



**MASTER IN
FINANCE**

MASTERS FINAL PROJECT
DISSERTATION

**SME FINANCING IN PORTUGAL – THE CASE OF A
PORTUGUESE GOVERNMENT PROGRAM**

GONÇALO MARTINS MOREIRA

OCTOBER 2018



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GUIDANCE:

PROF. CLARA RAPOSO

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Abstract

SMEs are presented as a pillar of the European economy. Their social and economic contribution make them one of the most concerns of national and supranational organizations around the world, principally after the economic crisis of 2008.

Particularly in Portugal, where both SME employment and value added are still below the level presented in 2008, there were created some initiatives to ease access to finance for SMEs. “*PME Líder*” and “*PME Excelência*” are linked to one of those initiatives in Portugal.

Key words

SMEs; pillar; employment; value added; finance.

Resumo

As PME são conhecidas como sendo um dos pilares da economia Europeia. A sua contribuição social e económica faz com que sejam uma das maiores preocupações de organizações nacionais e supranacionais pelo mundo fora, principalmente após a crise económica de 2008.

Particularmente em Portugal, onde o emprego e o volume de negócios das PME ainda está abaixo do nível apresentado em 2008, foram criadas algumas iniciativas de forma a facilitar o acesso ao financiamento por parte das PMEs. Os programas “*PME Líder*” e “*PME Excelência*” estão ligadas a uma dessas iniciativas em Portugal.

Palavras-chave

PMEs; pilares; emprego; volume de negócios; financiamento.

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1.Introduction

Small and Medium enterprises (SMEs) are known as the backbone of the European Union (EU) economy, being the real drivers of innovation and growth and the main generator of employment.

Over this paper I am going to provide evidence on its importance in EU economy highlighting the case of the Portuguese one.

The growing awareness of the vital role played by SMEs was made in 2008, after the economic and financial crisis, through the Small Business Act (SBA)⁽¹⁾ with the goal of improving the regulatory and policy environment of SMEs as well as removing the remaining barriers to their development.

For its importance SMEs and entrepreneurship are considered key points of the European enterprise policy and cannot be indifferent to policy makers around the world. This became even more evident with the Horizon 2020⁽²⁾. This program is the biggest EU Research and Innovation program and inside it there is a specific instrument linked to SMEs: the SME instrument ⁽³⁾, launched in late 2017 with the purpose of providing support to highly innovative SMEs.

Despite all the attention that has been given to SMEs and all the known contributions that SMEs are able to offer to the European economy, these companies have more difficulties than larger enterprises in vital issues.

(1) https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en

(2) <https://ec.europa.eu/programmes/horizon2020/en/>

(3) <https://ec.europa.eu/programmes/horizon2020/en/h2020-section/sme-instrument>

Access to finance, lack of support, information asymmetry, lack of collateral and the unfavorable regulatory environment are just some limitations that this type of enterprises face.

In order to better understand SMEs conditions and before focusing on the Portuguese Government program – “*PME Líder*” and “*PME Excelência*”, I will present in the following chapter the results of my research over relevant literature on the theme.

The “*PME Líder*” and “*PME Excelência*” firms are linked to a program that was created in 2008 in order to provide better financing conditions to SMEs that already had shown a performance within the parameters required by the program. I will, in chapter 3, detail the program as well as the conditions required to access the program since the beginning. Then, some data will be presented in order to analyse the framework of Portugal.

1.1.Motivation

Having in mind the extreme importance and contribution that SMEs have in the Portuguese, European and world economy it was not difficult, after some research about the theme, to decide to do a more profound investigation on their data, conditions and challenges.

For that reason and in order to narrow the investigation I decided to investigate not only the general framework of European SMEs but to focus on the Portuguese SMEs conditions and Portuguese Government supports.

1.2.Objective

The research goals of this dissertation are to enhance the importance of SMEs in the European Union and, in particular, in the Portuguese economy and to do a more detailed research on Portuguese SMEs data and the Portuguese Government Programs – “*PME Líder*” and “*PME Excelência*” that were created to support SMEs in Portugal after the economic and financial crisis of 2008.

2.Literature Review

The purpose of this section is to provide an overview on SMEs financing conditions, analysing relevant literature associated with SMEs.

I have divided this chapter into four sections to analyse each topic that I consider suitable to the main purpose of this dissertation.

In section 2.1 I will define SMEs according to the European Commission (EC) and, subsequently, according to the criteria used by the Portuguese Government program discussed later. In section 2.2 it is going to be emphasized the importance of SMEs as well as their major limitations. Section 2.3 reviews the literature on the role of governments in providing conditions to SMEs and finally, in section 2.4, I will review some literature on alternative financing forms that are rising across European countries.

2.1. SMEs definition

The concept of SME is not the same around the world and it is going to be defined below the concept used during this dissertation.

According to the EC (2003/361/EC)⁽⁴⁾ and also to the Portuguese law number 372/2007 a medium enterprise is a company which employs less than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million, a small

(4) http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

enterprise is a company which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million and a micro enterprise is an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. A company that does not fit the definitions above is considered a large enterprise.

This definition is also the one adopted by the Institute for Support to Small and Medium Enterprises and Innovation (IAPMEI) that was used in the Portuguese Government program that is going to be analysed in the next chapter. See below a table summarising the criteria to differentiate micro, small and medium enterprises.

Company Category	Employees	Turnover	Balance sheet total
Medium	< 250	≤ €50m	≤ €43m
Small	< 50	≤ €10m	≤ €10m
Micro	< 10	≤ €2m	≤ €2m

Figure 1 - SMEs definition
Source: (2003/361/EC)

2.2. Importance of SMEs and their major limitations

Before starting the analysis on government aids to SMEs I will, in this section, highlight the importance of SMEs as well as enumerate their major concerns and limitations to growth.

The vital role that SMEs have in the economies of European countries is undeniable. For this reason, SMEs are frequently denominated as the backbone of them.

According to the EC report on European SMEs 2016/2017 “all but 0.2% of enterprises which operated in the EU-28 non-financial business sector in 2016 were SMEs”, (...) “accounting for 67% of total employment” (...) “and generating 57% of value added” (...). These values become even more evident in countries such as Portugal where, accordingly to the same report, the employment rate is 78.1% and the value added 68.5%. So, it becomes evident through the data provided by the EC the social and economic role that SMEs have in Europe and even more in Portugal.

From the social perspective, “Birch (1987)”, emphasized the strong connection between job creation and small businesses where he defended and reached the conclusion that small firms were the most important source of job creation in the United States.

