The role of CORFO in Chile’s development: Achievements & Challenges

STEPHANY GRIFFITH-JONES, MARIA LUZ MARTINEZ SOLA

19TH April 2017
BNDES-CAF-IPD CONFERENCE, WASHINGTON DC
1. CORFO IN A COMPARATIVE PERSPECTIVE
2. CORFO IN CHILE’ S ECONOMY
3. CORFO TODAY
4. CORFO’ S FOCUS AREAS (GUARANTEES, START-UP, SOLAR ENERGY)
5. COUNTERCYCLICAL ROLE
6. CONCLUSIONS
CORFO in a comparative perspective
CHILE´S FINANCIAL MARKET COMPARATIVE PERSPECTIVE

Credit and Capital Market Size - 2015 (% GDP)

- Chile: Domestic Credit to Private Sector: 111% (GDP), Market Capitalization: 79% (GDP)
- Germany: Domestic Credit to Private Sector: 78% (GDP), Market Capitalization: 51% (GDP)

Source: own elaboration, based on WDI
CORFO – Comparative Perspective
stock 2015

Assets/GDP - CORFO vs KfW

Source: own elaboration, based on CORFO, KfW and BNDES reports.
CORFO in Chile’s economy
The Economic Complexity ranking of Chile has decreased 22 places over the past 51 years (from 38 in 1964 to 60 in 2015).

High Vulnerability and Exposure to Commodities Prices Volatility.

**SOURCE:** Own elaboration, base on The Atlas of Economic Complexity, Harvard.
Chile’s economy
Copper price volatility, DECREASING tfp

Rate of Growth
Total Factor Productivity

<table>
<thead>
<tr>
<th>Período</th>
<th>TFP Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990 - 1999</td>
<td>2.4</td>
</tr>
<tr>
<td>1993 - 1999</td>
<td>1.7</td>
</tr>
<tr>
<td>2000 - 2009</td>
<td>0.6</td>
</tr>
<tr>
<td>2010 - 2014</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: own elaboration, based on Bitran, 2016

URGENT NEED TO DIVERSIFY CHILE’S PRODUCTIVE STRUCTURE
CORFO TODAY
In 2015 the financial support deployed by CORFO amounted to USD 2,863 million → Only 1% of Chile’s GDP

SUFFICIENT SCALE CONSIDERING THE URGENT NEED FOR STRUCTURAL DIVERSIFICATION?
CORFO TODAY: FUNDING SOURCES

CORFO RELIES ON FISCAL RESOURCES

FISCAL RESOURCES LIMITED; PRIORITY TO MEET SOCIAL DEMANDS

CORFO LIMITED SCALE

BOND ISSUING AT CAPITAL MARKETS?
**BRIEF HISTORY**

**CORFO**

- **1939**
  - Creation
  - Chillán earthquake

- **1940s -1970s**
  - State-Owned Firms:
    - Steel Company – CAP
    - Electricity – ENDESA
    - Oil – ENAP
    - Airline – LAN

- **1973 – 1990**
  - Privatizations
    - Non-performing loans: 54%
    - From first to second-tier bank
    - Focus on SMEs

- **1990**

- **2000s**
  - Innovation
  - Entrepreneurship
  - 2005 - CNIC

- **2008/9**
  - Countercyclical Role

- **Currently**
  - Focus on Structural Transformation
  - Selected 10 strategic sectors
CORFO’S Focus areas
DEVELOPMENT STRATEGY & CORFO’S ROLE 
´chile transforms´

Source: prepared by the author, based on Bitran, 2016
GUARANTEE SCHEME
CHILE

OPERATIONS NUMBER (%)

- ✔ 2010: 82,177
- ✔ 2013: 144,815

76% increase

MORE CREDITS, but NOT BETTER COSTS

- ✔ THE STATE ASSUMES MORE RISKS
The grants reached up to USD 40,000 USD for Seed Capital and a year work visa.

Chile included 1 unicorn (Start up of at least USD 1 billion), 4 centaurs (with a valuation of between USD 100 million and USD 1 billion), and 31 little ponies (with a valuation of between USD 10 and USD 100 million).

Caveats: not statistically meaningful impact for the projects in term of: continuity of the start-up, sales (total value and growth), profits, exports, level of employment, later support from business incubators and accelerators and number of subsequent entrepreneurship from the project leader.
## SOLAR INDUSTRY

### ACHIEVEMENTS
- **2008** - Chile Renewable Energy Policy to gain more self-sufficiency and stability in energy provision
  - **2012** – Solar Energy Program
  - More 10% NCRE generation
  - 40% price drop (2016 – 2015 tender)

### CHALLENGES
- 8-9 years payback periods
- ONLY 17% firms local in SOLAR ENERGY projects
  - **ENERGY 2050** – 55% local firms target
- Local Firms – NO TRACK RECORD, real collateral
- PRICE VOLATILITY --> UNCERTAIN CASHFLOWS
  - PRIVATE FI withdraw financing support

---

CORFO --> PV Solar Energy for Desert Weather and High Radiation

**NEED STEEP INCREASE IN CORFO’S ROLE – PATIENT PUBLIC CAPITAL TO MEET DEVELOPMENT STRATEGY TARGETS**
COUNTERCYCLICAL ROLE
COUNTERCYCLICAL ROLE
2008 FINANCIAL CRISIS

Loans Private and Public Banks (% var. i.a. 2008-2009)

Perú -7.6 2.2
México -3.8 0.7
Costa Rica -4.1 7.7
Colombia -3.3 18.6
Brasil -1.8 17.1
Argentina 1.5
Chile -6.3 20
Uruguay -7.6

CORFO
✓ Injected additional USD 850m, to leverage USD 1,800m
✓ Increased flexibility in guarantees’ requirements
✓ Increased financing limits

SOURCE: Own elaboration based on ALIDE, 2010
CONCLUSIONS

- Innovative in several of its instruments: START-UP, SOLAR POWER, etc

- CORFO has undertaken a Structural Transformation Approach with ´Chile Transforms´, but still need to be fully deployed in practice

- Active COUNTER-CYCLICAL role, but still small scale to have significant impact

- Need to increase its scale, especially in times of low commodities prices, as diversification essential

- Many programs and sectors; possible need for greater focus

- Focus on Guarantees, taking much risk, but not direct lending
THANKS!

STEPHANY GRIFFITH-JONES AND MARIA LUZ MARTINEZ SOLA

19TH April 2017
BNDES-CAF-IPD CONFERENCE, WASHINGTON DC