



# MDB Guarantee Facilities

**Malta Chamber of Commerce  
11 July 2019**

-  To contribute to sustainable socio-economic development in line with public policy
-  To encourage inclusive and environmentally sustainable economic growth
-  To support infrastructural development
-  To link entrepreneurship, investment and economic growth to improved living conditions, a higher quality of life, and better social inclusion.

-  MDB performs a promotional role in line with public policy
-  Supports productive and viable operations where the market is unable or unwilling to accommodate such activities in part or whole due to higher credit risks
-  Aims to complement commercial banks to bridge any financial gaps in bankable investments, thus enhancing investors' access to bank financing

MDB's remit focuses on the two major sectors which are most characterised by market failures in Malta:

## SMEs

*Typical market gaps:*

- *Insufficient collateral*
- *lack of credit history*
- *higher overall risk*
- *Banks' regulatory capital requirements*

## Infrastructure

*Typical market gaps:*

- *Duration of loan requirement - long gestation period*
- *Size of project - Large exposure*
- *Concentration risks*
- *Higher overall risk*

## Guarantee Schemes intermediated via commercial banks:

### Objective

To enhance SME access to finance and to facilitate more attractive terms for bank lending to SMEs

### Rationale of intermediation

- Leaner structure (cost-effective)
- Non-competitive – crowding-in
- Leveraging (optimal use of resources)

### Benefits for SMEs:

- Lower rates of interest
- Loans on a longer term
- Better terms and conditions (contribution, fees, etc...)
- Security & credit history will not remain a deciding factor
- Less collateral requirements

### Benefits for Banks (passed on to SMEs):

- Shared Risk (credit risk reduction)
- Lower Risk-weighted Assets (capital relief)
- Competitive interest rates means more business
- MDB guarantee means less losses

# SME facilities

## First-loss Portfolio Guarantee

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-  Extended mainly through commercial banks
-  Commercial banks responsible for: client due diligence process, project appraisal, assessment and selection of loan applications of end-customers under pre-agreed conditions (tri-party risk sharing is a necessary condition).
-  Focus - SMEs that cannot otherwise be accommodated by commercial banks in spite of having feasible projects
-  Guarantee issued by the MDB for the benefit of the commercial bank to partly cover the credit risk of the guaranteed portfolio
-  Guarantee shall cover 80% of the loss on each facility up to a max of 25% of the total portfolio; Leverage X5
-  The benefit of the guarantee shall be passed on to eligible beneficiaries via reduced collateral as well as a reduction in the interest rate

## SME facilities - rationale

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-  Ensures the non-competitive nature of the relationship between the MDB and the intermediary bank
-  Enables the MDB to assume a leaner structure, thereby fulfilling its public policy role in a more cost-effective manner
-  Contributing to credit enhancement, thereby helping intermediaries to expand the size and range of loans to clients, especially SMEs
-  Such guarantees and risk sharing will also contribute to “Additionality” by stimulating more bank financing of riskier investments
-  Providing loss protection and capital relief – Commercial Bank benefits from a release of regulatory capital, thereby facilitating higher leverage.

## SME facilities - objectives

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-  SME facility has been built on the success stories of Bank of Valletta plc JEREMIE and JAIME products
-  Provides SMEs financing for capital investment and related working capital at advantageous interest rates and reduced collateral
-  The product will:
  - Improve the performance of operations through capital investment and related working capital;
  - Invest in R&D&I which will contribute towards the launching of new products and services; and
  - Tap into new export markets by expanding and improving Malta based operations.

# SME facilities - target sectors



## Benefits for SME:

- Lower rates of interest
- Loans on a longer term – up to 10 years
- Better terms and conditions (contribution, fees, etc...)
- Lack of security and credit history will not remain a deciding factor

# Family Business Transfer Facility

## First-loss Portfolio Guarantee

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-  Extended mainly through commercial banks
-  Commercial banks responsible for: client due diligence process, project appraisal, assessment and selection of loan applications of end-customers under pre-agreed conditions (tri-party risk sharing is a necessary condition).
-  Focus - Certified Family Businesses to take the strategic step to transfer ownership/shareholding of the business between family members. Such loans are not normally accommodated by the commercial banks in view that the transaction will not immediately add value to the business.
-  Guarantee issued by the MDB for the benefit of the commercial bank to partly cover the credit risk of the guaranteed portfolio
-  Guarantee shall cover 80% of the loss on each facility up to a max of 50% of the total portfolio; Leverage X2.5
-  The benefit of the guarantee shall be passed on to eligible beneficiaries via reduced collateral as well as a reduction in the interest rate

# Family Business Transfer Facility - rationale

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-  A dedicated product targeting a specific market gap:
  - Only a small proportion of family businesses manage to survive in the longer term. For instance, only around 12% of family businesses manage to transfer to the fourth generation
  - Banks are reluctant to provide credit for family business transfers because such transactions are generally perceived to add debt rather than value
-  Ensures the non-competitive nature of the relationship between the MDB and the intermediary bank
-  Enables the MDB to assume a leaner structure, thereby fulfilling its public policy role in a more cost-effective manner
-  Contributing to credit enhancement, thereby helping intermediaries to expand the size and range of loans to clients
-  Such guarantees and risk sharing will also contribute to “Additionality” by stimulating more bank financing of riskier investments
-  Providing loss protection and capital relief – Commercial Bank benefits from a release of regulatory capital, thereby facilitating higher leverage.

# Family Business Transfer Facility

## - objectives

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-  This scheme enables more family businesses to transfer their businesses and complements the fiscal incentives to support such transfers, thereby ensuring continuity, stability and further growth in future of such businesses – which in Malta constitute a significant segment of the SME sector.
-  The Purpose of the scheme will allow: (i) end finance buy back / take over, (ii) reduction of issued share capital, (iii) pay dividend, (iv) pay back shareholders' loans as part of the process to transfer shareholding in a certified family business company

# Family Business Transfer Facility

## - target sector (1)

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-  To qualify for the Scheme the Business undertaking has to be registered under the Family Business Act (Cap 565)
-  To qualify as a Family Business undertaking:
  -  The business has to be established in Malta
  -  The ownership of the business should be vested in at least two family members. A family member cannot own more than 80% of the business. The other 20% may be vested as follows:
    - ❖ The full 20% in one or more additional family members;  
or
    - ❖ A minimum of 5% in another family member, and a maximum of 5% in a non related party and a maximum of 10% in employees of the business.

# Family Business Transfer Facility - target sector (2)

The ownership can be in the form of direct or in-direct ownership:

## Direct Ownership



## In Direct Ownership



The following are qualified as family members for the Business Transfer:



## Benefits for Family Business:

- Lower rates of interest
- Loans on a longer term – up to 10 years
- Better terms and conditions (contribution, fees, etc...)
- Lack of security and credit history will not remain a deciding factor

# Thank you for your attention

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