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# PORTUGUESE MUTUAL GUARANTEE SYSTEM

4th International Mena Guarantee Forum

April 2019

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# PRINCIPAIS INDICADORES NACIONAIS/ MAIN NATIONAL INDICATORS

## 2018

### POPULAÇÃO E EMPRESAS
### POPULATION & ENTERPRISES

HABITANTES
POPULATION

**10 260 400**

EMPRESAS / ENTERPRISES

**45 191**
Constituídas / incorporated

**18 111**
Extintas / Extinct

## 2018

### MERCADO DE TRABALHO
### LABOUR MARKET

TAXA DE EMPREGO
EMPLOYMENT RATE

**75,1%**

TAXA DE EMPREGO
EMPLOYMENT RATE

**6,7%**

**4 883 000**
Empregados/ Employees

**349 100**
Desempregados/ Unemployed

Fonte/Source: Banco de Portugal

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**FILL THE MARKET GAP** ON SME DEBT FINANCING

THUS STRENGTHENING THE MARKET MECHANISMS.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM
## THE REASON WHY

**SME ARE KEY ACTORS IN THE EU ECONOMY**

They represent an important part of employment, gross domestic product and other macroeconomic indicators (such as exports).

**CREDIT FINANCE IS IMPORTANT TO SME IN THE EU**, as they

- Have none or limited access to venture capital, mezzanine capital, bond issues, etc.
- Have weak own funds positions (limited capability to self-finance fixed assets investment or working capital needs)
- Rely predominantly on loan finance
- Usually have a relative lack of bankable collateral

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DUE TO THE RELATIVE LACK OF COLLATERAL, **LOAN FINANCE TO SMALL BUSINESSES IS MORE DIFFICULT AND EXPENSIVE**, THAN FOR BIG COMPANIES.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM
## WHY GUARANTEES

Due to difficulties from the conventional financial system to solve the problem of failure in the credit markets, which **do not get adequate funding** to businesses, particularly **to micro and SME or corporations, on the early stages of their life cycle**, alternative banking coverage risk mechanisms have been created.

Among these mechanisms, **the credit guarantee system for SME** is based on specialized institutions in covering (usually partially) bank credits to SME.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

Born to improve the financing conditions for small and medium-sized enterprises, **the crises years witnessed an exponential growth in the activity** of the system, reaching record highs in 2009 and 2010.

This was followed by a natural slowdown, but the Portuguese system began to regularly issue over 1 billion euros in guarantees every year, becoming one of the most important in Europe.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

The Portuguese Mutual Guarantee System emerges in 1994, upon the establishment of SPGM – Sociedade de Investimento, S.A.

It was a pilot scheme promoted by IAPMEI, designed to test the feasibility of this financial instrument in the Portuguese market. Basing on experiences from other countries, SPGM proposed to facilitate the SMEs access to debt by ensuring, to some extent, the financing operations, thus reducing the risk profile the financier encountered. The mutualist character of the instrument was ensured by the benefiting firms' obligation to take equity participation in the guarantee society.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

With headquarters and offices in Porto, SPGM began its activity in the following year.

In the first years of activity, while SPGM was the only entity dedicated to mutual guarantee concession, it focused in disseminating this new financial product, both among prospective user firms and banking institutions, and in preparing the future legal framework to support the development of the Portuguese mutual guarantee system and a set of good practices that could be replicated by the future Mutual Guarantee Societies (MGS).

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

In 2002-2003 the system evolves to its present configuration.

In 2002, the activity of SPGM activity was divided into three Mutual Guarantee Societies (MGS), Garval, Norgarante and Lisgarante, with headquarters in Santarém, Porto and Lisbon, respectively.

Despite SPGM's participation in the MGS, the majority of their equity capital was held by private organizations, namely national credit institutions and business associations. But the majority of SPGM's capital continued to be publicly owned.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

As of 2003, the three MGS were in charge of the operational activity of providing guarantees, with SPGM assuming the role of the holding, managing the MCGF, promoting the financial product and ensuring them the provision of a set of shared services.

In 2006, there was a new and significant development in the Portuguese Mutual Guarantee System, the formation of Agrogarante, a MGS exclusively dedicated to supporting the agroforestry sector, having begun its activity in 2007. Like the other MGS, the majority of Agrogarante’s capital is private.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

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agrogarante
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garval
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lisgarante
SOCIEDADE DE GARANTIA MÚTUA

norgarante
SOCIEDADE DE GARANTIA MÚTUA

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

At the operational level, there are four Mutual Guarantee Societies: Norgarante, Garval, Lisgarante and Agrogarante.

While Agrogarante, suportes the agroforestry sector, the first three provide guarantees to firms in the industrial, energy, construction, tourism, trade, service and transport sectors. Each of these three societies has a preferred geographical area of operation, though it may sometimes operate outside it, particularly in the context of syndicated operations.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

Supporting the MGS is the Mutual Counterguarantee Fund (MCGF), a public legal entity responsible for ‘promoting and carrying out the actions required to ensure the solvency of the Mutual Guarantee Societies.’

