

**Mutual Guarantee  
schemes  
and  
other financial  
instruments  
able to foster  
science and technological  
innovation**

***Lisbon Research and Policy Workshops  
on  
"Science, Technology and Social  
Change"***

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**José António Barros  
SPGM Chairman**

## Portuguese Mutual Guarantee Scheme - Main Players

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**SPGM** [public - private joint-venture; mostly public]  
(the Scheme “holding company”)

**Mutual Guarantee Societies – MGS** [private institutions]  
(the credit facilitators)

**Counter Guarantee Fund - MCGF** [public fund]  
(discounts the MGS risks)

## Portuguese Mutual Guarantee Scheme - Main Partners

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**SME and SME Associations / Chambers of Commerce**  
(the mutual partners)

**Banks and other credit Institutions**  
(the guaranteed loaners)

**Local Authorities and Central Government Agencies**  
(the risk discounters)

## Portuguese Mutual Guarantee Scheme - Legal Framework

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### ▶ **MGS as private credit institutions:**

Benefit to banks within Basle rules, lowering required capital weighting of guaranteed loan portfolio

### ▶ **Minimum MGS share capital: €2 500 000**

Norgarante MGS, Lisgarante MGS and Garval MGS => €12 million

Agrogarante MGS => €6 million

The majority of MGS share capital is hold by private SME, SME Associations / Chambers of Commerce and commercial banks

### ▶ **Minimum mutual participation:**

MGS with an initial mutual SME participation of 25%  
which should be increased at least to 50% after the first 3 years of activity

### ▶ **Public participation in the scheme :**

Counter guarantee mechanism (MCGF) as defined by law  
Supporting establishment and growth of new MGS

## Portuguese Mutual Guarantee Scheme - Corporate Mission

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

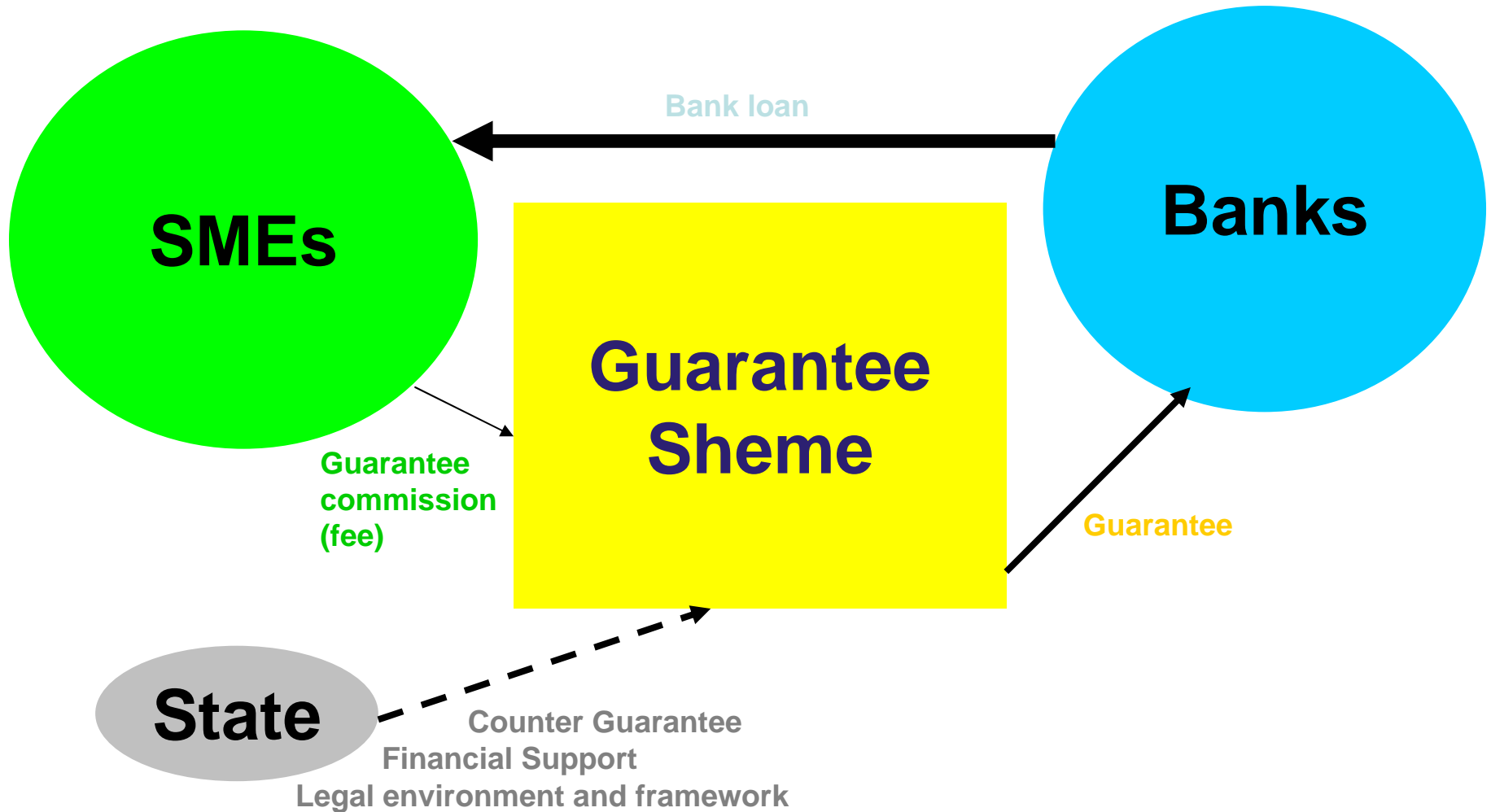
- ✓ Reducing **size** difficulties
- ✓ Reducing **collateral** needs
- ✓ Reaching better **interest rates**

