

European Union



European Agency for Reconstruction

**WORKSHOP ON
CREDIT GUARANTEE FUNDS**



Government of the Republic of Montenegro

MR. JOSE FERNANDO FIGUEIREDO

President

Portuguese National Guarantee Scheme

*Portuguese Experience with
Credit Guarantee Funds*

*Advisory Support for Transformation of the Development Fund
An EU funded project managed by the European Agency for Reconstruction*

Portuguese Mutual Guarantee Scheme

key aspects

Corporate Mission

▶ **Support SME access to finance** (filling a market gap):

- ✓ Reducing **size** difficulties
- ✓ Reducing **collateral** needs
- ✓ Reaching better **interest rates**



Improvement of SME's **financial structure**



Increase of SME's **financial credibility**

**SME are the focus of the
Guarantee Scheme**

Portuguese Mutual Guarantee Scheme

key issues

Main Players

SPGM

(the “holding” of the Scheme)

Mutual Guarantee Societies (MGS)

(the guarantees issuers)

-Counter Guarantee Fund - FCGM

(partially covers the MGS risks)

Portuguese Mutual Guarantee Scheme

key issues

Legal Framework

- ▶ **MGS as private credit institutions:**
 - benefit to banks within Basle rules, lowering required capital weighting of guaranteed loan portfolio to 20%

- ▶ **Minimum MGS share capital: € 2 500 000**
 - (presently each MGS has € 12 million of **subscribed share capital**, the majority held by private SME, Chambers of Commerce and commercial banks)

- ▶ **Minimum SME participation:**
 - MGS with an initial SME participation of 25% to be increased up to 50% after 3 years of activity

- ▶ **Public participation in the scheme :**
 - **counter guarantee mechanism (FCGM) defined by law**
 - supporting establishment and growing of new MGS
(in both situations by using structural funds programmes for Portugal and, later, EIF support under MAP, to get “3rd level” coverage)

Portuguese Mutual Guarantee Scheme

key issues

Legal Framework – main laws

<p>Decree-Law nº 211/98, dated 16 July 1998,</p> <p>revised by Decree-Law nº 19/2001, dated 30 January 2001</p>	<ul style="list-style-type: none"> - establishes the concept of Sociedades de Garantia Mútua (SGM) in the Portuguese law. - classifies the SGM as a special credit institution, regulated and supervised by the Central Bank as any other Portuguese bank and subjected to the solvency ratio and provisions rules as any other bank in the Portuguese system.
<p>Portaria nº 1010/98, dated 1 October 1998</p>	<ul style="list-style-type: none"> - sets the minimum share capital for a Mutual Guarantee Society on 2,5 million Euro.
<p>Decree-Law nº 229/98, dated 22 July 1998</p>	<ul style="list-style-type: none"> - creates the Fundo de Contragarantia Mútuo (FCGM) as the national legal body entitled to counter-guarantee all the guarantees issued by the Mutual Guarantee Societies (MGS).
<p>Portaria nº 1354-A/99, dated 31 December 1999</p>	<ul style="list-style-type: none"> - approves the FCGM specific rules and procedures. Only after this Portaria the FCGM was formally able to start operations.

Portuguese Mutual Guarantee Scheme

key issues

SPGM

Established in 1994 to act as a pilot-MGS with the aim of creating a private Guarantee Scheme (mutual)

Legally is a credit institution (*“sociedade de investimento”*)

Main shareholders:

- **National SME Agencies** (IAPMEI, ITP)
- **Largest private banks** (BPI, BES, MilleniumBCP, BTA)
- **residual - some SME**

(around 500 SME´s as by 31 Dec. 2002, the end of the pilot-project, that have been transferred to the new MGS)

Portuguese Mutual Guarantee Scheme

key issues

Scheme Development

From the end 2002, establishment of “regional” MGS:

- **NORGARANTE MGS** in the north
- **LISGARANTE MGS** in the south and Madeira Island
(these first two through a splitting process of the pilot activities of SPGM)
- **GARVAL MGS** in the centre and Azores Islands (since the beginning created as **local private initiative**, supported by SPGM)
- **AGROGARANTE MGS** national level, acting specifically for **agro industries** (again an initiative of public Agriculture authorities with the support of FEOGA programmes for Portugal but respecting the legislation on **private management** and **minimum share capital from SME**. At the same time it will be under FCGM coverage using special capital endowment to the fund made for that purpose by public authorities)