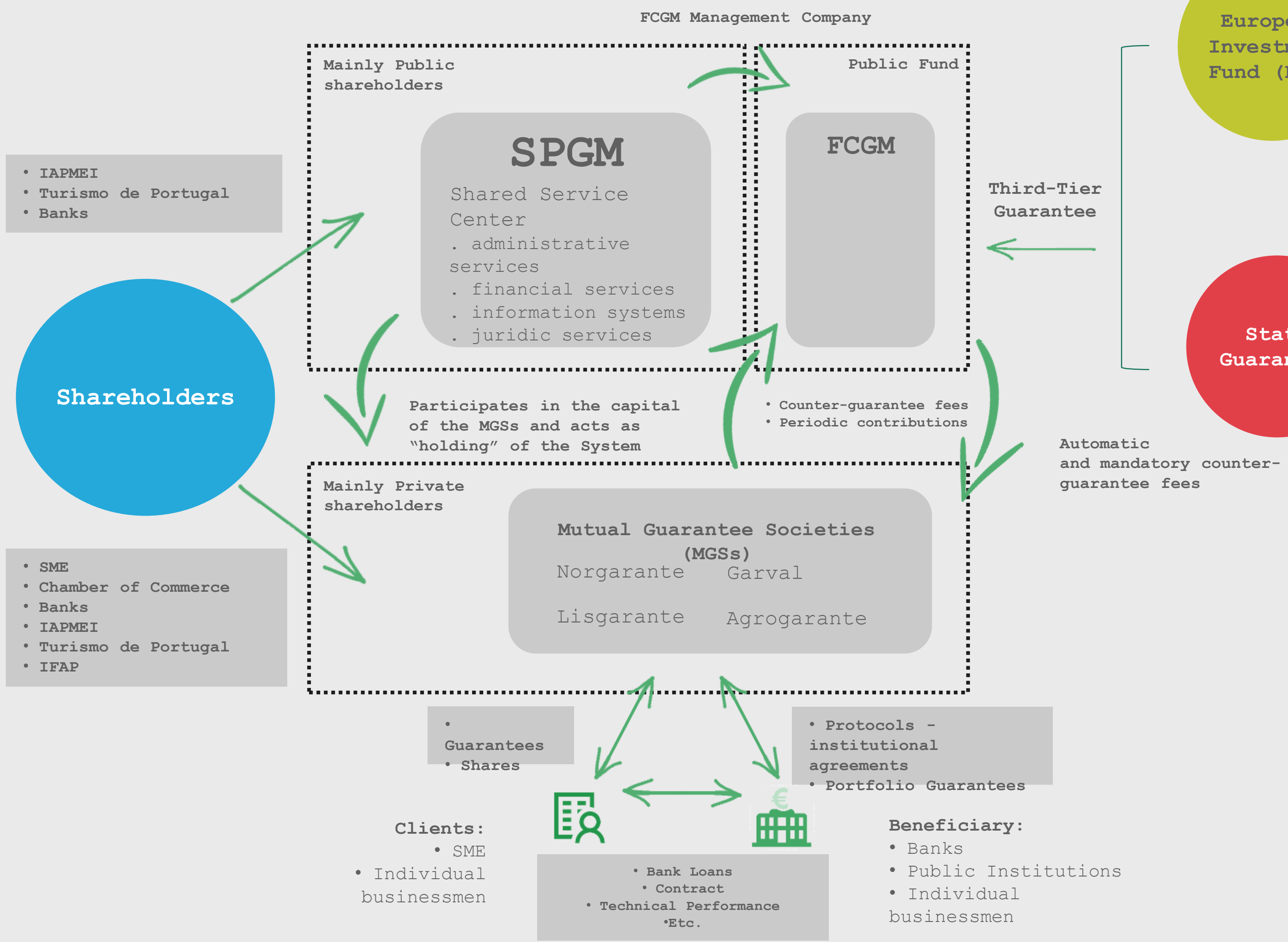
The Fund counter guarantees operations performed by MGS, having several guarantee lines, resulting from public or international funding. The counterguarantee reduces the risk incurred by the MGS, reducing the required provisions, having a multiplier effect on their ability to provide guarantees without undermining their solvency ratio.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

SPGM works as a shared service centre, supporting the four MGS in areas such as treasury, payments, collections, human resources, accounting, taxation, employment, litigation, as well as information systems.

It is also responsible for the Mutual Guarantee's strategic and institutional marketing and for the system's institutional and external representation.

# PORTUGUESE MUTUAL GUARANTEE SYSTEM
## A FULLY INTEGRATED GUARANTEE NETWORK




The Portuguese Guarantee System consists of a public-private partnership, that forms a fully integrated guarantee network.

**First**, the guarantees are issued by autonomous mutual guarantee societies (MGSs) in which the beneficiary SME also holds a stake.