After Birch’s research many authors confirmed it and even recently “Jan de Kok et al. (2013)” did research on the role played by this companies in employment growth around the world. “Jan de Kok et al. (2013)” reached the conclusion that in most countries, SMEs employs considerably more people

than the size class of large enterprises. This is confirmed by the data provided by the Organization for Economic Co-operation and Development (OECD) and the EC over the years and also by the European Investment Fund (EIF)⁽⁵⁾.

Within EIF it is possible to find authors such as Helmut Kraemer-Eis, Frank Lang or Alexandra Moritz that orientate some researches on SMEs emphasizing their importance, searching for their concerns and finding alternative forms of financing.

From the economic perspective we can also find some relevant literature that emphasizes SMEs as provider of more competitiveness to the economy “(Birch, 1987; Jan de Kok et al., 2013; and others)” and this literature is also supported by data provided by OECD and EC. In most European countries SMEs are responsible for great part of the total value added.

But besides all the known importance that SMEs have to economies they are still faced with a lot of limitations to their sustainable growth.

Across some relevant literature on the subject the main constraints assigned to SMEs are related to their financing conditions and their dependence on bank financing.

“Bădulescu (2010)” confirmed that “SMEs have a key role in developing national economies but are often limited by lack of development support in financing business for reasons of information asymmetry, high risks, lack of collateral, unfavorable regulatory environment.”

(5) <http://www.eif.org/>

The information asymmetry is a major problem of SMEs in what concerns the search of sources of financing. This limitation comes, mostly, from the absence of financial information and shortage of standardized financial statements that ends up with limited information to creditors about the borrower company that leads to uncertainty. Another limitation pointed by “Bădulescu (2010)” is lack of collateral. “Insufficient collaterals compared to the lenders’ request in order to overcome the risks associated to moral hazard is probably the most claimed cause of difficulties in accessing a credit by a SME”. Finally, Bădulescu points the unfavorable regulatory environment as a major limitation to SMEs growth, but this one has been declining across most OECD countries according to OECD report of February 2018.

Complementing and confirming Bădulescus’ and other authors on the theme, a report from the European Central Bank (ECB) in 2014 enhances the fact that SMEs are “more likely to experience difficulties in obtaining external funding than large firms”, which reflects their difficulties in obtaining sources of financing other than banks. According to this report and enhancing Bădulescus’ research this “results from their smaller size, less detailed financial statements and shorter track records, leading in turn to more asymmetric information problems, greater dependence on bank financing and higher financing costs”.

It is also important to have in mind that in what concerns to bank financing the conditions offered were hugely impacted by the recent financial and economic crisis once the credit risk increased and lead to an even bigger

obstacle to the supply of loans. According to ECB “this has been particularly the case for SMEs, whose creditworthiness and financial health have deteriorated more sharply than those of large firms”.

As confirmed in this section, many authors confirmed and proved the importance of SMEs in all the economies. Others pointed their concerns and limitations to growth. Let's, in the next section, find what is the governments' role on supporting and giving better conditions to SMEs.

2.3. Government aids to SMEs

The importance of SMEs to the economies and their limitations were already the purpose of research of some authors and will always be. In this section I will introduce the main studies and researches done on the role that governments have in enhancing their importance and reducing their concerns.

Governments and policy makers around the world, as well as more abroad organizations, gained an even more crucial role on what concerns the conditions to provide to SMEs after the economic crisis of 2008. This period affected particularly SMEs and mostly in what concerns to their relationship with banks and access to credit. With the risk-averse environment lived by banks, the tendency not to lend to SMEs have increased and, in consequence, the concerns of governments in this matter has increased.

Comparing the United States with the EU Mario Draghi, president of the ECB, stated, in 2013, that in the US 80% of credit intermediation goes via the capital markets and on the European situation it is the other way around. 80% of financial intermediation goes through the banking system. This means that European enterprises are too dependent on banking system and the panorama needs to be changed.

According to OECD even in “normal” economic conditions governments have recognised that, to survive and grow, SMEs need specific policies and programmes (The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses).

Given the inherent relevance attributed to SMEs it was noted that alongside national government policies there were some initiatives put in place during the years by supranational institutions, mainly in Europe.

Within the EU there is an institution that is focused in SMEs’ financing: the EIF.

The EIF belongs to the European Investment Bank (EIB) and its major purpose is to support Europe's SMEs by helping them to access finance. This institution is a specialist provider of risk finance to benefit SMEs across Europe.

Through the analysis of some researches and studies done by EIF it is possible to confirm the role played by SMEs as well as the perception of their importance to the European economy.

Outside the EU there are cases where specific programs have great impacts on SMEs growth. In the United States, for example, having in mind the crucial importance of SMEs to the US economy it was launched around 1950 the Small Business Administration (SBA) loans. It is a particularly old program launched by the government and with strong support from the Congress as well as from all recent presidential administrations.

Trying to understand the real impacts of these program in US SMEs “Brown and Earle (2017)” did what no one did until then that was to know more about the outcomes of the program since very little was known about the outcomes of it.

Although this program is not recent it is one of the most important and significant interventions affecting firm-level access to finance having provided, in 2017, over thirty billion dollars to approximately sixty thousand SMEs.

In this research Brown and Earle estimated “the firm-level impact of access to SBA loans on employment growth”. As they say the loans have, theoretically, ambiguous effects on employment. From one side SMEs that have easier financing conditions are closer to enlargement and employment growth but, on the other side, it can lead to capital-labor substitution.

For SMEs to be able to participate in this program they need to meet some criteria that are in some ways similar to the criteria used in the Portuguese government program that will be discussed in the next chapter.

The conclusion of this study was that “the uniformly positive impact of increased capital access on employment suggests that these factors of

production are gross complements rather than substitutes” and based on their estimations on the government program “credit constraints impede growth of small businesses prior to receiving the SBA loans”. These results are clear in what regards to the importance of supportive programs provided by governments to SMEs.

If SMEs are “providers” of innovation and fundamental in what relates to employment rates governments must have specific programs and incentives turned to them. But we also saw that there is a great dependence on bank financing, so governments need to find new ways of financing SMEs.

In the next section, I will take a look in some relevant literature on alternative financing for SMEs.

2.4. Alternative financing

In this section I am going to focus in the emergence of new types of alternative financing, rather than the most common ones, and it is going to be reviewed some literature on them for the importance I believe that they can have in short-term future financing of SMEs.