Portuguese Mutual Guarantee Scheme

key issues

Public Counter Guarantee Fund (FCGM)

managed by SPGM

Current capital amount: subscribed € 144 million,
disbursed € 123 million

- **Second layer guarantee**
- **Usual counter guarantee between 50% and 80% of MGS guarantee amount** (average around 60%)
- **European Investment Fund (EIF) gives the fund a “third level” guarantee under specific circumstances** (EIF coverage helps FCGM to raise its counter guarantee on MLT investment loans to SME under 100 workers)

Counter Guarantee Fund (FCGM)

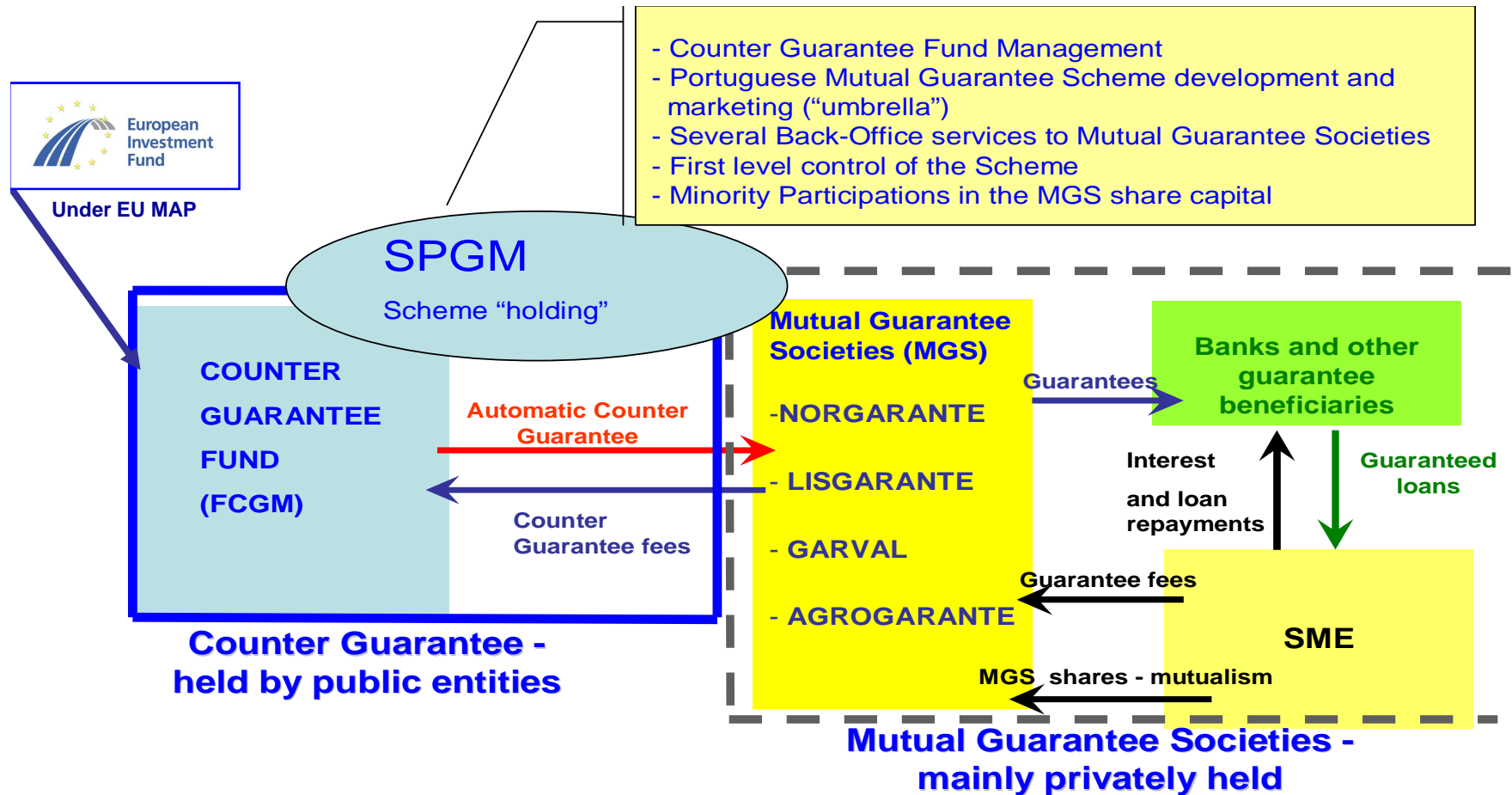
The FCGM as a tool to develop Public Policies