➡ Improvement of SME's **financial structure**

➡ Increase of SME's **financial credibility**

**SME have been until recently the only focus of the Guarantee Scheme**

## Historical Guarantee Triangular Relationship



## Portuguese Mutual Guarantee Scheme – Recent Development

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### Extension of activities

- ❖ in the benefit of entities besides SME, such as **individuals**



**Students** (pre graduated and post graduated)

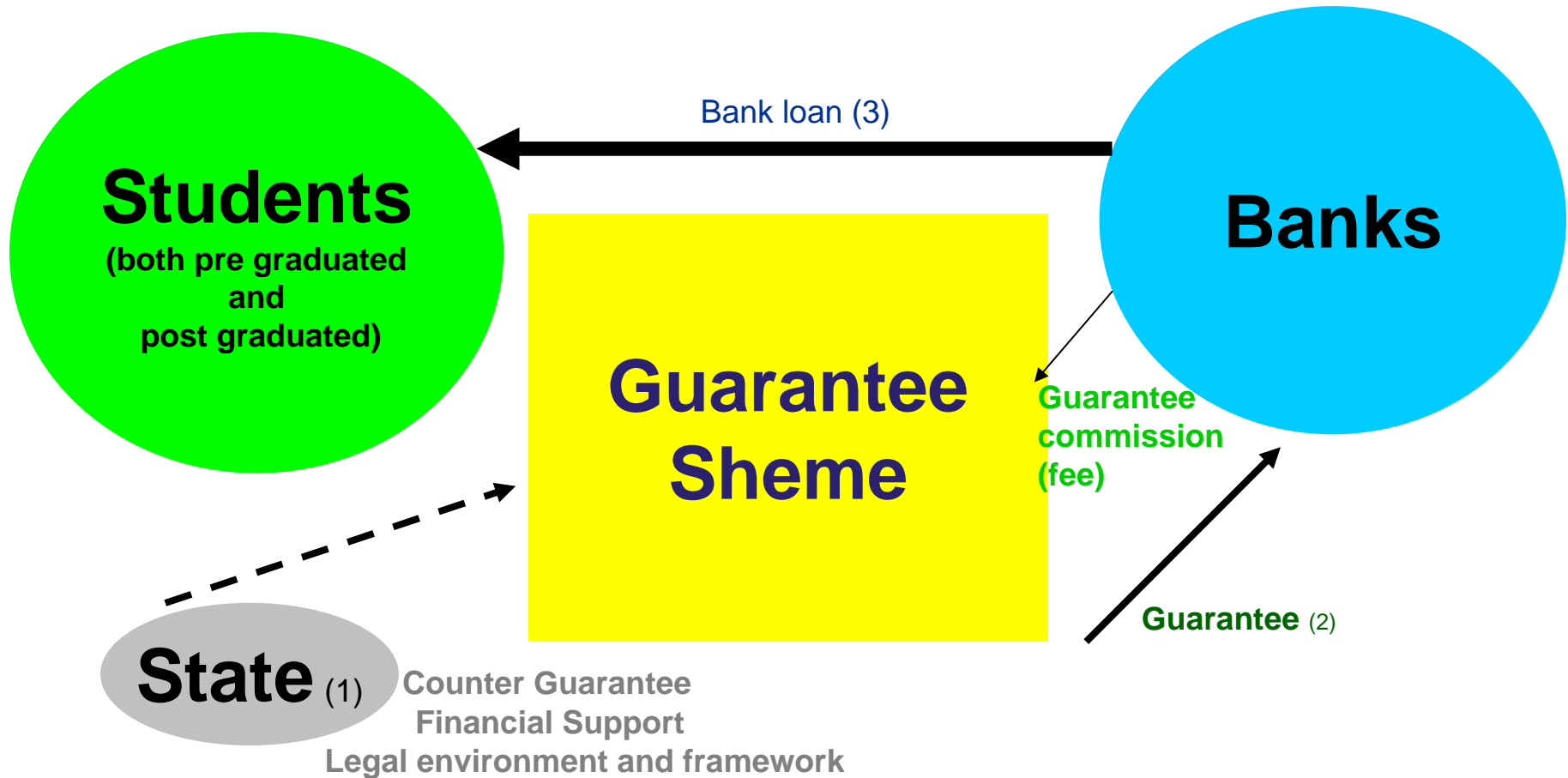
### Diversification of guarantee types

- ❖ possibility to issue **portfolio guarantees** in addition to single guarantees



**Student Guarantees** (to banks, lending to students)

## Extended Guarantee Triangular Relationship



(1) Ministry of Science, Technology and Higher Education

(2) Portfolio guarantee (covers losses only up to 10% of bank loan values)