According to the last Survey made by the ECB on the access to finance of enterprises SAFE in the euro area, the financing conditions are still a problem pointed by companies, and a great concern of the ECB. Despite the improvement of their conditions (“Euro area SMEs continued to indicate improvements in their overall financial situation”), which has been a trend in the

last surveys made by the bank, access to different forms of financing is viewed as a tendency.

As it is provided in SAFE banks remained the most relevant source of finance being bank overdrafts and bank loans the most used tools from banks. The most relevant alternative financing sources pointed were leasing, trade credit and factoring.

One major achievement of the last SAFE in the euro area is that SMEs confirmed that there is an increase in the availability of bank financing and the willingness of banks to provide credit at lower interest rates. Comparing the main European results with Portugal, it is possible to verify that, in Portugal, contrarily to other European countries there was an increase in the percentage of SMEs indicating greater financing obstacles. So, besides everything seems to be in the right direction across Europe there are still a lot of preoccupations concerning its financing and some differences between European countries.

Due to its importance and the proved dependence on bank financing that SMEs have, it has been studied other types of financing rather than the ones provided by banks.

Options for companies seeking alternative financing are growing, however most SMEs are not aware of these possibilities. This reality becomes much more evident in countries like Portugal. Apart from the main alternative financing options such as venture capital, business angels, leasing, factoring, trade credit or crowdfunding SMEs have now more alternatives emerging like securitisation and debt funds, which I am going to focus here once after some

research I believe can have a huge positive impact in financing of SMEs in the near future.

Alternative financing also has been an issue of great interest for academics and it is becoming a major concern of Europe institutions, such as the EIF, already mentioned before.

Leasing, for example, it's an alternative financing technique that allows SMEs to access short- and medium-term financing for capital equipment. It has been one of the most alternative methods used and it is expected to stay as an high relevance tool for SMEs in the following years.

Apart from the most common alternative financing sources such as leasing and factoring that are considered of "high relevance" "(Helmut Kraemer-Eis and Frank Lang, 2012)" and that have been discussed a lot in the past years, there are emerging new alternative financing sources in the last few years.

I will now give a simple and brief introduction to two alternative ways of financing that during this research captured my attention: Securitisation and debt funds.

SME securitisation (SMESec) is one source that I am going to enhance here once I believe it can be of great improvement in SMEs financing conditions soon. It can be defined as a "structured finance technique which involves the pooling of assets and the subsequent sale in the capital markets of claims on the cash flows backed by this pool" (Nassr I. & Wehinger G., 2015).

SMESec comprises transactions such as SME loans or leases and a functioning securitisation market can turn illiquid loans to SMEs into an asset class with adequate market liquidity. “Taken together, strengthening SME securitisation may be one of the most effective ways to facilitate the flow of funds to the real economy, while not creating much distortion” (Kaya, 2014).

Briefly, if we have on one side banks with illiquid risky loans and on the other side, we have investors searching for assets with maturities and returns that match with those loans, these two sides could combine in SMESec. Also, the funds received by banks on securitisation could support, for example, new lending to SMEs (supporting further securitisation).

Also, Yves Mersch, member of the Executive board of the ECB, stated that connecting SME financing needs with the funds of bank and non-bank investors via securitisation of SME loans can assist banks’ ability to fund and distribute risk.

Debt funds are another alternative way of financing that is emerging as a mechanism of increasing the non-bank lending or bank-disintermediation. The role of non-banks in providing credit is increasing, so the decreasing dependence that SMEs have on banks should be a trend. Debt funds are presented as very wide range of possibilities and there is no generally accepted definition for them, however, the EIF differentiates 2 types: Diversified and Selective Funds.

The first model is presented as similar to securitisation since the fund buys loans from banks providing them more liquidity and the second one is

structured as investment funds. Selective funds are characterized as significant risk sharing and strong alignment of interests between investors and the fund's manager. SME bond funds are an example of Selective Funds.

3. Portuguese SMEs access to bank financing – case study on a Portuguese government program.

Portuguese SMEs have a strong dependence on bank financing, which has been characterized by high interest rates and which became particularly harder since the financial crisis of 2008.

It is not hard to understand that with the crisis the relationship between smaller enterprises and the banking system became more sensitive having impact on credit supply provided by banks. Once that a large part of that smaller enterprises are bank-dependent this brought Governments to intervene creating better conditions to the companies.

Particularly in Portugal and towards the scenario of deteriorating conditions of Portuguese economy, fundamentally, the access to finance that smaller institutions encountered, the FINCRESCCE Program was created in 2008 by IAPMEI with the purpose of supporting Portuguese companies and assigning greater competitiveness to the national business fabric, optimizing the financing conditions of that companies.

This program was designed for SMEs segment and directed for those within a stable stage of development and with good financial performances and

risk profiles. In order to access the FINCRESCE Program companies need to obtain the “*PME Líder*” status.

This status was launched by IAPMEI and Turismo de Portugal, under FINCRESCE Program and, at the beginning, a partnership with five banks which increased every year leading to a partnership that today already includes ten banks – Banco BPI, Bankinter, Caixa Central de Crédito Agrícola Mútuo, Caixa Geral de Depósitos, EuroBic, Millenium BCP, Montepio, Novo Banco, Novo Banco dos Açores and Santander Totta.

In order to differ the SMEs that have “*PME Líder*” status it was also launched the “*PME Excelência*” status that is a certificate that awards the best companies within the ones denominated as “*PME Líder*”. For this reason, the first “*PME Excelência*” status was attributed in 2009 (one year after the “*PME Líder*”).

It is important to highlight that the criteria used for the companies to access the program became more rigorous over time and today they are more complex and stricter than they were at the beginning of the program.

Let’s see with more detail the conditions that are needed to obtain the status and the evolution of that same conditions over the years.

Since 2008 that the first step in the process of obtaining the “*PME Líder*” status is the obtention of the SME electronic certification, which is a simple and immediate way of proving that a determined company is designed as SME according to its definition. Then, a company should demonstrate interest in

obtaining the status from a registered Credit Institution (one of the banks that are partners with IAPMEI), that is going to analyse the company's risk profile and, if applicable, formalize the proposal to IAPMEI. These two steps belong to the conditions since the beginning of the Program and are known as “soft” criteria of the program once they are not related with accounting.

Besides these two “soft” criteria there were also two accounting criteria for 2008: companies should present a turnover growth and financial autonomy should be larger or equal to 20% (in 2007).

