a 100%.

ii) In the case that, when the project is completed, the enterprise chooses to acquire exclusive use rights on its outcomes, it will reimburse 50% of the real granted contribution to FONTEC.

**Interests and
Amortization Terms**

The interest rate will be established at the moment of approving the corresponding operation and will have an annual value equal to the average saving interest rate for operations readjustable from 90 to 365 days, plus 1%.

Accrued interest will be paid semi-annually and capital amortization may be performed at expirations quarterly or semi-annually, together with the accrued interests.

The amortization term may be of up to 7 years as from the completion of the grace period. Such period may extend for a maximum of the contractual term for implementing the project plus one year. In all cases, the total term must not exceed 10 years.

Guarantees

The amount of the guarantees must be, at least, 130% of the requested loan. Exceptionally, guarantees covering 80% of the requested loan may be accepted plus the solidarity bond of solvent joint debtors. Loan operations will be bonded through real guarantees.

b) Line 1: Financing for Technological Transfer Projects submitted in an associative form.

Objectives

Firms belonging to the same productive sector, that in an associative form wish to implement or contract a short-term technological transfer project, characterized by the development of activities aimed at forecasting, spreading, transferring and adapting management and production processes technologies to associated enterprises to contribute to their updating.

Terms Not superior to 10 months.

Association requirements

At least five enterprises associated. As legal alternative, the signature of an "Association or Participation Accounts Contract" is suggested.

Financial modality

It is financed according to the modality established in the FONTEC's rules for technological innovation projects of the 1 A Line. Through this modality, FONTEC will be able to finance projects with a total cost not superior to the equivalent of 100,000 dollars, granting a maximum contribution of up to 60% of the project's total cost, as a subsidy. There is the possibility of choosing an advanced payment of financing resources or the credit of ascertained expenses.

c) Line 2: Financing for Technological Infrastructure and Technological Transfer Centers Investment Projects

Objective

Financing projects aiming at creating or reinforcing the technological research and development capacity and technological management inside the enterprises or goods and services producing entities, which requires investments on physical infrastructure, technological and scientific facilities and/or equipment as well as technical training of human resources involved in the project.

There are two types of projects:

i) Infrastructure Projects aiming at the implementation of Technical Information Centers, Standardization, Certification and Quality Control Units, and Industrial Laboratories. They may be submitted individually by an enterprise or associatively by at least three enterprises.

ii) Technological Transfer Center Projects submitted associatively by, at least, five enterprises belonging to the same productive sector, with the purpose of contributing to their updating through actions such as forecasting, technology development, etc.

Financing Modality

FONTEC will contribute to the co-financing of investments related to the mentioned projects.

Financial support will consist of a

technological support loan. However, the entrepreneurial participation in an associative form originates direct economic incentives such as the granting, from the part of FONTEC, of non-reimbursable funds (subsidy) applicable according to the project's cost, financing and limits of each case.

Maximum financing
Amount

i) In the case of laboratories or quality control units:

If the project is submitted individually or by two enterprises, FONTEC will finance up to 80% of the total project's cost and only under the financial support modality.

If it is submitted associatively by three or more enterprises, FONTEC will finance up to 80% of the total project's cost, amount which may be granted as a financial support loan plus a subsidy. The latter may reach up to 32% of the approved financing, with a limit of up to 300,000 dollars.

ii) In the case of Technological Transfer Centers

FONTEC's financing may reach a maximum of 80% of the total project's cost. This case considers a maximum subsidy of 40% over the total cost of the project with a limit of 300,000 dollars and the remaining amount may acquire the modality of financial support loan.

Interests and
Amortization Terms

The interest rate will be set at the moment of approving the corresponding operation and will have an annual value equal to the average saving interest rate for readjustable operations ranging from 90 to 365 days, plus 1%.

Accrued interests will be served semi-annually and capital amortization may be payed at expiration quarterly or semi-annually, together with accrued interests.

