



# ESF Financial instruments: student loans The Portuguese experience

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# Themes



1. Reasons to implement FI - Loans to higher education students (HES)
2. Problems & solutions encountered to set up the FI
3. Process duration to set up the FI
4. FI characteristics
5. State of art and statis
6. Questions & Answers

# 1. Reasons to implement FI – Loans to higher education students (HES) through a mutual guarantee



**COM DECISION** (12.12.2014) approved the Human Capital Operational Program for the less developed regions of Portugal (Alentejo, Centre and North) CCI 2014PT05SFOP001 C(2018)8168 Decision date CE 29.11.2018 (reprogramming)

Quadro 8: Dimensão 2 - Forma de financiamento

Eixo prioritário		2 - Reforço do ensino superior e da formação avançada	
Fundo	Categoria de região	Código	Montante €
ESF	Menos desenvolvidas	01. Subvenção não reembolsável	922.000.000,00
ESF	Menos desenvolvidas	05. Apoio através de instrumentos financeiros: garantia ou equivalente	10.000.000,00

# 1. Reasons to implement FI – Loans to HES with mutual guarantee



**Investment  
priority**

10.ii - Improving the quality and efficiency of, and access to, tertiary and equivalent education with a view to increasing participation and attainment levels, especially for disadvantaged groups

***Ex-ante  
assessment***

“Innovation and Social Entrepreneurship, Micro-entrepreneurship and Self-Employment Creation and Higher Education Student Loans (EEA)”

***Type of FI***

Loans to HES with mutual guarantee

With this FI, the ESF incorporates the financial endowment of the counter guarantee fund (replacing the past exclusive participation of the national state budget resources)

# 1. Reasons to implement FI – Key indicators



Education and training 2020 benchmarks	Portugal		EU average	
	2009	2018	2009	2018
Tertiary educational attainment (age 30-34)	21,3%	33,5%	32,3%	40,7%

Source: Education and training Monitor 2019 (Portugal)

Positive tendencies regarding the rates of higher education attainment, which increased significantly in the last years (in groups aged 30-34), but still below the EU average and the 2020 target (40%)



The objective of the Financial Instrument is to favour the access to higher education levels, particularly to those who are normally excluded from it. Providing finance for diploma and post-diploma levels will increase access to higher education, resulting in increased employment level, with better quality

## 2. Problems & solutions encountered in the set up of the FI



- Absence of legislation at a national and international level applicable to this type of FI
- Few national or international benchmarks (few experiences of FIs for student loans, of which no decentralised FIs operating a guarantee scheme)
- ESF FIs mostly target microenterprises and/or SMEs
- Difficulties to find intermediaries at national level that fit the criteria set by the MA