- The SME Agencies can design special measures aiming help SME getting better access to finance through the counter-guarantee mechanism
- Recent start-up programme called FINICIA, from IAPMEI is an example
- Then evaluation and market distribution is made by MGS in partnership with banks and SME organisations, assuring higher levels of transparency and efficiency

Portuguese Mutual Guarantee Scheme

key issues

Strategic View



All MGS apply a homogeneous credit assessment, according to principles and rules discussed and approved by all entities of the scheme

Portuguese Mutual Guarantee Scheme

key issues

Present Operational Situation of the Scheme

Mutual Guarantee Societies (MGS)

- Local and Direct Marketing
- Deal Flow Origination
- Bank channelling
- Risk Assessment
- Guarantee decisions and Issuing
- Monitoring
- First steps on recovering procedures
- Risk management of its portfolio
- Development of small branches network on main district

Counter Guarantee Fund (FCGM)

- Automatic counter guarantee to the MGS
- Agreements with EIF for third level coverage

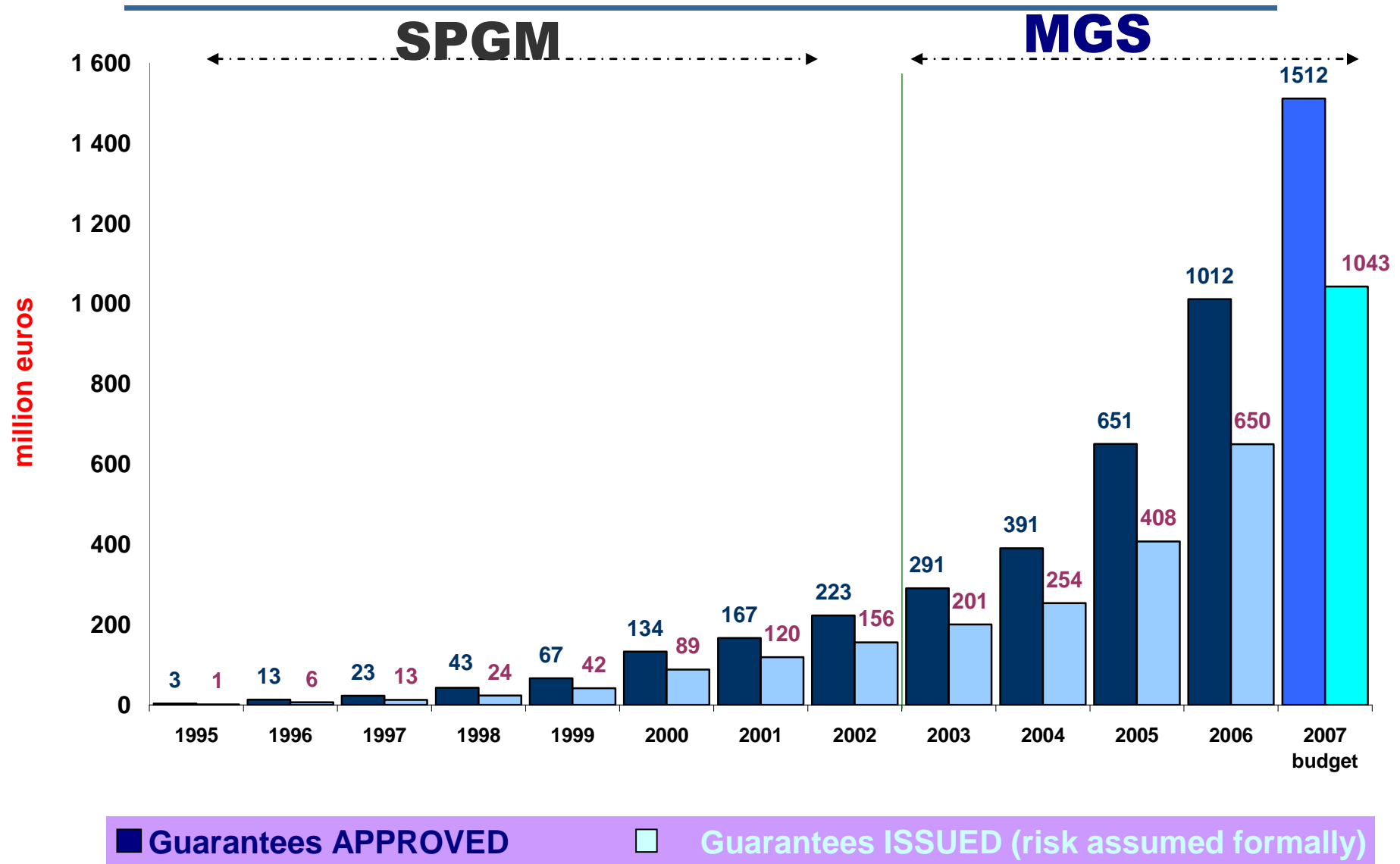
SPGM (the “holding”)