For 2009 were added to the “soft” criteria the need for at least one full business year completed and a regularized situation before the Portuguese Tax Authority (AT), the Social Security (SS) and the IAPMEI. For this year the financial autonomy should be larger or equal to 15% (in 2008) and the company should present a turnover growth or a positive Net Income.

The criteria for 2010 did not changed and was equal to the criteria for the “*PME Líder*” status of 2009.

In 2011 there were some changes to the criteria including the fact that instead of the need of a company to have one full business year completed, the company then needed to have at least three full business years completed. It became also mandatory to have a positive Net Income, present an EBITDA or Turnover growth, a financial autonomy larger or equal to 20%, a Turnover larger or equal to half a million euros and a number of workers (AWU) of at least six.

For the year of 2012 there were no changes to the criteria for applying to the status.

In 2013 and 2014 there were made some changes to the accounting criteria related to the previous ones. The financial autonomy should be at least 25%, the Turnover larger or equal to 0.75 million euros, the AWU at least 10 units and one of the following criteria should be met: positive Net Income or EBITDA growth or Turnover growth.

For 2015 there were again made some changes at the accounting level. The positive Net Income became a mandatory criterion as it was in 2012 and the positive EBITDA in the last two years also became a mandatory criterion. Besides these two, the financial autonomy should be at least 30%, the turnover larger or equal to one million euros and the AWU of at least 8 units.

The criteria in 2016 was similar to the used in 2015 being added the net return on shareholders' equity of at least 1%, the net debt divided by the EBITDA lower or equal to 5, the EBITDA divided by the assets larger or equal to 1% and the EBITDA divided by the turnover larger or equal to 1%.

In 2017 the Net Return on Shareholders' Equity should be of at least 2%, the net debt divided by the EBITDA lower or equal to 4.5, the EBITDA divided by the assets larger or equal to 2% and the EBITDA divided by the turnover larger or equal to 2%. It was also added a criterion that states that the rating level, attributed by mutual guarantee societies, should be not superior to 7 (using the mutual guarantee system). The Mutual Guarantee is a mutual support system for SMEs which translates fundamentally in the provision of guarantees to facilitate the acquisition of credit, but also of other types of guarantees necessary for business development in the various sectors of

activity. The mutual guarantee system is participated by IAPMEI and other financial and associative entities and is supervised by Banco de Portugal.

Finally, in 2018, there were made no changes to the criteria used in 2017. It is available in the appendix a table summarizing the criteria used during the existence of this program.

The “*PME Excelência*” is, since 2009, a status attributed to the universe of “*PME Líder*” firms that meet some specific criteria.

Once this program is going already for its eleventh edition it is essential to understand whether the companies covered by the program are today with better financial situations than before and analyse if there is a pattern in the evolution of such companies.

In order to try to understand whether Portugal SMEs are responding well to this kind of initiatives I will, in the next chapter analyse data provided by Portuguese statistics institutes as well as data from the Survey on the Access to Finance of Enterprises in the euro area.

4.Data Analysis

SMEs were in the previous chapters described as the backbone of the European economy and their role was presented as vital for their importance in what relates to employment and innovation.

After the research made through some relevant literature on the theme and the explanation of a Portuguese government program that intends to facilitate the access to finance of Portuguese SMEs I will now analyse, in general, the main available data on European and, in particular, on Portuguese SMEs. For that I will use data provided by different sources as the ECB and EC (Survey on the Access to Finance of Enterprises in the euro area – SAFE and SBA Fact Sheets) and the Statistics Portugal (INE and Pordata).

SAFE is a survey made jointly by the EC and ECB to fill the gap of data available on SMEs in the EU. The survey was firstly made in 2009 and since then it is repeated every six months to assess the latest developments in the financing conditions for firms in the euro area. The last SAFE available was published in June 2018.

The SBA Fact Sheet, that presents an assessment of the progress in the implementation of the Small Business Act at national level, will be explained for the Portugal case.

4.1.SAFE – SME conditions around Europe

Starting with an overview of SME conditions in the EU and using the results of the last SAFE it is possible to confirm that Euro area SMEs indicate improvements in their overall financing conditions, which has been a trend in the last surveys. Surprisingly it is the first time since 2009 where the availability of skilled labor and the difficulty in finding new customers appear as the dominant concerns of SMEs, substituting access to finance. This is linked to the fact that, in general, SMEs reported that terms and conditions provided by banks have been improving.

In Figure 2 we can confirm that, according to SAFE, access to finance is becoming a less significant concern of SMEs but, on the other hand, the availability of skilled staff and the capacity of finding customers are becoming more worrisome. It is also possible to note that the concern with financing decreases with the size of the firm. What have been happening is that, as reviewed in chapter 2, governments are easing and widening financing to SMEs. Competition, costs of production or labour and regulations still concern SMEs at a regular tendency during the years.

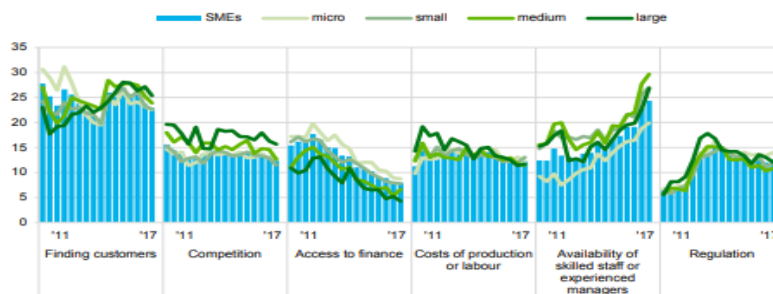


Figure 2 - The most important problems faced by euro area enterprises
Source: SAFE 2018

It is important to refer that besides access to finance is no longer the dominant concern of European SMEs it is still one of the most pointed problems and it is still a target of European governments since it is an area where they can have a direct impact and that still have a lot to improve.

These concerns also differ between countries. When evaluating the importance of access to finance it is reported that SMEs in Greece continued to perceive it as a crucial concern, way above the average, and also SMEs in countries like Italy, Ireland and Portugal pointed access to finance as one of their main concerns (also above European average). It can be confirmed in Figure 3 that financing conditions and perceptions differ across Europe. Portugal is above the euro area average in what concerns access to finance and for that reason programs such as the one mentioned in Chapter 3 are vital for easing their approximation to banks.