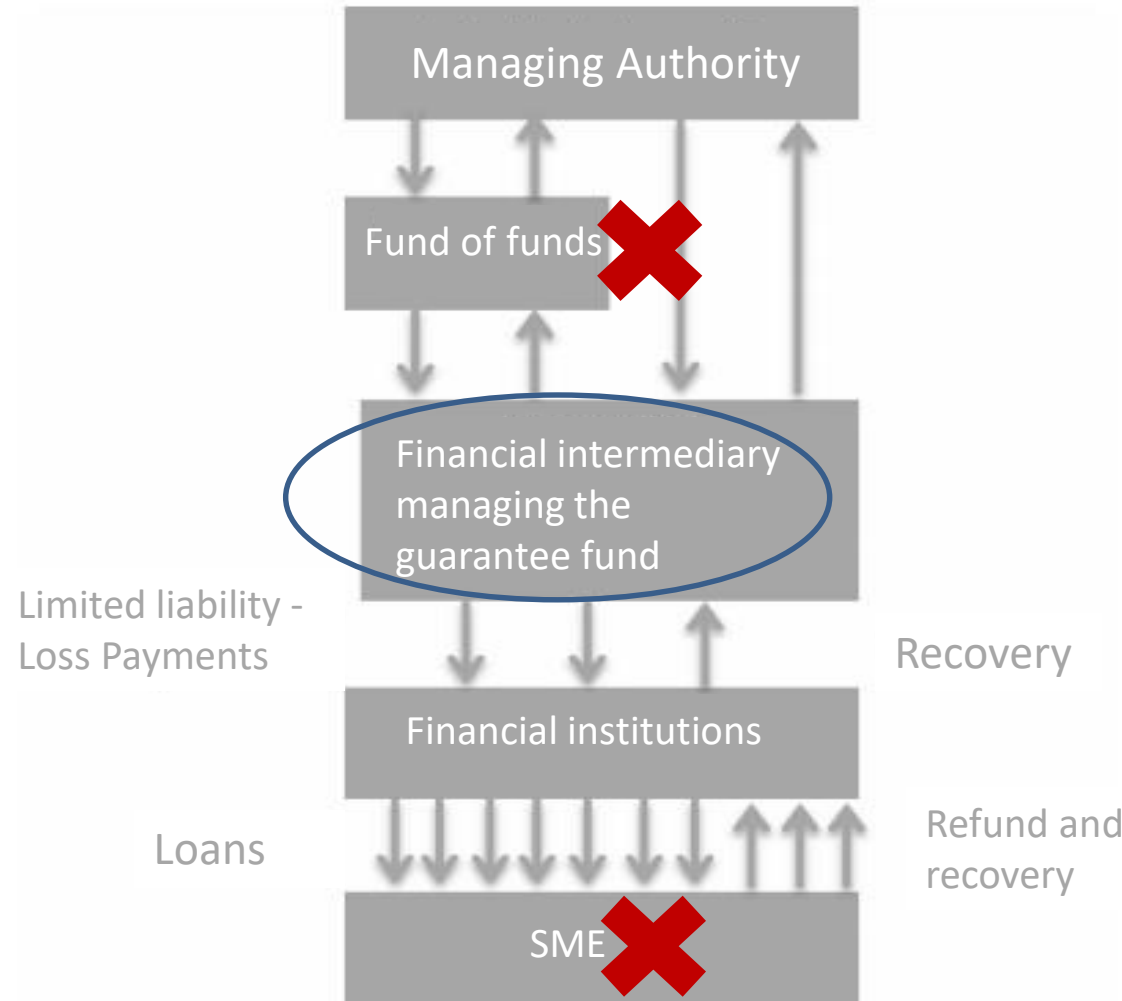
## 2. Problems & solutions encountered in the set up of the FI



(Previous national experience) -  
*Credit line for Higher Education  
Students with mutual Guarantee*  
(DL n.º 309-A/2007. 7 Setembro)