- Manages the counter guarantee fund
- Acts as Shared Services Centre to all MGS (back office)
- Strategic unit for global product development and procedures
- Global Marketing of the product “mutual guarantee”
- Institutional relations and international representation
- Minority participations in the MGS share capital

Portuguese Mutual Guarantee Scheme

key numbers

Accumulated Guarantee Commitments



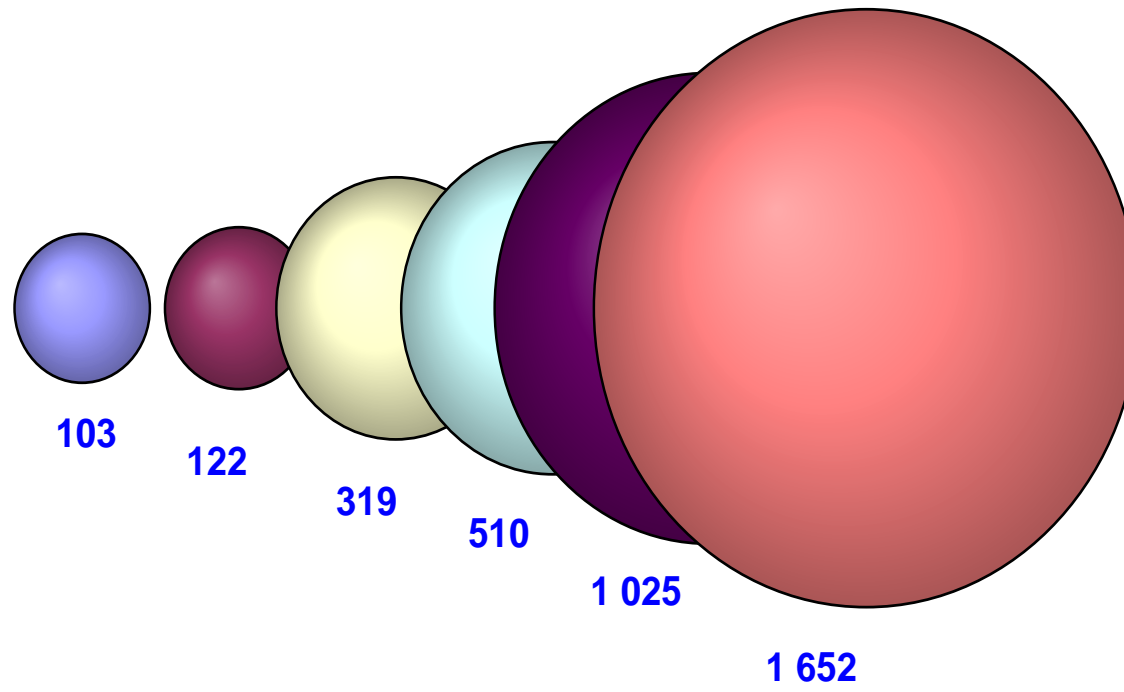
Portuguese Mutual Guarantee Scheme

key numbers

MULTIPLIER OF PUBLIC INVESTMENT in the PORTUGUESE MUTUAL GUARANTEE SCHEME

(accumulated at 30 June 2006 - million euros)

- Public Investment (SPGM + Counterguarantee)
- Total Investment (public + private at MGS)
- Counterguarantees issued
- Guarantees Issued
- Loans and other financing to SME
- Investment made by the SME



