

XI. Economic incentives

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ML

Glossary

BA

Business Angel(s)

EaQEF

Equity and Quasi-Equity Fund

European Commission Communication of 13-03-2020

Commission Communication COM (2020) 112 final, Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Investment Bank and the Eurogroup on a coordinated economic response to the COVID-19 outbreak, dated 13-03-2020

SEW

Self-Employed Worker (*Empresário em Nome Individual*)

VCF

Venture Capital Fund

XI. ECONOMIC INCENTIVES

XI.A. Background

The effects of the COVID-19 pandemic on the Portuguese and world economies are as yet far from clear but will certainly be negative. In fact, there is concern that these effects may be devastating and strangle new domestic and international investments in various sectors of the economy as well as imposing serious limitations on the daily lives of people and companies in Portugal. At the moment, forecasts point to a sharp fall in economic growth, an increase in the public deficit and a rise in unemployment in Portugal.

At present, companies and independent professionals are faced with severe cash-flow and liquidity difficulties in order to meet their obligations, especially and above all relating to the need to continue to pay their employees and suppliers.

In this context, among the measures already approved and yet to be approved, the Government and Central Banks have launched economic stimulus packages worth billions of euros, as detailed below.

The European Commission has intervened and, as we have analysed and shall return to below, adopted a Temporary Framework for State Aid measures to support the Economy, where it specifically refers to the central relevance of state incentive measures.

XI.B. In Portugal

The Portuguese Government has already approved a series of extraordinary and urgent measures in response to the COVID-19 pandemic, namely credit lines totalling EUR 460,000,000 to support companies' cash flows (one of which, *Linha Capitalizar* COVID-19, in the amount of EUR 400,000,000, is already depleted).

It was also determined that the Ministry of State and the Ministry of Finance should increase the export credit insurance with State guarantees in order to support the diversification of clients, in particular for markets outside the European Union, from **EUR 250,000,000 to EUR 300,000,000 with regard to the short-term export credit insurance ceiling.**⁽¹⁾

The Cabinet also approved a credit line with reduced interest rates for operators in the fishing industry.

Besides these measures, the Portuguese Government also announced the creation of four lines of credit of EUR 6,200,000,000 for affected companies in a broad range of sectors.⁽²⁾ Part of those lines is already closed. At this date the following support is available:

Catering and Related: Amounts to EUR 600,000,000, of which EUR 270,000,000 is destined for Small and Medium-Sized Enterprises, EUR 321,000,000 EUR for Medium-Sized Enterprises and Small Mid Caps, and EUR 9,000,000 for Mid Caps⁽³⁾;

⁽¹⁾ As per the publicly available information [here](#).

⁽²⁾ As per the publicly available information [here](#).

⁽³⁾ Mid Cap: a mid-cap company is considered to be one which, if not a SME, employs fewer than 3000 people. Small Mid Cap: a small mid-cap company is considered to be one which employs fewer than 500 people. Definitions contained in article 2(2) and (3) of Decree-Law no. 81/2017, of 30 June.

Tourism – Developments and

Accommodation: Amounts to EUR 900,000,000, of which EUR 300,000,000 is destined for Micro and Small Enterprises, and EUR 600,000,000 for Medium-Sized Enterprises, Mid Caps and Small Mid Caps.

Companies' access to these lines of credit is conditional on, in particular:

- the company being classified as SME (or SEW with SME certification) or Mid Cap;
- maintenance of permanent jobs until 31-12-2020, in view of the proven number of these jobs on 01-02-2020 and not carrying out in this period collective or individual redundancy processes, unless under the lay-off regime;
- the company having positive equity in the last approved balance sheet; or negative equity and resolved on the interim balance approved by the date of the operation (requirement not applicable to companies incorporated less than 24 months, counted from the date of the respective application, and to SEW).

The following conditions apply to state guarantees:

- Guarantee fee: 0.25%-1.75% of the loan guaranteed, depending on the repayment year and the size of the company;
- Loan coverage: 80%-90% of the loan amount unrepaid, depending on the size of the company;

The following conditions apply to the loans to be guaranteed:

- Maximum repayment term: six years;
- Financing cash-flow needs;
- Maximum amount per company per line of credit: up to EUR 2,000,000 in case of the Credit Line for Tourism – Developments and Accommodation, and up to EUR 1,500,000

in case of the Credit Line for Catering and Related, depending on the size of the company;

- Total maximum amount per company referring to loans with terms after 31-12-2020: 25% of 2019 turnover, 200% of 2019 staff costs or the cash-flow needs for the 12-18 months (depending on the size of the company) following the granting of the guarantee;
- Interest rate: Base amount (Euribor swap or variable rate, depending on modality) + spread between 1% and 1.5% (depending on repayment year);
- Repayment: in equal, successive and monthly instalments with the option of an 18-month grace period;
- The management or annual follow-up fee applied by the banks cannot exceed 0.25% over the loan amount due;
- The transactions are exempt from other commissions and fees usually applied by the banks and by Mutual Guarantee System;
- The beneficiary companies will not be required to provide any type of additional endorsement or guarantee (personal or property/financial), neither to the banks nor to the Mutual Guarantee System.

Up to the aforementioned limits per credit line, companies can submit more than one operation for each of the specific lines and (if they operate in the respective sectors) can apply for more than one of the specific lines of credit.