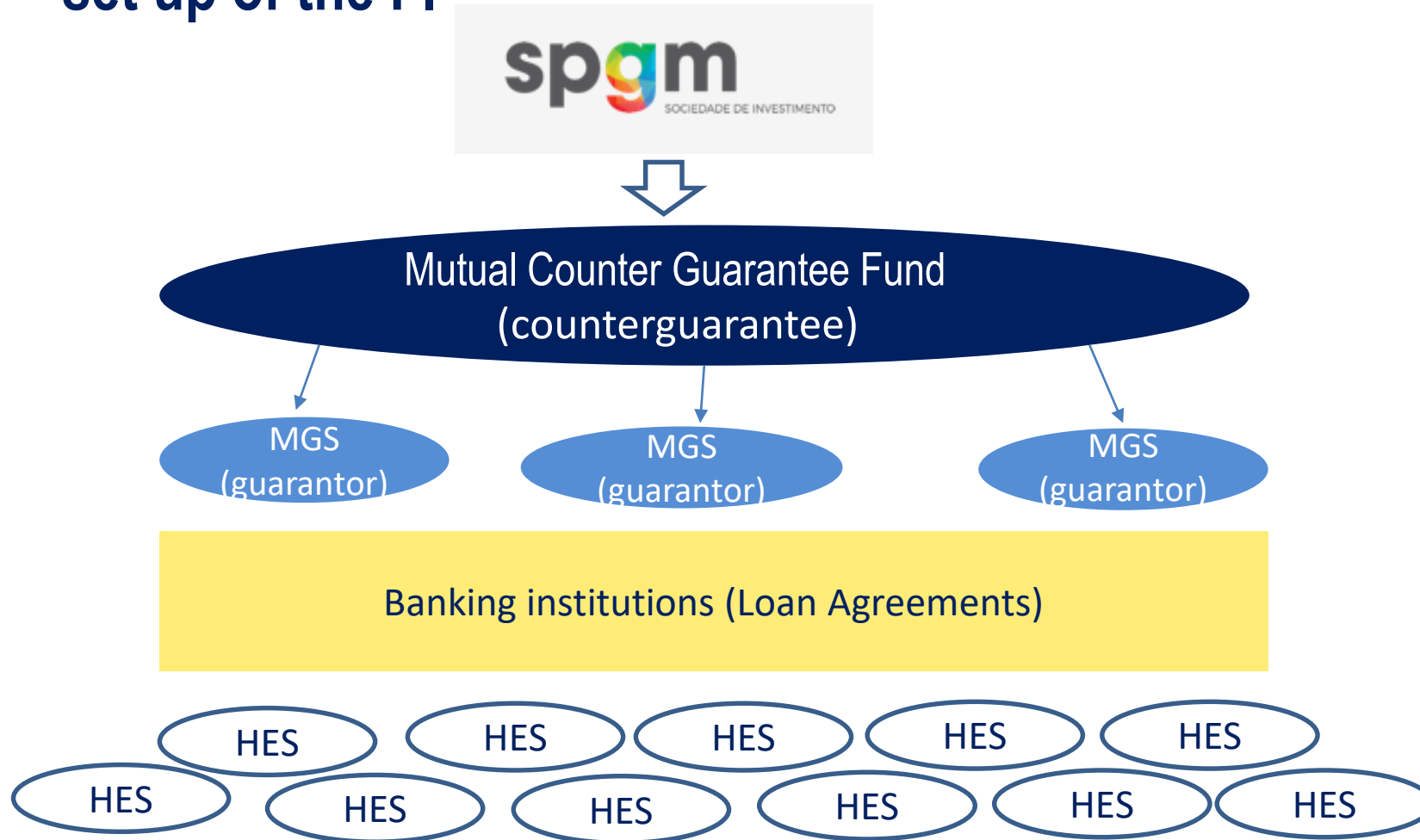


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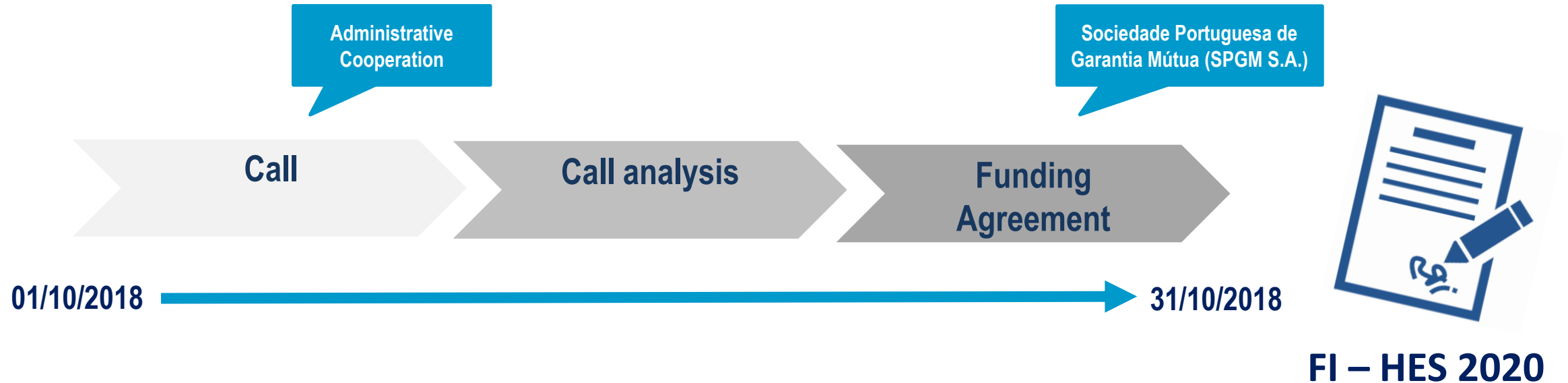
### Sociedade de Investimento, S.A (SPGM)

