



2019

SME

CONFERENCE

Workshop 4 – Acquiring Finance – Incentives, Investment and Guarantees

31 October 2019



MDB Overview, Mission and Business Model

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31 October 2019

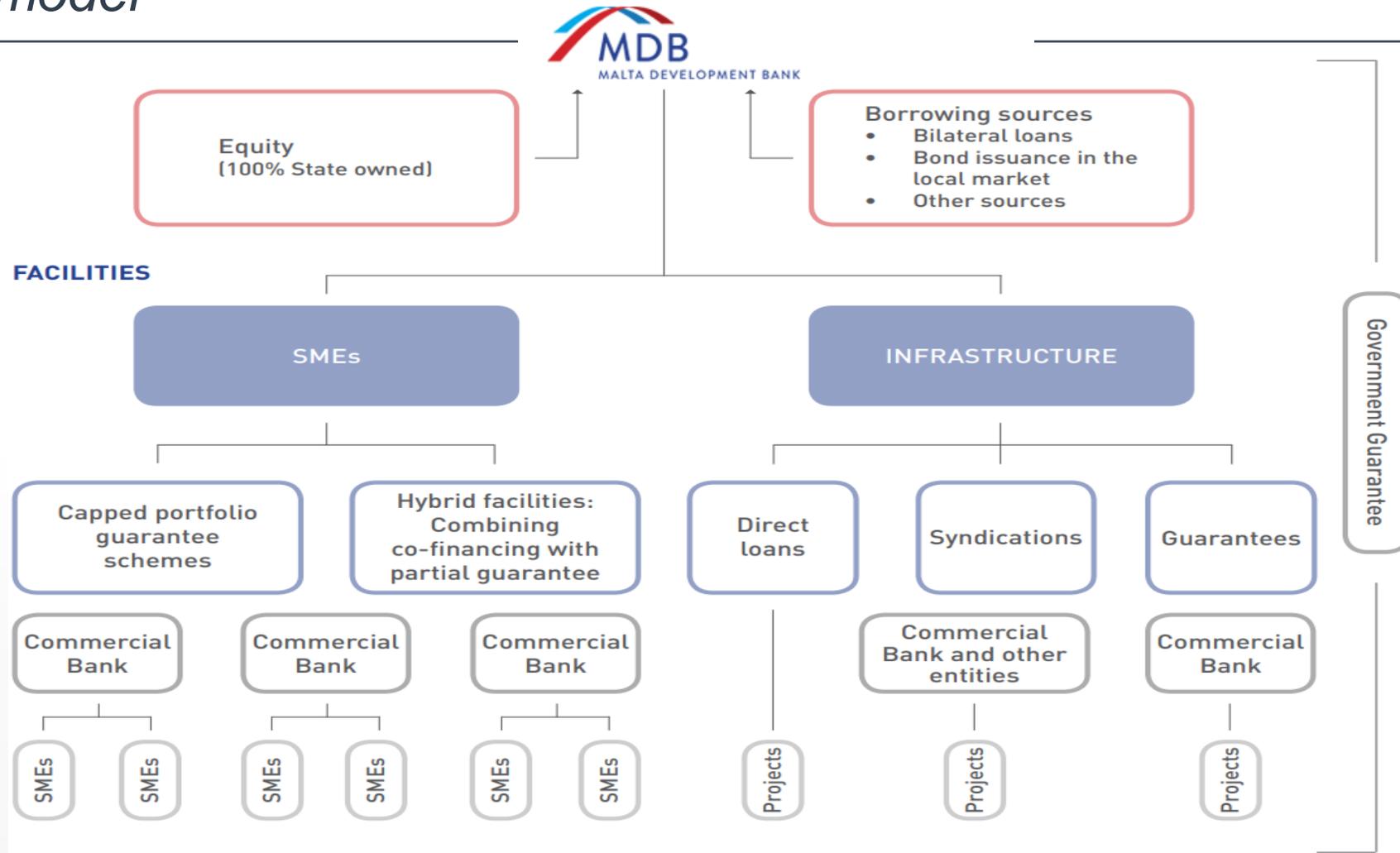
Mission

-  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 support entrepreneurship, in particular SMEs and start-ups

By way of:

-  Addressing market failures by supporting productive and viable operations where the market is unable or unwilling to accommodate such activities in part or whole
-  Bridging any financial gaps in bankable investments by complementing commercial banks, thus enhancing investors' access to bank financing