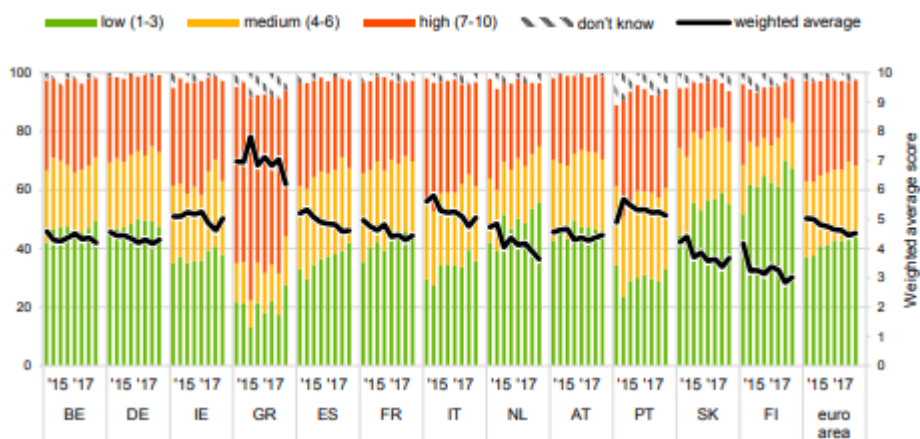


Figure 3 - Importance of access to financing as perceived by SMEs across euro are countries
Source: SAFE 2018

Another confirmation taken from SAFE concerns the sources of financing. The dependence on bank financing is confirmed and as per below chart it is still the most relevant source of financing around Europe.

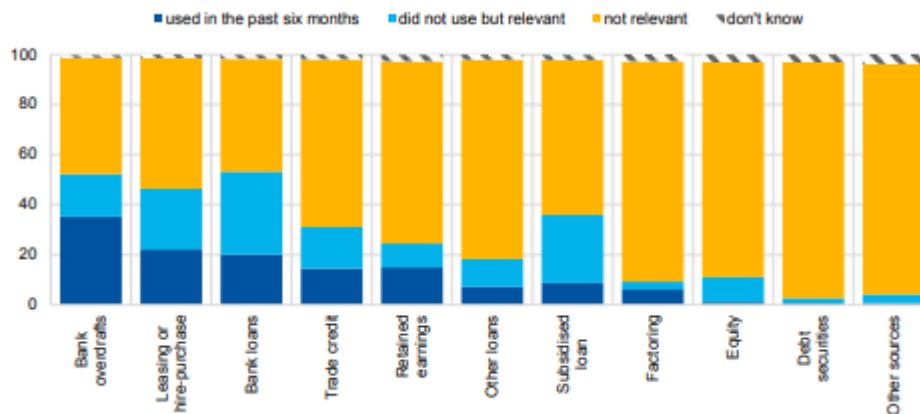


Figure 4 - Relevance of financing sources for euro area SMEs
Source: SAFE 2018

Also relating to the bank financing SMEs in Spain, Portugal and Ireland perceived the availability of bank loans to have improved the most. Greece, on the other hand, continued to be the only country where SMEs indicated a net deterioration in the availability of bank loans. In Figure 4 it is possible to note the lack of alternative sources of financing as the ones presented in section 2.4.

The conclusions that can be taken from the last SAFE are that on one hand we have, on average, SMEs starting to change their dominant concern seeming that the trend is to increase the capacity that they have in their financing and, on the other hand, they are still too dependent on banks to finance their businesses and there is a lack of alternative financing methods. It

is expected that for the next surveys SMEs are going to experience improvements in the availability of external sources of financing.

4.2.SBA Fact Sheet – the Portugal case

Having in mind the perspective given by SAFE in the previous section, let's now narrow the analysis on Portuguese data provided by SBA Fact Sheet for Portugal.

Looking to the below figure it's easy to understand that the importance attributed to SMEs is even more notorious in Portugal comparing to the other countries of the EU. SMEs represent, in Portugal, 99,9% of the non-financial enterprises, employing 78.1% of active population and contributing to 68.5% of the value added.

Class size	Number of enterprises			Number of persons employed			Value added		
	Portugal		EU-28	Portugal		EU-28	Portugal		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	763 109	95.1 %	93.0 %	1 242 789	40.8 %	29.8 %	18.0	24.2 %	20.9 %
Small	33 623	4.2 %	5.8 %	638 227	20.9 %	20.0 %	16.4	22.1 %	17.8 %
Medium-sized	5 135	0.6 %	0.9 %	499 433	16.4 %	16.7 %	16.6	22.3 %	18.2 %
SMEs	801 867	99.9 %	99.8 %	2 380 449	78.1 %	66.6 %	51.1	68.5 %	56.8 %
Large	787	0.1 %	0.2 %	669 293	21.9 %	33.4 %	23.5	31.5 %	43.2 %
Total	802 654	100.0 %	100.0 %	3 049 742	100.0 %	100.0 %	74.6	100.0 %	100.0 %

Figure 5 – basic figures on SMEs
Source: Eurostat 2016

Besides this vital contribution to the Portuguese economy SME employment and value added is still below the level presented before the crisis as presented in figures 6 and 7.

We can also note that the trend presented by the EC is that value added of SMEs is continuing to increase following the EU trend for the next years, confirming the growing contribute that SMEs give to the Portuguese economy.

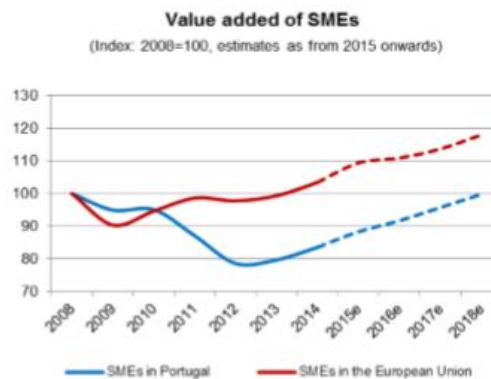


Figure 6– Value added of SMEs
Source: SBA Fact Sheet - Portugal

More worrisome is the evolution of the employment in Portugal. The last report of the International Labor Organization states that Portuguese employment is Precarious and uneven. This is a field where Portuguese SMEs can contribute with better jobs to the each time more qualified young work force that appear in the labour market.

It is possible to note that the number of persons employed in SMEs dropped from 2008 to 2013 and it is raising since then, but at a slow pace and tends to stagnate at a lower level compared to 2008. Comparing with the SMEs in the EU, besides the trend is like the Portuguese one, the level is already at an higher level compared to the one presented in 2008.