- Body governed by public law, whose legal nature as a legal person assumes the status of an anonymous commercial company
- The Portuguese State holds all of its share capital
- Managing entity of the Mutual Counter Guarantee Fund (MCGF), which provides the counter-guarantee of guarantees provided by Mutual Guarantee Societies (MGS), intended to ensure the fulfillment of obligations by beneficiary shareholders

### 3. Process duration



**2 YEARS TO SET UP THE FI (May 2018: Strategy approval)**  
1 month from the Call to the Financial Agreement



# 4. FI characteristics

## Student loans



Budget and source of funds	10 M€ that leverage to 85 million euros (71 million from ESF and 12 million national counterpart).
Target leverage	Each euro allocated in mutual counter-guarantee fund is converted into 6€ financing for final beneficiaries
Target	Students in public and private higher education institutions enrolled in: <ul style="list-style-type: none"> <li>• TeSP - Professional Superior Technical Training</li> <li>• Degree</li> <li>• Master</li> <li>• PhD</li> </ul>
Loan amount	Between 1.000€ and 5.000€, per year, with max amount of 30.000€ per student
Credit term	Between 1 and 6 years (degree duration)
Repayment term	Between 6 and 10 years (double of the degree term)
Grace period	Credit use plus max 2 years
Interest rate	1,25% For disadvantaged students: 0,25% reduction

# Source of information



**Regulamento (UE) n.º 1303/2013, de 17 de dezembro** - Disposições Comuns aplicáveis aos FEEI, alterado pelo Regulamento (UE, Euratom) 2018/1046 do Parlamento Europeu e do Conselho de 18 de julho de 2018 (OMNIBUS)

**Regulamento Delegado (UE) n.º 480/2014, de 3 de março**

Regulamento de Execução (UE) n.º 821/2014, de 28 de julho, alterado pelo Regulamento de Execução (UE) 2019/255 da Comissão, de 13 de fevereiro de 2019

Guidance for Member States on Article 42(1)(d) CPR – Eligible management costs and fees - EGESIF\_15-0021-01, de 26 de novembro de 2015

Reporting Instructions for the Financial Engineering Instruments (AIR 2014) – *Template*

**Guidance for Member States on Combination of support from a financial instrument with other forms of support - EGESIF\_15\_0012-02, de 10 de agosto de 2015**

Guidance for Member States on Interest and Other Gains Generated by ESI Funds support paid to FI (Article 43 CPR) - EGESIF\_15-0031-01 Final, de 17 de fevereiro de 2016

**Guidance for Member States on the selection of bodies implementing financial instruments - 2016/C 276/01 (tem versão em PT)**

Guidance for Member States on Article 38(4) CPR - Implementation options for financial instruments by or under the responsibility of the managing authority - SWD(2017) 343 final, de 11 de outubro de 2017

Financial Instruments – Overview of changes in Title IV of the CPR following the Omnibus Regulation - EGESIF\_18-0040-01, de 05 de março de 2019

Guidance for Member States on Article 46 - reporting on financial instruments and on Article 37(2)(c) - leverage effect - EGESIF\_16\_0008-02, de 19 de março de 2019

## 6. Questions and answers



Thank You!

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Cofinanciado por:



## Students Loans with Mutual Guarantee



- I. Portuguese Guarantee Scheme Model
- II. University students loans with Mutual Guarantee

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# Portuguese Guarantee Scheme Model