(3) Up to Eur 5000 per academic year

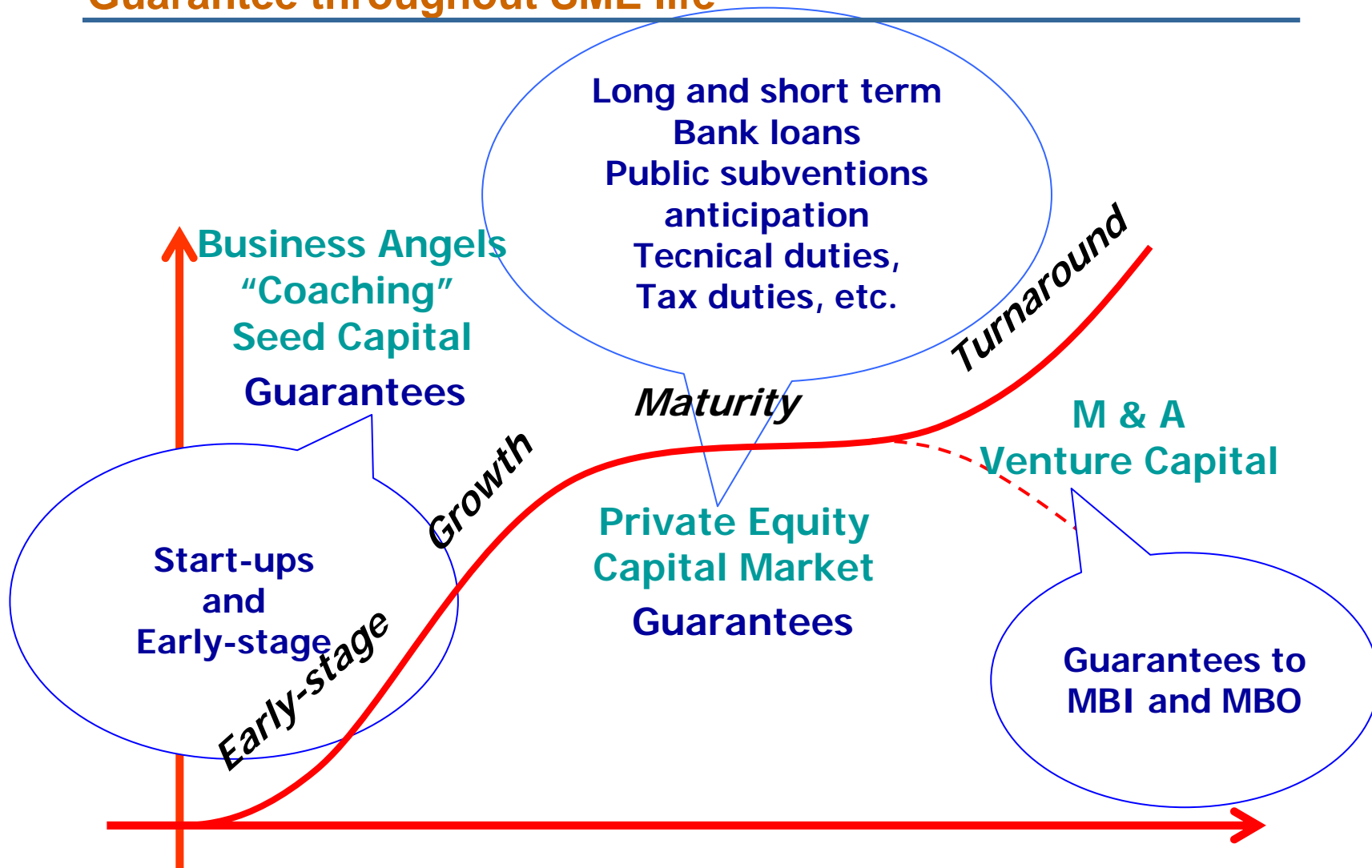


## Credit Line with Mutual Guarantee for Students

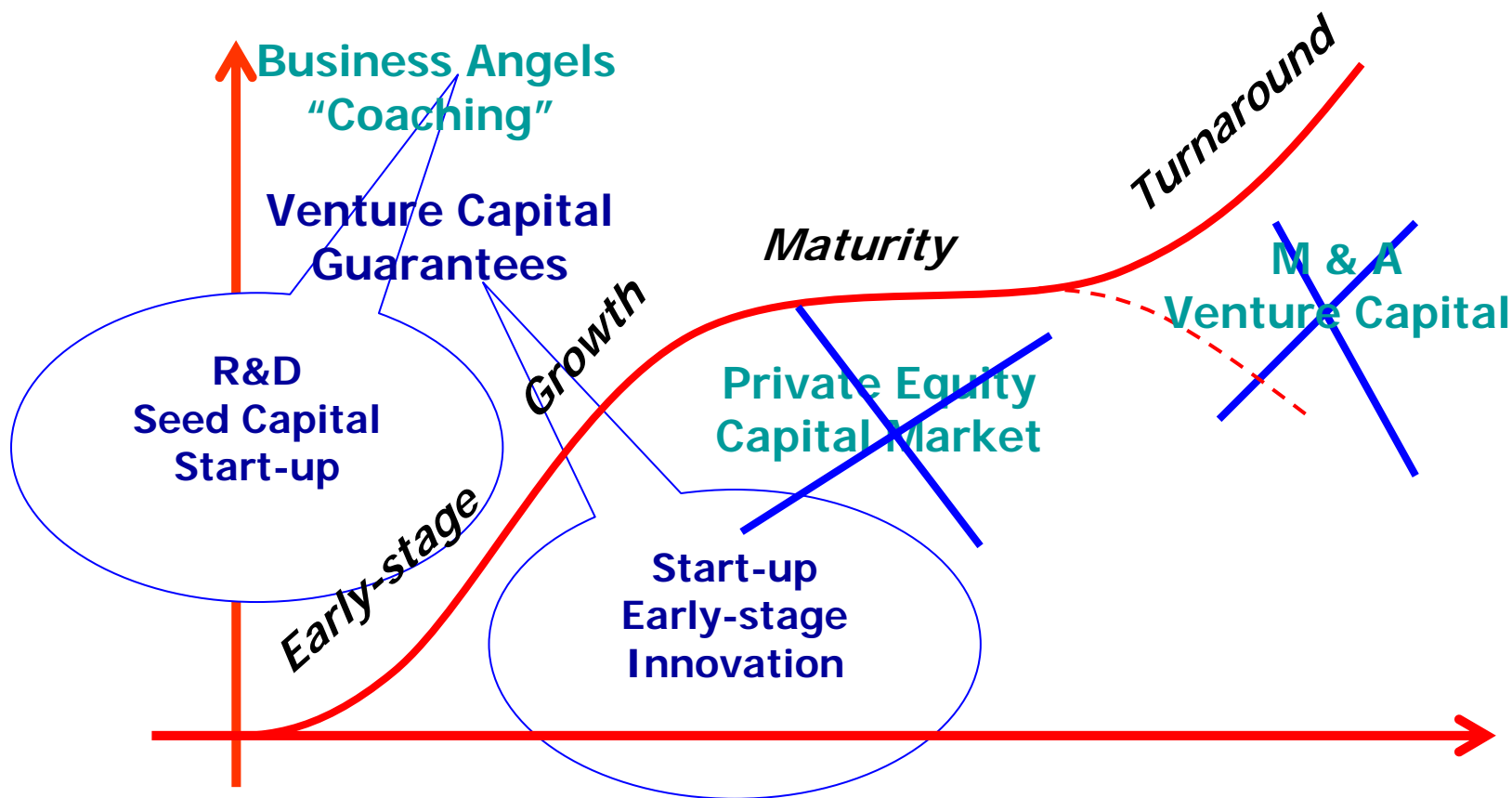
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- ❖ Any University and other higher education courses
- ❖ No need for the student to disclose the reasoning for the loan
- ❖ No collateral to be submitted by the Student or his/her Relatives
- ❖ Largest banks distribute this credit line all over Portugal
- ❖ Automatic and fast bank approval in most cases
- ❖ Very low interest rate [Euribor + maximum of 1%]
- ❖ Interest rate varies negatively according to  
academic performance [“the better you are the less you pay”]
- ❖ Loan between Eur 1000 and Eur 5000 per academic year
- ❖ Disbursements in 12 months
- ❖ Grace period of one year
- ❖ Reimbursement during in a number of years as many as twice  
the course duration
- ❖ Default limited to 10% of the bank loan portfolio

## Guarantee throughout SME life



## Mutual Guarantee and its relation to science and innovation



## Mutual Guarantee Societies (MGS)

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

- **NORGARANTE MGS** in the north
- **LISGARANTE MGS** in the south and Madeira Island (these first two from a splitting process of the pilot activities of SPGM)
- **GARVAL MGS** in the centre and Azores Islands (local private initiative supported by SPGM)
- **AGROGARANTE MGS** national coverage, acting specifically for agriculture and agro industries

## Mutualism:

share purchase = minimum 1% of guarantee value

## SPGM

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**Established in 1994 to act as a pilot-MGS**

[with the aim to create a private mutual guarantee scheme]