Business model



Business Model

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*

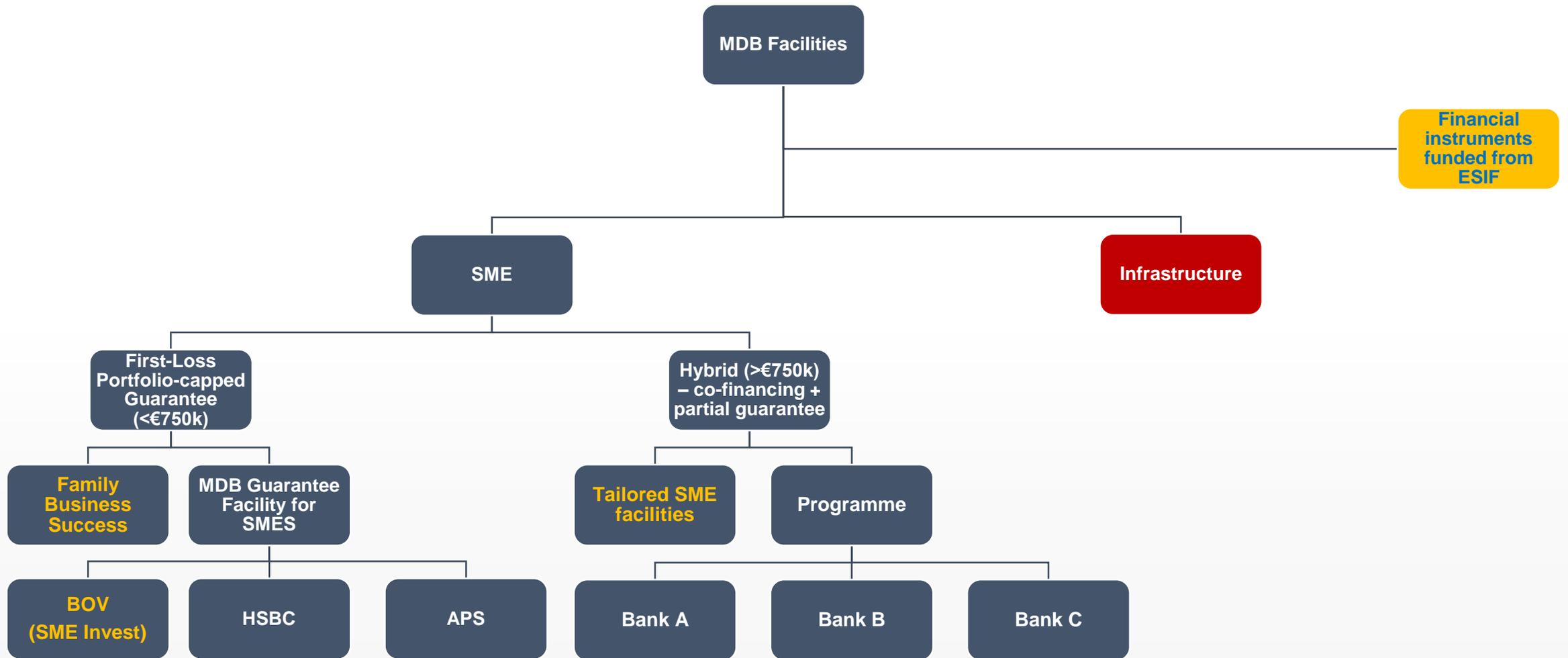


MDB facilities for SMEs

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Current facilities and plans for the future



The Family Business Transfer Guarantee Scheme

Rationale

-  Intermediated through BOV – Family Business Success
-  A niche-market 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