**Second**, a counter-guarantee mechanism is granted through the Mutual Counterguarantee Fund (MCGF), managed by SPGM.

## ADDED VALUE OF GUARANTEE SYSTEM

# Advantages to SME

- Access to finance for economically reliable projects
- Recognition of qualitative factors in credit guarantee entities/ MGS risk analysis
- Support services and third party analysis by sector analysis of business plan and model
- Not highly profit oriented
- Intermediary function of System towards lender
- Participation in management of scheme

## ADDED VALUE OF GUARANTEE SYSTEM

# Advantages to BANKS

- Reduction of bank's risk exposure, improvement of credit quality
- Build-up of SME-Retail portfolio
- Financial supervision of MGS (trust and sustainability vis-a-vis lending partners)
- MGS provides specific sector knowledge of SME customer in addition to traditional analysis
- Specialization in guarantee business
- Mitigation effect on risk-asset ratio, thus reduction on capital consumption by the banks
- High level of liquidity of guarantee vis-a-vis other types of collateral (usually guarantees are first demand)

# PORTUGUESE MUTUAL GUARANTEE SYSTEM

## MAIN INDICATORS OF ACTIVITY

| 106.449 | 15.173.340.928 € | 30.565.945.855 € | 1.539.070 | 3 527 303 505 € |
|---|---|---|---|---|
| Guaranteed Companies | Guarantees Issued | Supported Investment | Employment | Portfolio of Guarantees |

**The increase in the number of operations eligible for credit granting encourages investment beyond what would have be possible if the Mutual Guarantee System did not exist.**

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD

## MAIN CONCLUSIONS

Mutual guarantee plays a vital role in reducing the risk of the bank credit portfolio because of the loss-sharing mechanism it establishes.

In this sense, this instrument is particularly relevant for clients that are classified - from the point of view of credit risk analysis - into rating classes with high default rates (PD and LGD).

The dilution of losses, through sharing with the mutual guarantee society, and reinforced by existing counterguarantees, allows banks to extend their business to clients who would otherwise be excluded or penalized in accessing the financing.

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD
## COST OF DEBT

## - 0,57%

The use of mutual guarantees **reduces the debt cost rate by 0.57 percentage points**

The impact of mutual guarantees is more intense in firms with smaller age, smaller firms, firms that have lower proportion of tangible assets in their total assets, and the most significant impact was in trade firms and manufacturing industries.

## 186.159.000€

Mutual guarantee impact on **the cost of debt:** -186 159 000 €

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD
## ACCESS TO FINANCIAL DEBT

**+ 5%**

The use of mutual guarantees **results in a rise of 5 percentage points on the debt ratio.**

This effect is strongest in smaller firms but also in those of greater age and higher availability of tangible assets..

Mutual guarantee impact on **the use of financial debt:** 7.855.274.000 €

**7.855.274.000 €**

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD
## TERM STRUCTURE OF DEBT

**+ 2%**

The use of mutual guarantees **lengthens debt maturity by almost 2 percentage points.**

This effect was more significant in trade and in manufacturing industries, than in construction.

Mutual guarantee impact on **the use of non-current financial debt:** 677.549.000 €

**677.549.000 €**

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD
## TOTAL INVESTMENT

**+ 7,5%**

Mutual guarantee generates a substantial increase in the total investment of its users which is estimated at 7.5 percentage points

This effect is strongest in smaller firms, higher availability of tangible assets. This effect was more significant in trade and in manufacturing industries.

**3.798.839.000 €**

Mutual guarantee impact on **total investment:** 3.798.839.000 €

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD
## INVESTMENT IN TANGIBLE ASSETS

**+ 15%**

The use of mutual guarantees results in an increase of the investment rate in tangible assets in the order of 15 to 16 percentage points.

This effect was more significant in manufacturing industries) and in ‘other’ activities.

**1.716.285.000 €**

Mutual guarantee impact on **tangible asset investment:** 1.716.285.000 €

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD
## EXPORTS

**+ 0,14 %**

Mutual guarantees increases the export rate, for the median firm, in 0.14 percentage points.

This effect is more intense for older and larger firms, and firms with less tangible assets in total assets.

Mutual guarantee impact **on exports:** 805.034.000 €

**805.034.000 €**

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD
## EMPLOYMENT

**+ 0,6 %**

The use of mutual guarantees has a positive impact on job creation, increasing its annual rate of change in 0.6 points percentages.

significant growth in manufacturing and trade but a considerable decrease in 'other' activities,

**14.246 employees**

Mutual guarantee impact **on employment:** 14.246 employees

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD

## SURVIVAL

**higher %**

The survival rate of the mutual guarantee users is greater than that of the non-users.

During the period under review (2011-2016), the use of mutual guarantees substantially increased the survival probability of their users, even more than suggested by the comparison between users and non-users.

# ECONOMIC AND FINANCIAL ADDITIONALITY OVER THE 2011-2016 PERIOD
## IMPACT ON GROSS VALUE ADDED

## 5,1 billion euros

The global impact of mutual guarantees on the Portuguese GVA, between 2011 and 2016, was of some 5.1 billion euros. The production induced by the mutual guarantee system represented, annually, between 0.43% and 0.69% of total Portuguese GVA.

in the years in which the performance of the Portuguese economy was more favorable, mutual guarantees' contribution accounted for about a third of the total growth of the Portuguese economy.

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