**Legally is a credit institution** [*sociedade de investimento*]

**Manages the counter guarantee fund** [MCGF]

**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 MGS share capital**

**Main shareholders:**

National SME Agencies (IAPMEI, TP,ip)

Largest private banks (BPI, BES, SantanderTotta)

## **Public Counter Guarantee Fund (MCGF)**

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**Current capital amount:** subscribed € 144 million, paid in € 130 million (majority from IAPMEI-SME Agency, but also Tourism Agency – TP,ip, IFAP and Agro Programmes; and Ministry of Science, Technology and Higher Education)

**Second layer guarantee**

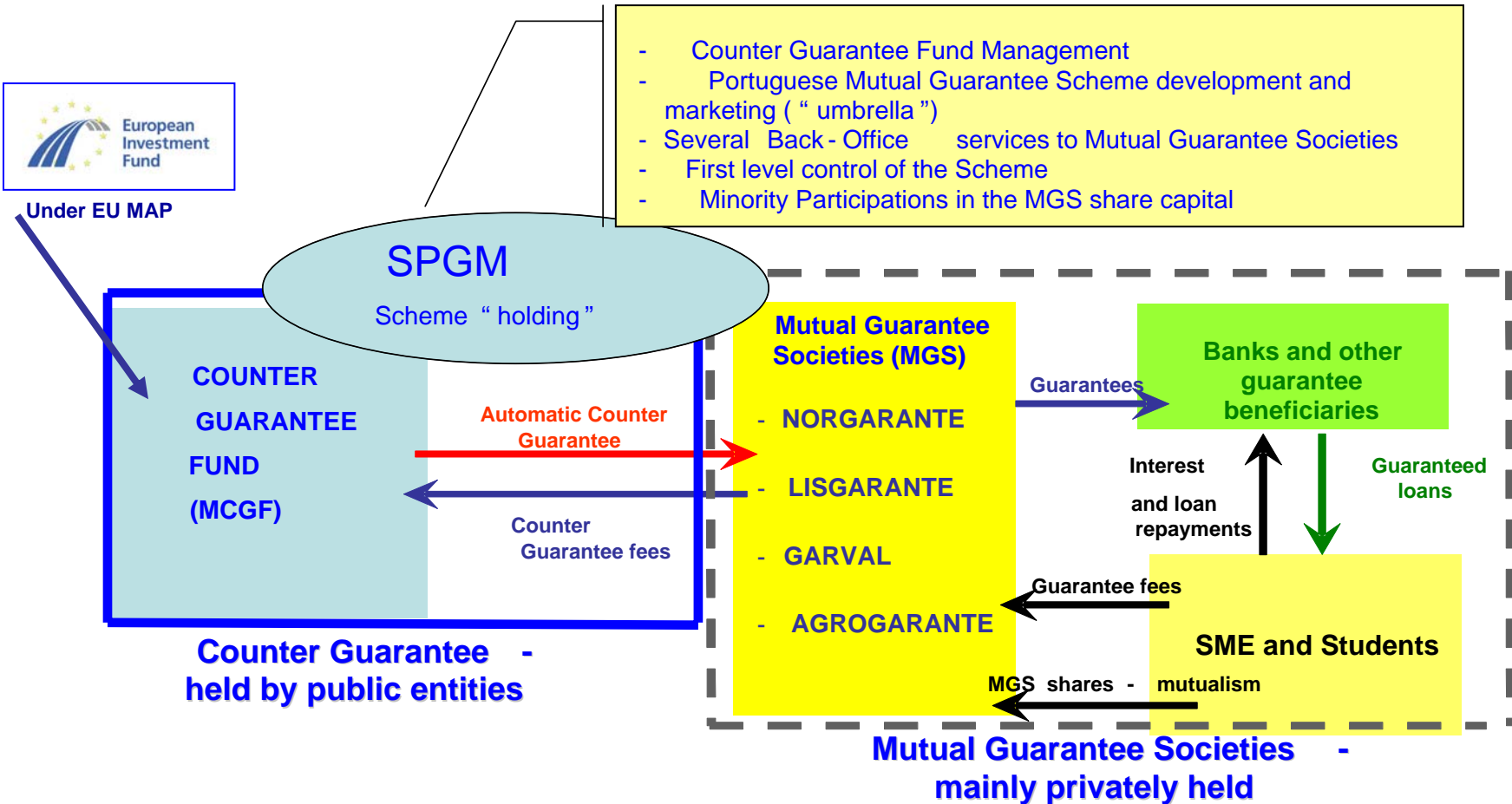
**Automatic counter guarantee**

**Compulsory counter guarantee**

**Usual counter guarantee between 50% and 75% of MGS guarantee amount** (average around 60%)

**EIF (European Investment Fund) gives the Counter Guarantee Fund a third layer guarantee, under specific circumstances** (EIF coverage helps FCGM to raise its counter guarantee on MLT investment loans to SME under 100 workers)

## Strategic view and coordination



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

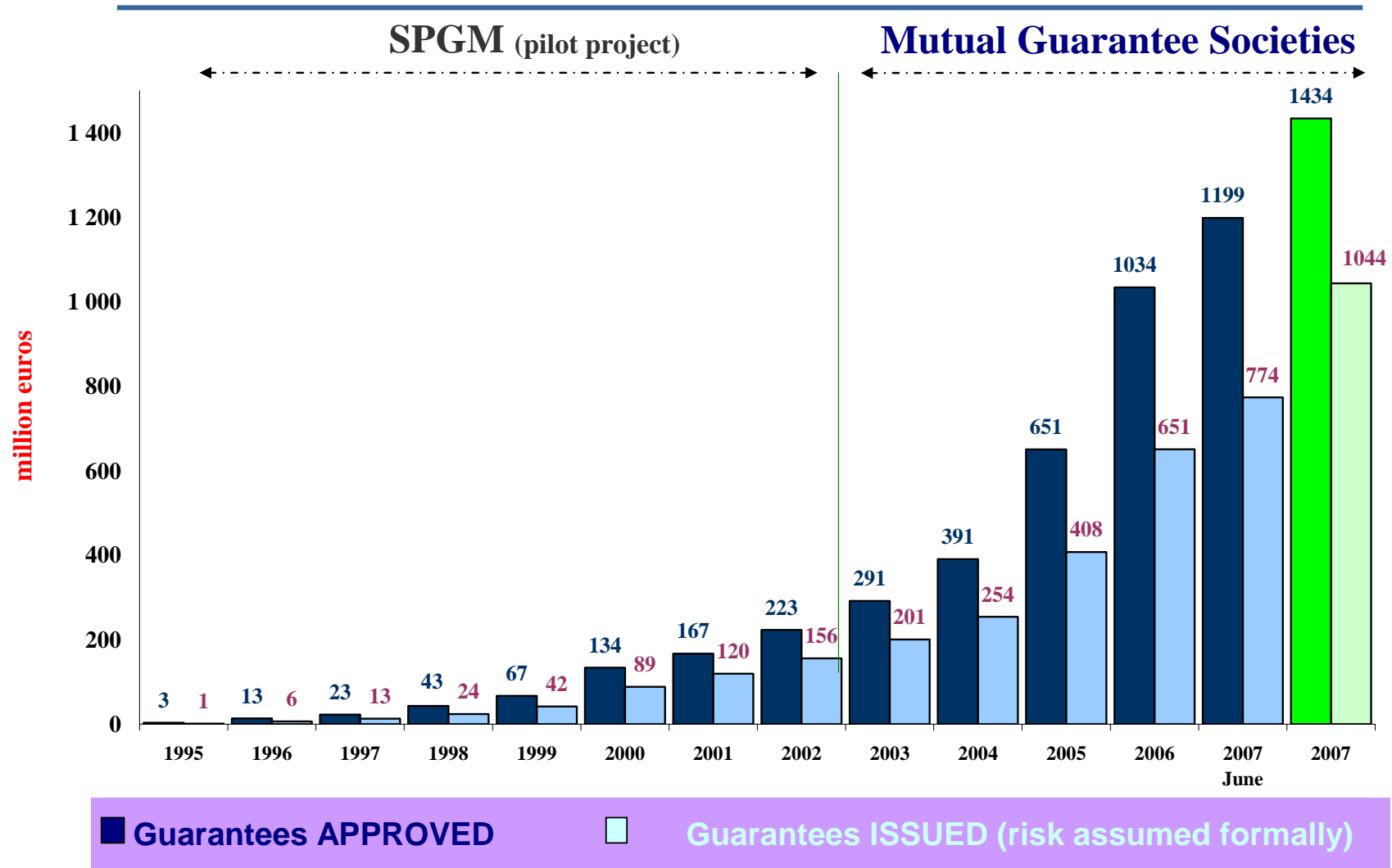
## Thus, strong points:

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- **Support SME and also individuals [students] access to finance, at low cost levels**
- **For banks, lower banking own funds 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 needs**
- **Extensive industry coverage and economic activities**
- **Adequate fee policy and public counter guarantee coverage assure long term sustainability of the scheme**



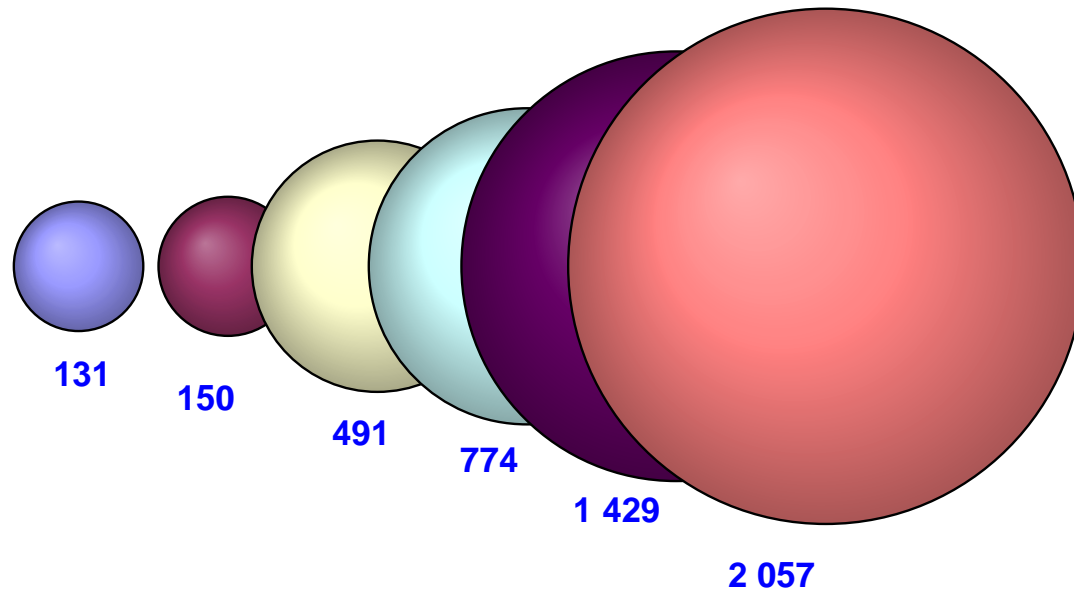
## Accumulated Guarantee Commitments



## MULTIPLIER OF PUBLIC INVESTMENT in the PORTUGUESE MUTUAL GUARANTEE SCHEME

(accumulated June 2007 - 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



Nr. guarantees issued:  
+- 6.000

Mutual SME:  
+- 2.200

Jobs created or sustained:  
+ de 55.000



**FCGM**

Mutual Counter Guarantee Fund

**Thank You  
very much.**



**SPGM - President of AECM – European Mutual Guarantee Association  
Founder Member of REGAR – Ibero-American Guarantees and SME Financing Network**