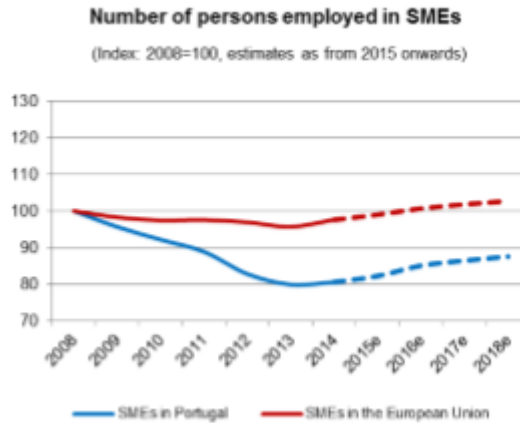


Figure 7- Number of persons employed in SMEs
Source: SBA Fact Sheet – Portugal

Having this in mind and being employment one of the greatest concerns of the Portuguese government this is a confirmation that SMEs need to be provided with better conditions in order to increase their workforce and also the employment in Portugal.

It is confirmed that the role played by Portuguese SMEs is vital and they have clear impacts in employment. Let's now confirm how is access to finance worrying them.

Portuguese SMEs are, according to SAFE, more worried with access to finance, on average, than the euro area SMEs. That concerned is also confirmed by SBA. Below we can see a graphic with some factors on SME access to finance and where can be seen the variation that Portuguese SMEs have from EU average. The main improvements comparing to last year results were the percentage of rejected loan applications and unacceptable loan offers that has improved from 11.97% in 2015 to 7.7% in 2016 (percentage of rejected

loans decreased) and the percentage of SMEs that indicated a deterioration in access to public financial support decreased as well.

For these improvements that are showed in figure 8, SBA confirms the efforts made by Portugal to improve SMEs financing conditions. Among these efforts, SBA enhances some initiatives, including the “*PME Líder*” initiative as one of the significant measures that facilitated access to finance.

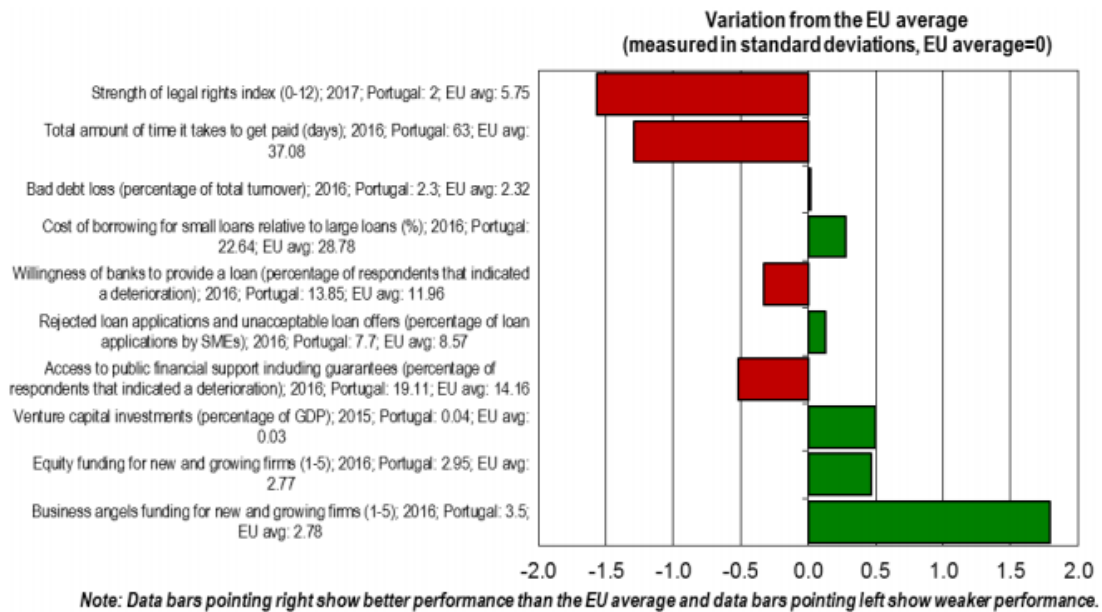


Figure 8 – Access to finance (Variation from the EU average)
Source: SBA Fact Sheet - Portugal

4.3. Portuguese Statistics

The data presented in this section was collected from Pordata, the Database of Contemporary Portugal, organized and developed by the Francisco Manuel dos Santos Foundation and IAPMEI.

Confirming the information by the EC, Portuguese SMEs have a crucial contribution to employment growth in Portugal. Also, in what regards to the percentage of SMEs in all non-financial enterprises it is confirmed that they represent 99.9% of the Portuguese business fabric.

Years	Small- And medium-sized enterprises			
	Total	Micros	Small	Medium
2016	99.9	96.2	3.2	0.5

Figure 9 – percentage of SMEs in the total of enterprises
Source: Pordata

Also, according to Pordata there are around one million SMEs in Portugal. To understand the significance of the program presented in chapter 3 – “*PME Líder*” and “*PME Excelência*” – IAPMEI brought publicly that between 2008 and 2017 the number of SMEs increased 140%, even with the reinforcement of the degree of demand in the selection criteria.

It is possible to note that the access to this program is really high and it has average annual growth of 13%, reflecting the recognition and growing awareness of the initiative.

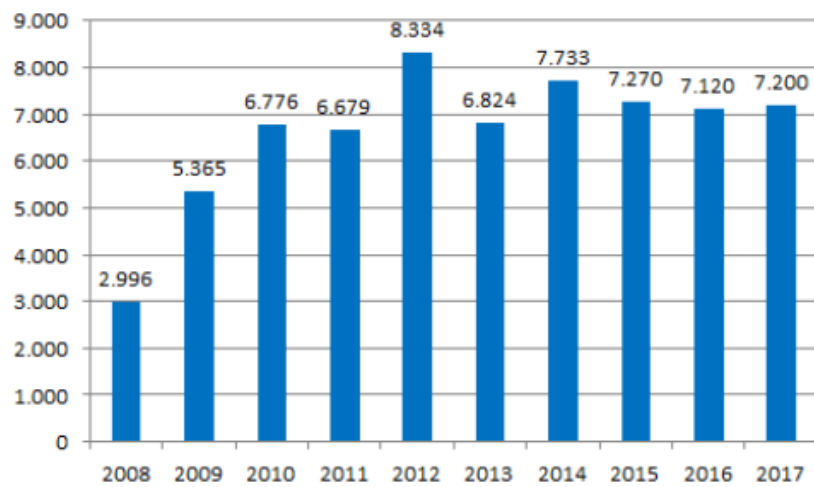


Figure 10 – number of beneficiary SMEs (“PME Líder” and “Excelência”)
Source: IAPMEI

For the last edition (2017) of this program SMEs created 252,883 jobs, 3,221 more than in 2016 and, statistically, 69.7% were small enterprises, 25.1% medium enterprises and 5.2% micro enterprises, according to IAPMEI.

