Portugal Announces SME Debt Securitization Program

BY WYATT WOLFRAM

Original post is here.

On June 4, the Portuguese government announced plans to create a special purpose vehicle to acquire debt issued by small- and medium-sized enterprises (SMEs) and sell debt securities on capital markets.

The program builds on an existing program, “Obrigações Turismo 2019” (OT 2019), that focuses on the tourism sector, but it will be more broadly available to SMEs across industries. The new program is part of an extensive package of economic relief policies known as the “Economic and Social Stabilization Program.”

Obrigações Turismo 2019

The existing initiative, OT 2019, is designed to diversify financing sources for SMEs in the tourism industry by making capital market financing available. The program is jointly operated by Turismo de Portugal, a state agency responsible for the promotion, enhancement, and sustainability of the tourism industry; and SPGM, the coordinating entity of the Portuguese Mutual Guarantee System, whose mission is to provide financial guarantees to the benefit of national companies.

The government guarantees 30% of the total issue amount with a maturity of seven years. OT 2019 originally intended to make available EUR 100 million in bonds to the capital markets.

All SMEs and middle-capitalization companies (mid-caps) – those companies with less than 3,000 employees – operating in the tourism industry are eligible to apply for debt issuance through OT 2019. Companies must meet specific financial requirements, including for liquidity (current assets / current liabilities > 1), profitability (EBITDA margins > 15% or return on assets > 5%,) and indebtedness (financial debt / EBITDA < 5). EBITDA is earnings before interest, taxes, depreciation, and amortization.

Companies that meet these criteria may issue up to EUR 15 million in debt through the program. Approved issuers will be grouped such that the bonds obtain a minimum rating of BBB-, which takes the public guarantee into account, and all participants are subject to the same interest rate and terms. Bonds will then be shopped to institutional investors and made available to the capital markets.

New SME Program within the “Economic and Social Stabilization Program”

Details of the new program have not yet been announced. It will be based on OT 2019 and it will allow for the creation of a new special purpose vehicle to acquire SME debt, but with an expanded mandate.

A 2020 OECD Report noted that debt security issuance is an insignificant source of finance for SMEs in Portugal, as most companies rely solely on bank financing. Companies surveyed cited low liquidity in the debt market, high issuance costs, and complex regulations as the main reasons for not issuing debt. The government's new debt purchase program aims to reduce these issues, thus opening additional financing options for Portuguese SMEs and mid-caps.

Other countries have adopted similar programs with the goal of increasing access to capital markets for SMEs. In late 2018, Australia announced the formation of the Australian Business Securitization Fund (ABSF), an AUD 2 billion fund to support the provision of finance to SMEs. The fund made its first investment in securities worth AUD 250 million in April 2020. However, at that time the Australian Office of Financial Management, which oversees the ABSF, stated that it needs to assess the currently challenging market conditions before initiating additional ABSF investment proposals. Separately, in 2016 the European Investment Fund (EIF) launched the EIF-NPI Securitization Initiative (ENSI), a cooperation and risk-sharing platform partnered with European National Promotional Institutions (NPIs). NPIs are European legal entities which are given a mandate by a member state to carry out financial, development, and promotional activities. ENSI provides funding and capital relief, defines standard procedures and minimum criteria for lending, and broadly acts as a catalyst for the development of the SME securitization market in Europe.