# EMN Legislative Mapping Report

# PORTUGAL

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EUROPEAN MICROFINANCE NETWORK

This series of national factsheets provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-bank financial intermediaries.

The national factsheets cover the following thematic areas:
1 Regulation of lending activity
2 Supervisory framework for non-bank lending
3 Products
4 Incentives and support
5 Development of existing framework for non-bank microcredit provision
6 Inclusive entrepreneurship and microenterprise development

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## Regulation of Lending Activity

In Portugal, the establishment of financial corporations specifically dedicated to microcredit has been possible only since February 24, 2011, following the publication and enactment of Government Decree-Law nº 12/2010.

This decree-law defines "microcredit financial corporations" as entities that do not raise deposits or other refundable resources from the public and are authorised to lend small amounts to individuals and companies for the development of economic activities. In addition to lending, microcredit financial corporations are required to:
-Assess the viability of the projects to be financed and ensure the conditions for their economic sustainability.
-Provide monitoring and advisory support during the preparation, implementation, and management of the financed projects.

No detailed regime exists for (potential) non-bank MFIs, which are instead subject to the general financial institutions' regulations. As a result, the minimum equity requirement for microcredit financial corporations is set at EUR 1 million. Due to unfavourable regulatory conditions - such as this high minimum share capital requirements, operational demands similar to those of banks, and restrictions on target groups and loan sizes - no microcredit financial corporations have been established in Portugal to date.

In March 2010, the Portuguese government approved the National Microcredit Program (PNM), as a public policy. This program facilitates access to credit for small-scale projects and provides technical assistance for the creation and consolidation of business initiatives.

The PNM primarily aims to support:
- Individuals facing significant challenges in accessing the labour market and the risk of social exclusion (such as unemployed and inactive persons, and workers in precarious working conditions).
- Micro-entities[1] and cooperatives with up to 10 workers who present viable projects that generate net jobs, particularly in the social economy sector.

[1] Micro-entities, as defined under the PNM regulation, include limited partnership companies, sole proprietorships and local associations.

The PNM is managed by:

- CASES (Cooperativa António Sérgio para a Economia Social): a "public interest cooperative" established through a partnership between the Portuguese State and five federations representing various social economy sectors. Its mission is to strengthen the Portuguese social economy and promote collaboration among social economy organizations to support the country's socio-economic development.
- IEFP (Instituto do Emprego e Formação Profissional): a public body focused on promoting employment quality, fighting unemployment, and implementing active employment policies, including professional training and job market incentives.

To access the PNM, business project proposals must first be validated by CASES, after which, entrepreneurs present them to a bank of their choice, with this CASES "certificate". The bank evaluates the economic and financial viability of the project and decides whether to approve the credit application, on a case-by-case basis. IEFP contributes to the covering of the interest charges (see section 3).

Additionally, CASES provides each entrepreneur with a list of certified non-profit entities that can support the preparation of business plans and loan applications. The cost of these services is free for the entrepreneurs and is paid directly by CASES to the "local technical support entity", after loan contract is signed with the bank and funds are disbursed.

These bank loans are backed by a public guarantee scheme managed by the National Promotion Bank (BPF) and covering up to 75% of the credit amount at risk. Banks may request a personal guarantee from the entrepreneur for the remaining 25%. The guarantee provided by BPF applies only to individual credit contracts, not entire bank portfolios.

A comprehensive revision of Asset Management laws, introduced in April 2023 as part of the Resilience and Recovery Plan, integrates European Directives and Regulations into the Portuguese legal framework. This reform establishes a simplified regime for Alternative Investment Bodies (AIBs), including a category of "AIB for credit" – see section 5 below.

## 2 Supervisory Framework for Non-Bank Lending

Both microcredit financial corporations and banks fall under the same set of financial regulations and are supervised by the Central Bank.

Data protection rules allow non-bank MFIs to access credit bureau databases as participants, free of charge.

The Central Credit Registry, managed by the Bank of Portugal, is used by all institutions that provide credit. These institutions must report data on:

- Credit granted to individuals and organizations.
- Potential credit liabilities, including irrevocable commitments.

The primary purpose of the Central Credit Registry is to provide data that supports risk assessments for lending decisions. Through this system, participants can access aggregated information on the credit liabilities of their clients in relation to the broader financial system.

As participants in the registry, MFIs are also required to contribute their borrowers' credit history to the Central Bank's database.

## 3 Products

Microcredit financial corporations are only authorized to disburse business microloans. These loans are intended for unemployed individuals and micro-entrepreneurs to promote small businesses and self-employment.

Under Portuguese law, "microcredit operations provided by microcredit financial companies must aim to finance small business or professional projects that are likely to create or maintain jobs in a sustainable way, particularly self-employment initiatives promoted by borrowers whose risk profile limit their access to the traditional credit market".

Microcredit financial corporations are required to monitor their loan portfolios and ensure that the funds are used for their intended purpose. The maximum loan amount offered by a microcredit financial corporation is defined by law as EUR 25,000, with no limit on the interest rate.

However, under the National Microcredit Program (PNM), banks can offer business microcredit loans of up to €20,000. The interest rate paid by the beneficiary is based on Euribor (30 days) plus 0.25%, with a minimum rate of 1.5% and a maximum of 3.5% (monthly). In the first year, the IEFP covers the interest charges, and it also covers up to 2.25% of the interest rate in the second and third years.