It is for this undeniable both the role that SMEs play in the Portuguese economy as well as the positive contribute given by this program. This program was awarded in 2016 by the European Enterprise Promotion Awards (EEPA) in the category of Business Environment Development.

Besides the information above mentioned it was also collected a sample on SMEs, since the beginning of the program until 2015, from a Database from Banco de Portugal.

Figure 11 summarizes the information collected on that database and as it can be seen on the first edition of “*PME Líder*” program 44,694 SMEs applied to the program, but only 18,549 fulfilled the criteria and was eligible for it. From those 18,549 eligible SMEs just 1,866 were attributed with “*PME Líder*” status.

It can be also noted that during the years the number of SMEs that applied to the program reduced, however the number of SMEs that obtained the status increased. This can be explained by the awareness of SMEs about the conditions that need to be fulfilled and also the role of the banks on helping SMEs fulfilling that criteria.

Year	“PME Líder”	Eligible to Líder	“PME Excelência”	Eligible to Excelência	Non-eligible	Total SMEs
2007	0	0	0	0	46,897	46,897
2008	1,866	18,549	0	0	24,232	44,694
2009	4,771	14,938	328	4,069	18,514	42,620
2010	5,906	14,228	922	3,001	18,513	42,570
2011	6,013	5,055	1,230	2,464	27,638	42,400
2012	7,338	1,154	1,092	435	28,926	38,945
2013	6,317	3,520	931	865	25,442	37,075
2014	7,107	3,175	1,585	1,270	24,047	37,184
2015	6,368	1,945	1,261	866	27,358	37,798
Obs	45,686	62,611	7,349	12,970	241,567	370,183

Figure 11 - Portuguese SMEs summary (excluding SMEs from Turismo de Portugal)
Source: Database from Banco de Portugal

In general, figure 11 presents us a scenario where the number of SMEs applying to the program is constant between 2008 and 2015, however the growth on SMEs with “*PME Líder*” status was of 341% and the growth of SMEs with “*PME Excelência*” status was of 384%. Moreover, from all SMEs that applied to the program, around 65%, was not eligible to it.

It can be also noted that from the eligible to “*PME Líder*” 73% obtained the status and from the eligible to “*PME Excelência*” 57% obtained it. Here it can be confirmed the rigor of “*PME Excelência*” program compared to leader, since only “*PME Líder*” SMEs from previous year can apply to it.

4.4. Overview of the results

In the previous sections of this chapter data from different sources was presented in order to give consistency to the main objective of this research that was to enhance SMEs importance in the Portuguese economy as well as give an overview on the EU SMEs.

According to SAFE, access to finance is not the main concern of European SMEs, being substituted by lack of skilled work force and difficulties on finding customers. However, financing conditions of SMEs are still one of the major concerns to policy makers in Europe.

It is also notorious that there are differences within the EU countries in what regards to access to finance. There are some countries, Portugal included, where the access to finance is still a major concern.

As it was demonstrated SMEs have an extremely important role in the Portuguese business fabric for their contribute in employment, innovation and growth.

Besides the recognised importance attributed to SMEs in Portugal it is possible to notice that both employment and valued added of Portuguese SMEs are below the level of 2008, what is not happening in EU average that is already above the level presented in 2008.

Statistics show us, according to SBA, that Portuguese SMEs are having a better rate in what relates to the rejected loan applications and also indicating improvements on access to public financial support, so the trend is optimistic.

Government intervention with initiatives as the presented are fundamental and need to be encouraged. If, according to Pordata, we have around one million SMEs and they contribute with around 68.5% of value added, according to the EC, programs such as “*PME Líder*” and “*PME Excelência*” are of vital importance in order to invigorate the role played by SMEs.

With government aids and awareness of SMEs contribution to the economy the trend is optimistic for the near future and it is expected that the next edition of the survey will present even better results in what relates to employment and financial results of the benefited SMEs.

In the next, and final chapter I will present the main conclusions of this research, expose some limitations found and suggest some topics to deep the research.

5. Conclusion and suggestions for future research

The role of SMEs in the economy is increasingly evident. Their importance in what relates to employment, growth and innovation of a country is undeniable and I was able to confirm that throughout different data sources and relevant literature on the theme.

On this research I was able to find some relevant authors on SMEs that led me to the EIF. The EIF provides tools and conditions to SMEs, encouraging the support of entrepreneurship, growth, innovation, research and development, and employment. Being the EIF part of the EIB and with the EC and all member states involved it is obvious the importance given by the EU to SMEs.

According to the EC, 2016 was a year of steady increase in both employment and value added for European SMEs, as a whole.

Besides their importance and the awareness that governments already have on it there are still a lot to do in what relates their access to finance. Although this is not the major concern of European SMEs it is still a concern of supranational institutions such as the EIF. Furthermore, according to SAFE, some countries are more concerned with the topic than others. Portuguese SMEs, for example, are above the average and are more concerned with it.

Another important conclusion taken from a report from the EC was that the EU-28 SMEs, as a whole, have recovered from the economic and financial crisis from 2008. However, at Member State level, six member states (Croatia,

Cyprus, Greece, Italy, Portugal and Spain) showed levels below the one presented in 2008 on number of SMEs, SME employment and value added.

So, government initiatives like the program presented in this dissertation (*"PME Líder"* and *"PME Excelência"*) that eases their financing conditions are of great utility to Portuguese SMEs and should be recommended and improved over the years.

Across the literature on the them I was able to notice the lack of alternative financing methods that SMEs have available.

To fight the dependence that SMEs have on banks, the EIF, together with the ECB and EC, are working on different sources of financing to SMEs beyond the most common like leasing or factoring. In this study I briefly presented two different forms of financing that captured my attention during the investigation: SME securitisation and Debt Funds. These are two not well explored forms of financing in Europe and that I would like in the future to investigate with more detail.

I had, during this dissertation, some limitations such as the access to data on the SMEs that had access to *"PME Líder"* and *"PME Excelência"* and I think that it would be interesting to do a more profound investigation on this program, with data of all SMEs that entered the program and trying to see the improvements made by SMEs inserted in it. I also think that an analysis on the different sectors between SMEs would show a clearer idea of which sectors are more benefited from the program.