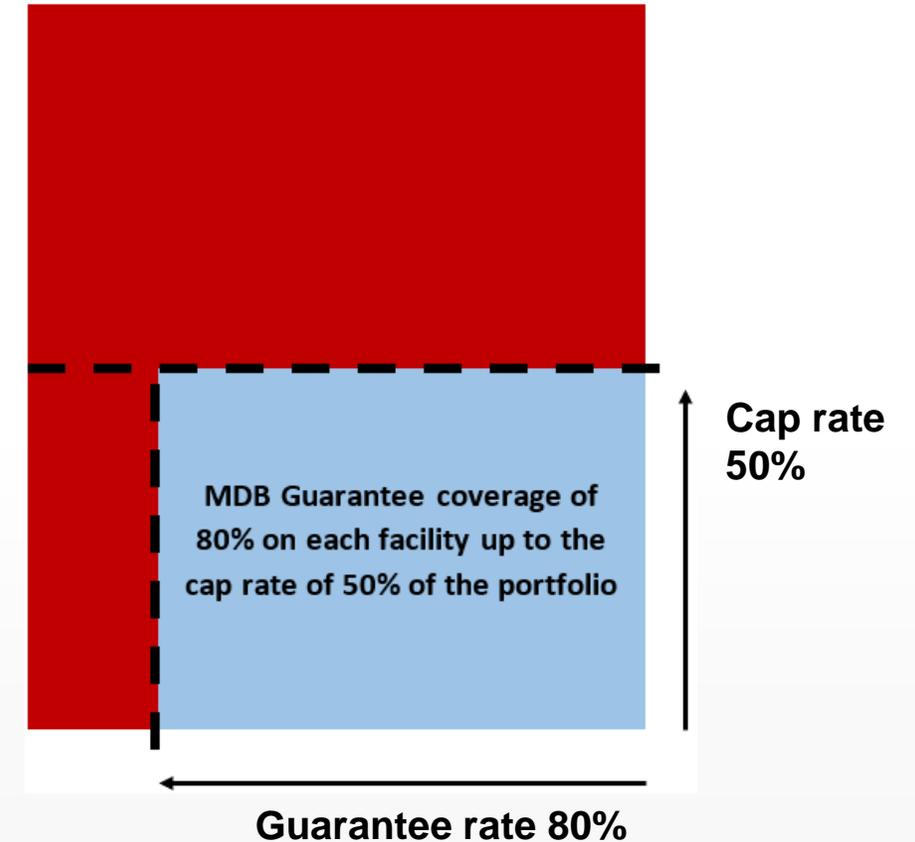
The Family Business Transfer Guarantee Scheme

Objective

-  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.
-  Purpose: (i) take over by family member/s, (ii) reduction of issued share capital, (iii) payment of dividend, (iv) repayment of shareholders' loans as part of the process to transfer shareholding in a certified family business company

The Family Business Transfer Guarantee Scheme Structure

- Intermediated via commercial banks responsible for: client due diligence process, project appraisal, assessment and selection of loan applications under pre-agreed conditions
- Guarantee issued by the MDB for the benefit of the commercial bank to partly cover the credit risk of the guaranteed portfolio
- Guarantee covers 80% of the loss on each SME loan up to a max of 50% of the total portfolio
- MDB guarantee fund of €4 million enables BOV to generate €10 million of new SME loans (Leverage X2.5)
- The benefit of the guarantee is passed on to eligible beneficiaries via reduced collateral as well as a reduction in the interest rate



The Family Business Transfer Guarantee Scheme

Terms and conditions

-  The size of the loan ranges from a minimum of €10,000 up to a maximum of €750,000.
-  Maximum term of loan 10 years
-  Possibility of a twelve months moratorium on capital repayments
-  The purpose of the new loans is to enable SMEs to finance new investment and investment-related working capital
-  The minimum contribution by the SME is normally 20% of the project costs.
-  Depending on the risk, BOV may ask for higher than 20% collateral on individual loan facilities. However, on a portfolio basis, BOV is to ensure that other extendible security does not exceed 30%.