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## Incentives and Support

At present, microcredit financial corporations do not benefit from a specific tax regime, and there are no particular tax exemptions applicable to such institutions. The same can be said for individuals or enterprises that invest in microcredit activities or provide grants.

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## Development of the Existing Framework for Non-Bank Microcredit Provision

The current regulatory framework potentially imposes a full banking regime on microfinance institutions (MFIs), offering no distinct advantages over banks. In order to incentivize the development of the sector, the regulation should be tailored to suit the size and nature of the activities of microcredit financial corporations. The Bank of Portugal and the Portuguese Securities Market Commission (CMVM) should be involved in this decision-making process to ensure their support for the further development of Decree-Law nº12/2010. This could include exempting MFIs from the full banking regime and easing the burden by deferring non-critical supervisory processes.

On a separate field, Decree-Law nº 27/2023 on “Collective Asset Management”, along with the complementary CMVM (Portuguese Securities Commission) Regulation nº 7/2023, introduced a simplified regime for Alternative Investment Bodies (AIBs), a broader category that includes “Investment Funds” and can also finance both micro and social enterprises. AIB management companies are classified based on size - large or small - according to the value of assets under management.
Small management companies (those with assets under EUR 100 million) are subject to a simplified authorization procedure by CMVM. The minimum initial capital requirement for a small management company is EUR 75,000.
Under this revised "AIB concept," there is a category known as "Credit AIB," with a final scope of granting credits. Its assets may include credits arising from:

- Loans granted by the AIB, including in a consortium with financial sector entities authorized to grant credit;
- Loans acquired by the AIB, as part of an investment transaction (such as the purchase of a loan portfolio from a bank).

When granting credit, these AIBs must adhere to the bank credit-granting regulations, in terms of 1) providing borrowers with information about interest rates and other transaction costs, 2) calculating loan terms, interest remuneration, interest capitalization, and managing debtor defaults 3) criteria for interest rate indexing and rounding.
So far, no individual loan limits were defined by the supervisory authorities. Legally, the indebtedness of a Credit AIB cannot exceed 60% of its total assets.
It remains too early to determine whether this new kind of financial player will help address the challenges in financing micro-enterprises, social economy organizations and social enterprises in Portugal.

Regarding the PNM, a critical challenge is the need for coordination among multiple actors: CASES and IEFP (along with its regional employment centres), BPF (responsible for the mutual financial guarantee scheme through its Regional Guarantee Societies), and commercial banks (as the actual and only lenders). This complexity has led to a situation where the banking sector provides a significant portion of short-term loans outside the scope of public programs, with terms and conditions that are difficult to fully assess. It is argued that these loans are less bureaucratic, more streamlined, and faster to access compared to public microfinance program, which often requires six to nine months for approval.
In terms of results, over the first 11 years of the PMN, a total of EUR 16 million was disbursed to the target groups (currently €2.4 million per year).

Another key issue with the program is its cost to micro-entrepreneurs. They must pay fees for guarantees, incur the costs of bank financing, and become shareholders of the guarantor (under a mutual system). Additionally, it is very rare for mutual guarantee societies to fully exempt borrowers from providing personal guarantees or collaterals.
Moreover, the public program only provide business management support after the credit is disbursed for up to 24 months, even though many micro-enterprises have expressed the need for ongoing non-financial services.

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## Inclusive Entrepreneurship and Microenterprise Development

Besides microcredit programs, different initiatives in Portugal contribute to support self-employment, to empower underrepresented groups and to fight actual trends of socio-economic desertification in the country's hinterland, away from major urban centres. Below are three examples:

- CPE (Self-employment): the social security system can pay, as a lump sum, the total amount of unemployment allowances, when a person presents a feasible project to create self- employment. The project application is approved by IEFP and lump sum paid by Social Security Institute.
- Investe Jovem (Young people investment): aimed at unemployed youth between 18 and 30, it gives financial and technical support for business creation. It offers subsidies and interest-free loans of up to EUR 40.000 with a reimbursement period of five years.
- Emprego Interior MAIS (More employment on hinterland): this initiative supports mobility, business creation and job opportunities in less populated areas, contributing to the revitalization of these regions and the mitigation of environmental risks in these territories.

For the socio-professional integration of people with disabilities and those facing low employability conditions, a model of "Work Integrations Social Enterprises" was created. This public policy of a "Social Job Market" is currently in force only in the Atlantic Region of Azores. The legal framework for this model is under revision.

The "Portugal Social Innovation Initiative", launched in 2014 aims to foster entrepreneurship, social innovation and impact investment in Portugal, contributing to the Sustainable Development Goals. Its mandate was renewed until 2030, in line with the principles of the European Pillar of Social Rights.
The renewed initiative "Portugal Social Innovation 2030" is backed by European funds and provides financial and technical support to innovative projects addressing unmet social issues, with measurable positive social outcomes. It operates through five instruments: a) Capacity building for Social Innovation; b) Partnerships for Social Innovation; c) Centres for Impact Entrepreneurship; d) Social Impact Bonds; e) Social Impact Contracts.
Municipalities and private entities are invited to act as social investors, through a "matching fund mechanism" managed by this initiative.

Municipalities also play an active role in supporting entrepreneurs by creating infrastructure, business incubators and access to market opportunities, further strengthening local ecosystems for inclusive entrepreneurship.

These policies have enhanced entrepreneurial activity, contributing to job creation and social inclusion of disadvantaged groups. However, systemic barriers to the long-term sustainability of these projects and businesses remain in Portugal.

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