The elaboration of this study was, for sure, useful for a better perception of the business sector in Portugal, the role played by SMEs and the role played by governments in order to enhance SMEs achieving better conditions.

This a theme that will always be interesting for researchers since SMEs are fundamental to the economies and besides it can be found some literature on SMEs, there is still a wide range of possibilities to deepen.

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7. Appendix

7.1 Appendix 1

Here we can find the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises as well as the Portuguese law defining IAPMEI as the responsible Institute of support to SMEs and stating the definition of SMEs corresponding to the definition given by the European Commission.

Article 2

“Staff headcount and financial ceilings determining enterprise categories

1. The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.
2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.
3. Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.”

Decreto-Lei n.º 372/2007 de 6 de Novembro

O Instituto de Apoio às Pequenas e Médias Empresas e à Inovação, I. P., abreviadamente designado por IAPMEI, I. P., tem por missão promover a inovação e executar políticas de estímulo ao desenvolvimento empresarial, visando o reforço da competitividade das micro, pequenas e médias empresas (PME) que exerçam a sua actividade nas áreas sob tutela do Ministério da Economia e da Inovação.

Artigo 2.º

Definição de PME

Para efeitos do presente decreto -lei, a definição de PME, bem como os conceitos e critérios a utilizar para aferir o respectivo estatuto, constam do seu anexo, que dele faz parte integrante, e correspondem aos previstos na Recomendação n.º2003/361/CE, da Comissão Europeia, de 6 de Maio.

(...)

Artigo 2.º

Efectivos e limiares financeiros que definem as categorias de empresas

1 — A categoria das micro, pequenas e médias empresas (PME) é constituída por empresas que empregam menos de 250 pessoas e cujo volume de negócios anual não excede 50 milhões de euros ou cujo balanço total anual não excede 43 milhões de euros.

2 — Na categoria das PME, uma pequena empresa é definida como uma empresa que emprega menos de 50 pessoas e cujo volume de negócios anual ou balanço total anual não excede 10 milhões de euros.

3 — Na categoria das PME, uma micro empresa é definida como uma empresa que emprega menos de 10 pessoas e cujo volume de negócios anual ou balanço total anual não excede 2 milhões de euros

8.2. Appendix 2

Here it is possible to verify the conditions⁽⁶⁾ to access the program mentioned in chapter 3 organized in a table in order to facilitate

comparisons:

2018/2017	2016	2015	2014	2013
SME online certificate	SME online certificate	SME online certificate	SME online certificate	SME online certificate
At least 3 full business years completed and closed accounts for the previous year	At least 3 full business years completed (2013,2014 and 2015) and closed accounts for 2015	At least 3 full business years completed (2012,2013 and 2014)	At least 3 full business years completed (2011,2012 and 2013)	At least 3 full business years completed (2010,2011 and 2012)
Regularized situation before AT, SS and IAPMEI	Regularized situation before AT, SS and IAPMEI	Regularized situation before AT, SS and IAPMEI	Regularized situation before AT, SS and IAPMEI	Regularized situation before AT, SS and IAPMEI
Rating assigned by the Bank's internal credit rating system	Rating assigned by the Bank's internal credit rating system	Rating assigned by the Bank's internal credit rating system	Rating assigned by the Bank's internal credit rating system	Rating assigned by the Bank's internal credit rating system
Net Income > 0 in previous year	Net Income > 0 in 2015	Net Income > 0 in 2014	Net Income > 0 in 2013 OR EBITDA growth (2013 and 2012) and > 0 OR Turnover growth (2013 and 2012)	Net Income > 0 in 2012 OR EBITDA growth (2012 and 2011) and > 0 OR Turnover growth (2012 and 2011)
EBITDA > 0 in both previous years	EBITDA > 0 in 2015 and 2014	EBITDA > 0 in 2014 and 2013		
Financial autonomy >= 30% in previous year	Financial autonomy >= 30% in 2015	Financial autonomy >= 30% in 2014	Financial autonomy >= 25% in 2013	
Net Return on Shareholders' Equity >= 2%	Net Return on Shareholders' Equity >= 1%			
Net Debt / EBITDA <= 4,5	Net Debt / EBITDA <= 5			
EBITDA / Assets >= 2%	EBITDA / Assets >= 1%			
EBITDA / Turnover >= 2%	EBITDA / Turnover >= 1%			
Turnover in previous year >= 1 million €	Turnover in 2015 >= 1 million €	Turnover in 2014 >= 1 million €	Turnover in 2013 >= 0,75 million €	
Number of Workers (AWU) in previous year >= 8	Number of Workers (AWU) in 2015 >= 8	Number of Workers (AWU) in 2014 >= 8	Number of Workers (AWU) in 2013 >= 10	
Rating level, attributed by mutual guarantee societies, should be not superior to 7				

2012	2011	2010	2009	2008
SME online certificate	SME online certificate	SME online certificate	SME online certificate	SME certificate
At least 3 full business years completed (2009,2010 and 2011)	At least 3 full business years completed (2008,2009 and 2010)	1 full business year completed (2009)	1 full business year completed (2008)	
Regularized situation before AT, SS and IAPMEI	Regularized situation before AT, SS and IAPMEI	Regularized situation before AT, SS and IAPMEI	Regularized situation before AT, SS and IAPMEI	
Rating assigned by the Bank's internal credit rating system	Rating assigned by the Bank's internal credit rating system	Rating assigned by the Bank's internal credit rating system	Rating assigned by the Bank's internal credit rating system	Rating assigned by the Bank's internal credit rating system
Net Income > 0 in 2011	Net Income > 0 in 2010	Net Income > 0 in 2009 OR Turnover growth	Net Income > 0 in 2008 OR Turnover growth	Turnover growth
EBITDA growth OR Turnover growth	EBITDA growth OR Turnover growth	Financial autonomy >= 15% in 2009	Financial autonomy >= 15% in 2008	Financial autonomy >= 20% in 2007
Financial autonomy >= 20% in 2011	Financial autonomy >= 20% in 2010			
Turnover in 2011 >= 0,5 million €	Turnover in 2010 >= 0,5 million €			
Number of Workers (AWU) in 2011 >= 6	Number of Workers (AWU) in 2010 >= 6			

(6) <https://www.iapmei.pt/PRODUTOS-E-SERVICOS/Qualificacao-Certificacao/PME-Lider/PME-Lider/Regulamento-PME-Lider.aspx>