SME:
+ - 1.700

Jobs created or sustained:
+ de 55.000

Portuguese Mutual Guarantee Scheme

key issues

MGS Other Main Characteristics

▶ **MUTUALISM:**

- SME must buy shares = minimum 2% of guarantee value

▶ **INDUSTRY COVERAGE:**

- manufacturing, trade, tourism, services and construction & building
- with AGROGARANTE MGS, also agriculture and related industries

▶ **COLLATERAL POLICY:**

- as a rule, no real collateral is requested by MGS;
- often established some conditions such as:
 - *negative pledge*
 - *ownership commitment*
 - *cross-default*
 - *promissory notes*

Portuguese Mutual Guarantee Scheme

key issues

Typical Operations

Guarantees associated to:

- ▶ **Long Term bank loans** (normally related to investment)
- ▶ **Short Term loans**
- ▶ **Technical Duties** (like good quality of supplies)
- ▶ **Good payment on long term contracts** (like commodities or rentals)
- ▶ **Leasing financing**
- ▶ **Bond issues**
- ▶ **Public subvention anticipation**
- ▶ **Tax duties**
- ▶ **As a rule, guarantees associated to any SME contractual duty**

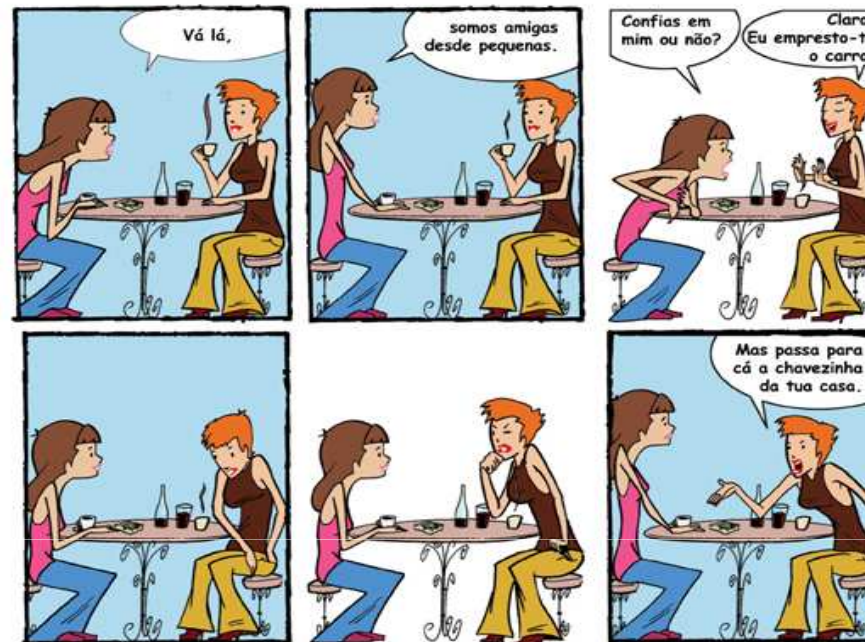
Portuguese Mutual Guarantee Scheme

key issues

As a conclusion, strong points

- **Support SME access to finance at low cost levels**
- **For banks, lower banking own fund requirements** (within solvency rules) **and lower provisions on credit risks**
- **Strict risk assumption** (as a consequence, low default rate)
- **High flexibility to adapt to most SME's needs**
- **Extensive industry coverage**
- **Adequate Fee policy and public** (national – FCGM and european – EU/EIF) **counter guarantee coverage assure long term sustainability of the scheme**

Marketing activities



Hoje em dia, ninguém empresta nada sem uma garantia.

No mundo dos negócios, já lá vai o tempo da palavra de honra. E nem sequer é uma questão de desconfiança, é simplesmente uma questão de lógica, bom senso. As Garantias a Empréstimos são hoje instrumentos fundamentais, pois permitem obter crédito junto das instituições bancárias em melhores condições de preço e prazo. E são apenas uma das muitas que as Sociedades de Garantia Mútua (SGM) prestam, cumprindo o seu papel de impulsionar o desenvolvimento das PME's.

Quando precisar de uma Garantia a Empréstimos, Garantia de Bom Pagamento, Garantia de Boa Execução ou qualquer outro tipo de garantia, fale com um especialista: a SGM mais próxima. É simples, rápido e custa muito menos do que imagina. E muitas vezes é a diferença entre ganhar ou perder um negócio, entre ficar parado ou ir mais longe.



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GarantiaMútua
Cresça connosco.

Uma ideia 

European Union



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THANK YOU FOR YOUR ATTENTION

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