The conditions of the **Credit Line of EUR 60 million for Microenterprises in the tourism sector** (operated by Turismo de Portugal) are the following:

- **Who are the recipients?** Microenterprises and SEW in the tourism sector that are licensed and registered on the National Tourism Register, if required, are not classed as an undertaking in difficulties, and have not been subject to administrative or legal sanctions in the last two years;

- **What are the conditions?** Amount – EUR 750/month per worker. Maximum amount – EUR 20,000; three-month duration; repayment in three years (with a one-year grace period), interest free; guarantee with personal surety from partner.

We should also mention **Capitalizar Credit 2018 of EUR 2.8 billion - Working Capital and Cash Flow Fund** (general credit line unrelated to COVID-19 which covers most economic sectors and was extended until 31-05-2020). The following conditions apply:

- **Who are the recipients?** Microenterprises and SME: with positive equity in the last approved balance sheet; or negative equity and resolved on the interim balance approved by the date of the operation. **It is also accessible to Large Enterprises**, with a turnover equal to or less than EUR 150 million and which are not part of company groups with consolidated income of more than EUR 200 million.
- **What are the conditions?** Maximum per company: EUR 3 million for SME Leader (1.5 million for the Working Capital Fund and 1.5 million for the Cash Flow Ceiling) and 2 million for other companies (1 million for the Working Capital Fund and 1 million for the Cash Flow Ceiling). Guarantee: up to 50% of the capital in debt. Counter-guarantees: 60%. Guarantee fee: 0.53%-1.35%, with a 50% subsidy. Fixed-Rate Interest Rate: Euribor Swap for the operation's term + spread. Variable-Rate Interest Rate: Euribor one, three, six or 12 months + spread. Spread 1.928% - 3.278%. Grace period: up to six months for the Working Capital Fund. Term: four years for Working Capital and one to three years for Cash Flow. More information [here](#).

We also highlight that a new set of company-support measures already notified by the Portuguese State and approved by the

European Commission on 04-04-2020 are to be expected.⁽⁴⁾ These comprise two aid schemes worth EUR 13 billion which contain the following measures:

- **Direct grants**, totalling EUR 1.6 billion, through conversion of part of the principal guaranteed from the loans taken out under the sectoral support credit lines relating to COVID-19 until 31-12-2020, with a maximum of EUR 800,000 per company, destined for Micro, SME and Large enterprises;
- **Loans with State guarantees for working capital and investment financing**, with a total amount of EUR 11.400 million, with a 6-year guarantee for up to 90% of the capital, guarantee fee between 0.25%-2.00%, destined for Micro, SME and Large enterprises. This scheme was already partially used for the implementation of the Credit Line for Support to the Economic Activity and upgrade the conditions of the remaining sectoral lines mentioned above.

Equally, we must mention the flexibility measures adopted by the IFD – *Instituição Financeira de Desenvolvimento* (Development Finance Institute) as part of the Lines of Financing for Venture Capital Funds and Business Angels Vehicles.⁽⁵⁾ Such measures aim to help investee companies strengthen their cash flow and investment and comprise the following:

- **More flexible eligibility for the working capital fund:** possibility for BA and VCF and final beneficiary companies to use the entire component financed by the EaQEF for the working capital fund, instead of the 30% in force at the time; and
- **Temporary suspension of the compulsory additional independent investment**

⁽⁴⁾ See Commission Decision C(2020)2229 final SA.56873(2020/N) – *Portugal COVID-19*: Direct grant scheme and loan guarantee scheme.

⁽⁵⁾ According to the information available [here](#).

syndication: until 31-12-2020, it is now possible for VCF to carry out investment rounds without the compulsory entry of new independent investors, instead of the minimum amount of 10% in force at the time.

XI.C. In Europe

These domestic general initiatives are in line with the understanding, also at European level, for the need for greater flexibility in the application of State Aid controls. Such flexibility could be seriously compromised by a strict application of the current rules.

Indeed, the European Commission announced that it is deeply committed to aiding the Member States of the European Union, in particular by loosening the constraints regarding

State Aid, rendering the European budgetary framework more flexible, ensuring the solidarity of the Single Market and employing the European Union budget, among other measures ([here](#)), as detailed in [chapter X](#) on State Aid and Competition.

However, and as stated in the European Commission Communication of 13-03-2020, given the limitations of the European Union budget, the main fiscal response will necessarily have to come from national budgets, so there is an urgent need to make the rules more flexible regarding fiscal aid, a subject which has already been analysed above.

In a similar vein, the European Central Bank has announced ([here](#)) a EUR 750,000,000,000 emergency purchase programme, together with other measures to stimulate liquidity in the European market ([here](#) and [here](#)).

Topic	Risks	Background/Recommendations
<ul style="list-style-type: none"> • Paralysis of economic activity; • Social isolation of people in their homes, closure of services and the interruption of business activity, at the production, management and administrative organisation levels. 	<ul style="list-style-type: none"> • Immediate and sharp drop in income and liquidity; • Risk to the survival of companies and employment; • Incapacity of individual taxpayers and the administrative services of companies to meet their reporting obligations and to pay taxes. 	<ul style="list-style-type: none"> • Creation of various credit lines to support companies' cash flows. Increase of credit lines related to export insurance with State guarantees, under the Ministry of Finance; • Attention paid to new financing opportunities arising from greater flexibility in the treatment of State Aid; • Flexible repayment requirements related to reimbursable subsidies granted under the incentive systems of the National Strategic Reference Framework or Portugal 2020 without interest charges or other penalties for the beneficiary companies; • Creation of a credit line with reduced interest rates for operators in the fishing industry. This credit line is intended to provide financing in order to acquire resources and in order to renegotiate and settle debts with suppliers or credit institutions; • Attention paid to new financing opportunities arising from greater flexibility in the treatment of State Aid.

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