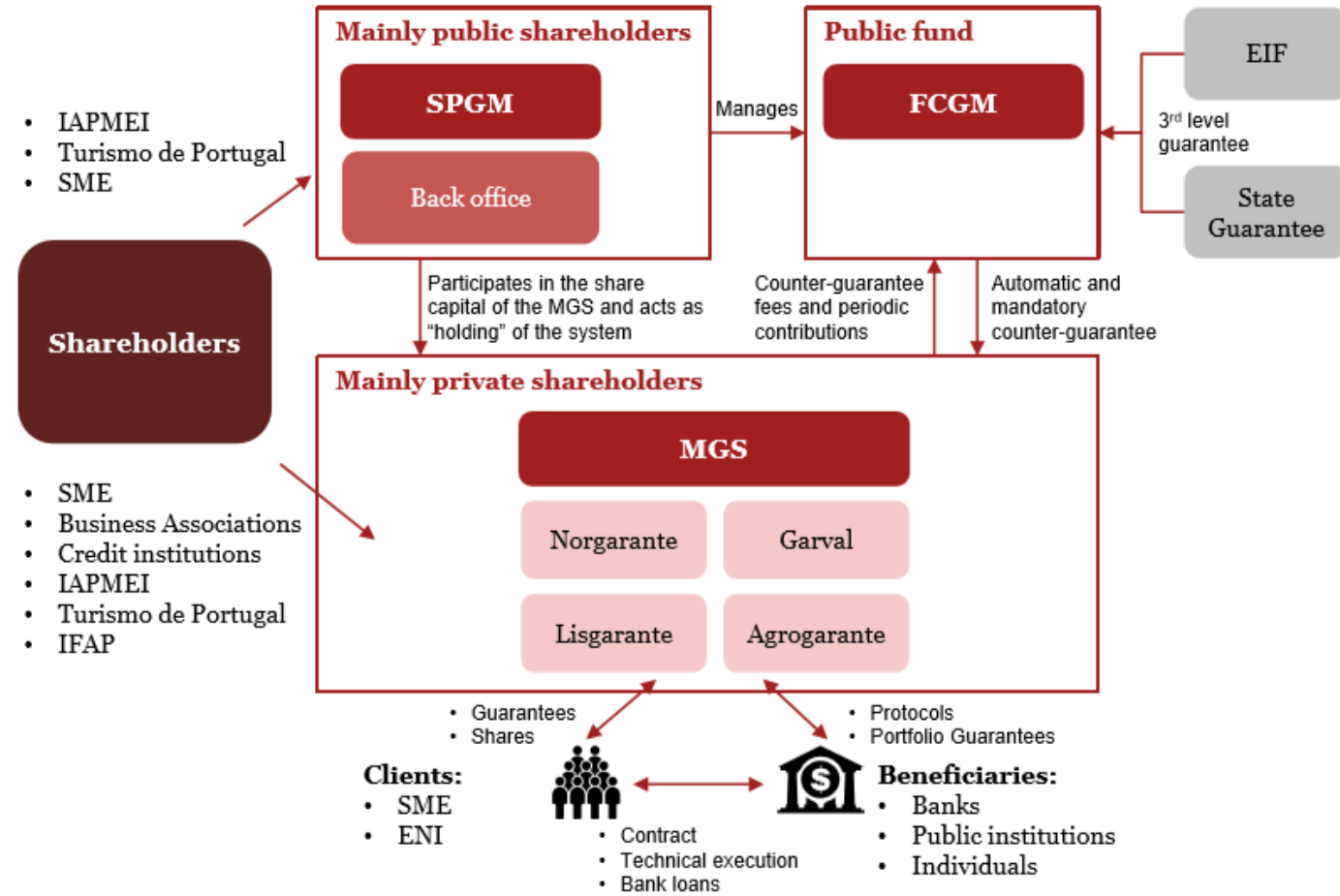


*The Portuguese Mutual Guarantee System is a public-private partnership, whereby the MGS benefit from a public counter-guarantee granted by a national fund (FCGM). SMEs are the focus of the mutual guarantee system.*

The maximum limit of the counter-guarantee for each guarantee issued is **80%**

MGS are institutions with a regional and/ or multi sectorial focus. Their activity include the provision of portfolio guarantees to special credit lines, namely **university students loans**.

The final beneficiaries are SMEs, Individual Entrepreneurs.