The amortization term may be of up to 7 years as from the completion of the grace period. Such a period shall not exceed the contractual term for the implementation of the project plus one year. In all cases, the total term

shall not exceed 10 years.

Guarantees The amount of the guarantees must be, at least, 130% of the requested loan. Exceptionally, guarantees covering 80% of the requested loan may be accepted plus the solidarity bond of solvent joint debtors. Loan operations will be bonded through real guarantees.

d) Line 3: Financing for Technological and Scientific Services Projects

Objective This is a financing granted to enterprises wishing to implement or contract support activities related to entrepreneurial technological development, aiming at improving technology transfer within the enterprise and/or commercializing the resulting innovations according to its productive and market objectives. Such activities should not generate new products or processes.

It includes a wide range of activities: a) technological management studies and analysis, b) commercialization of research and development outcomes, c) training services, d) technological information and assistance.

Financing Modality Financial support will consist of a technological support loan, of obligatory reimbursement. Through this modality, FONTEC will finance up to 80% of the total cost of each project's implementation.

Interests and Amortization Terms The interest rate will be set at the moment of approving the corresponding operation and will have an annual value equal to the average saving interest rate for readjustable operations ranging from 90 to 365 days, plus 1%.

Accrued interests will be served semi-annually and capital amortization may be payed at expiration quarterly or semi-annually, together with accrued interests.

The amortization term may be of up to 7 years as from the completion of the grace period. Such a period shall not exceed the contractual term for the implementation of the project

plus one year. In all cases, the total term shall not exceed 10 years.

Guarantees

The amount of the guarantees must be, at least, 130% of the requested loan. Exceptionally, guarantees covering 80% of the requested loan may be accepted plus the solidarity bond of solvent joint debtors. Loan operations will be bonded through real guarantees.

BIBLIOGRAPHY

CORFO, *PYME, Un desafío a la Modernización Productiva*, Friedrich Ebert Foundation, Santiago, 1994.

Cooperación Italiana, *La Pequeña y Mediana Empresa Chilena en el Marco de la Cooperación Internacional*, Santiago, July 1993.

CORFO, *Transferencia Tecnológica para Pyme más competitivas: diagnóstico y prospecciones de acciones futuras*, Santiago, September 1993.

CORFO, *Memoria Anual 1993*, Santiago 1994.

SERCOTEC, *Guía de Instrumentos de Apoyo, Programa Nacional de Apoyo a la Pequeña y Mediana Empresa*, July, 1993.

MINISTERIO DE ECONOMIA, FOMENTO Y RECONSTRUCCION, *Programa Nacional de Apoyo a la Pequeña y Mediana Empresa, 1922-1993*; Santiago, November 1993.

FUNDACION EMPRESARIAL CEE-CHILE, *Program of Activities*, Santiago, 1992.

Lysette Henriquez Amestoy, SERCOTEC General Manager, lecture on "How Chilean SMIEs have managed to export and the role of the state in this process", ALIDE, NAFINSA, UNAM, BID, Mexico, March 1993.

SERCOTEC, *Incentivos para las exportaciones*, Santiago, 1993.

Comisión de Fomento Productivo y Pyme, *Programa de Gobierno*, Santiago, September 1993.

The Chamber of Artisans of Dusseldorf and the Asociación de la Pequeña Industria en Valparaíso APIVAL, *Instrumentos y programas de fomento público para la micro y pequeña empresa: un estudio comparativo entre el fomento del Estado de Alemania y Chile*, November 1993.

PROCHILE, brochures on its main activities, Santiago 1992.

FONTEC, brochures on its main activities.

INVERTEC IGT, "Evaluation of Financial Support Tools for Technological Development in Chile", *Executive Summary*, May 1995.

INN, Catalogue of Chilean Standards.

CEPRI, brochures on its institutional introduction, July 1995.

CNPC, brochures on its institutional introduction, May 1995.