*Impact of the Mutual Guarantee System in the economy.*



**111.000**

Supported entities



**15 279 m**

Guarantees issued



**32 666 m**

Investment supported



**1.515.000**

Jobs supported



**3 704 m**

Outstanding guarantees



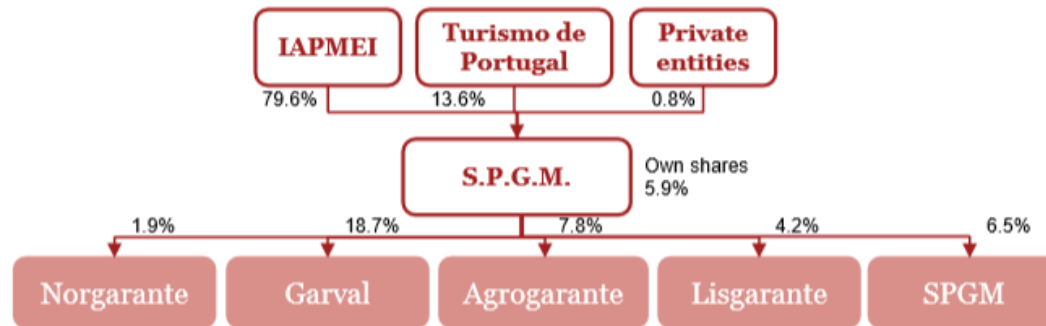


*SPGM is the coordinating entity of the Mutual Guarantee System in Portugal whose main tasks involve the management of the FCGM, credit lines management and development of the mutual guarantee societies*

- Established in 1994, from a **public initiative**, by means of the IAPMEI, SPGM is the **coordinating entity of the Mutual Guarantee System in Portugal**
- Mission: to support the development of Portugal through the provision of **financing solutions, in particular by debt**, under price and term conditions that are appropriate to the stage of development of companies and projects, enhancing the entrepreneurial capacity, investment and job creation

Established in 1994, SPGM lead to the creation of the Mutual Guarantee System.

After the establishment of the first 3 MGS (Norgarante, Lisgarante and Garval), SPGM ceased the provision of guarantees and transferred this activity solely to MGS.



The activity of MGS has a regional coverage: Norgarante (North), Lisgarante (South and Madeira Island), Garval (Center and Azores Islands)

In turn, Agrogarante has a national coverage but with industry focus (agricultural, agribusiness, forestry and fisheries)

- Most of SPGM's capital is held by public shareholders (~93.26%)
- SPGM holds a stake in 4 Mutual Guarantee Societies (MGS), having a shared service center to both MGS and FCGM





# University students loans with Mutual Guarantee



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# Eligibility Criteria



<b>Conditions of the Portfolio Guarantee</b>	80% loan guarantee with a cap rate of 15% of loan amount actually used at the end of each reporting period. No endorsement or warranty will be required (personal or equity). For loans over € 15,000, promissory note may be required.
<b>Interest Rate</b>	EURIBOR Swap rate, according to the term loan, with a spread 1,250%, it will be reduced by 0,25% for “disadvantaged” students proving to benefit from a scholarship.
<b>Main Barriers for the set up and implementation</b>	<ul style="list-style-type: none"><li>• Existence of a similar products in the market;</li><li>• Banks are demanding the possibility of asking students for additional collateral to cover the part of the loan that is not guaranteed by the financial instrument;</li><li>• Territoriality of the credit line, only available in disadvantaged regions of Portugal.</li></ul>
<b>Improving the FI</b>	Increase the cap rate to levels between 20% and 25%.



# Results



Specific Fund	Specific fund global amount (Signed)	Amount Transferred to MCGF <sup>1</sup>	Nº of final recipients	Amount contracted by final recipients
European Social Fund	10 000 000	2 500 000	560	6 447 172
National Public cofinancing	1 764 706	0	99	1 137 736
<b>Total POCH</b>	<b>11 764 706</b>	<b>2 500 000</b>	<b>659</b>	<b>7 584 909</b>
Foundation for Science and Technology, IP	2 260 294	0	453	5 095 053
<b>Grand Total</b>	<b>14 025 000</b>	<b>2 500 000</b>	<b>1 112</b>	<b>12 679 962</b>

<sup>1</sup> MCGF - Mutual Counter-Guarantee Fund



**garantia  
mutua**  
CRESÇA CONNOSCO

**spgm**  
SOCIEDADE DE INVESTIMENTO