The Family Business Transfer Guarantee Scheme

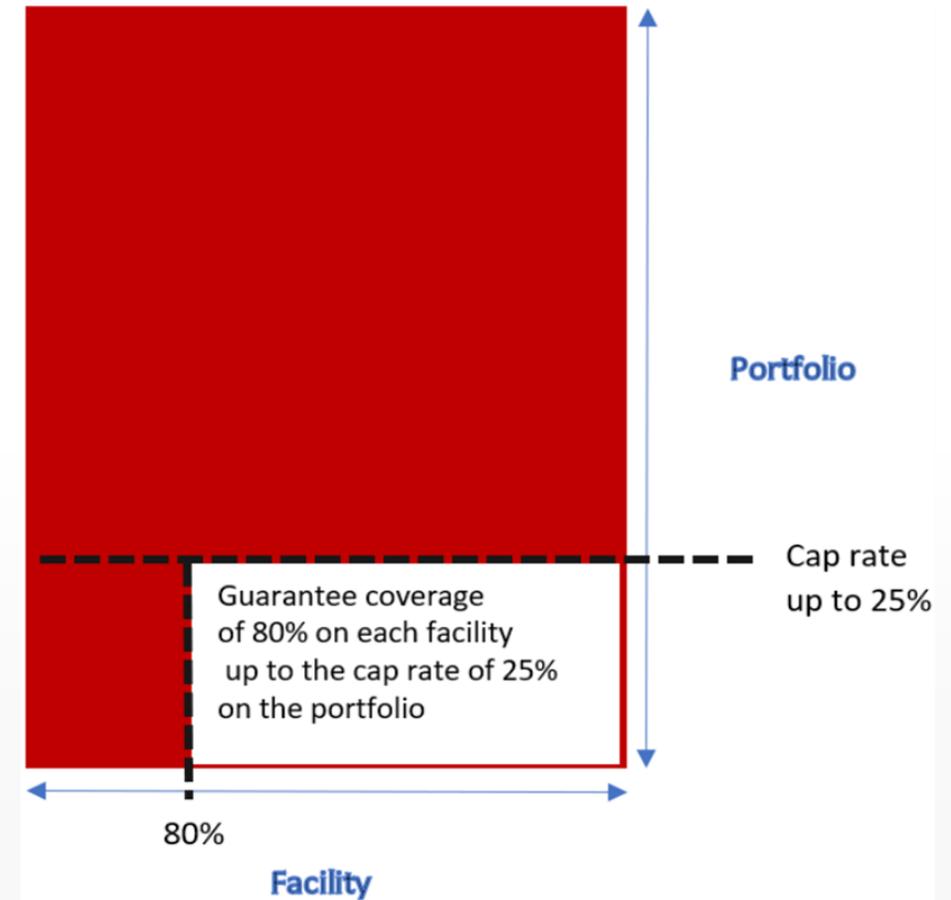
Who can apply?

-  Applicants must be viable SMEs. An SME is defined by Commission Recommendation of 6 May 2003 (2003/361/EC)
-  To qualify for the Scheme the Business undertaking has to be registered under the Family Business Act (Cap 565) with the Family Business Office

SME Guarantee scheme

Structure

- Intermediated via BOV (SME Invest), responsible for: client due diligence process, project appraisal, assessment and selection of loan applications under pre-agreed conditions
- Guarantee issued by the MDB for the benefit of the commercial bank to partly cover the credit risk of the guaranteed portfolio
- Guarantee covers 80% of the loss on each SME loan up to a max of 25% of the total portfolio
- MDB guarantee fund of €10 million enables BOV to generate €50 million of new SME loans (Leverage X5)
- The benefit of the guarantee is passed on to eligible beneficiaries via reduced collateral as well as a reduction in the interest rate



SME Guarantee scheme

Additionality

-  The facility is designed to address the following major barriers to lending:
- Insufficient value or type of collateral
 - Innovative business ventures, economic sectors or technologies which fall outside the risk appetite and tolerance of commercial banks.
 - Other factors for which commercial banks may not be willing or able to provide the required financing in whole or part.

SME Guarantee scheme

Who can apply?

 Applicants must be viable SMEs. An SME is defined by Commission Recommendation of 6 May 2003 (2003/361/EC):

- has fewer than 250 employees
- has an annual turnover of up to €50 million or a balance sheet total of up to €43 million
- has less than 25% of its capital held by public sector entities
- is established and operating in the Republic of Malta

SME Guarantee scheme

Terms and conditions

-  The size of the loan (under SME Invest) ranges from a minimum of €200,000 up to a maximum of €750,000. The minimum loan size may vary from one implementing partner to the other.
-  MDB currently negotiating with other banks where the minimum loan size can be as low as €10,000.
-  Maximum term of loan 10 years
-  Possibility of a twelve months moratorium on capital repayments
-  The purpose of the new loans is to enable SMEs to finance new investment and investment related working capital
-  The minimum contribution by the SME is normally 10% of the project costs.
-  The commercial bank may require a minimum collateral of 20%.

SME Guarantee scheme

What projects are eligible?

-  The project must be supported by a viable business plan.
-  The project is considered bankable by the commercial bank, meaning that the business is reasonably expected to generate sufficient cash flow to enable timely repayments.
-  The project is not physically completed or fully implemented on the approval date of the facility; and
-  The activities of the SME should not be in the exclusion criteria
-  The purpose of the financing covers a wide spectrum of possible activities including:
 - the establishment of new enterprises,
 - expansion capital,
 - capital for the strengthening and/or stabilisation of the general activities of an enterprise or
 - the realisation of new projects, penetration of new markets or new developments by existing enterprises.

SME Guarantee scheme

Target sectors

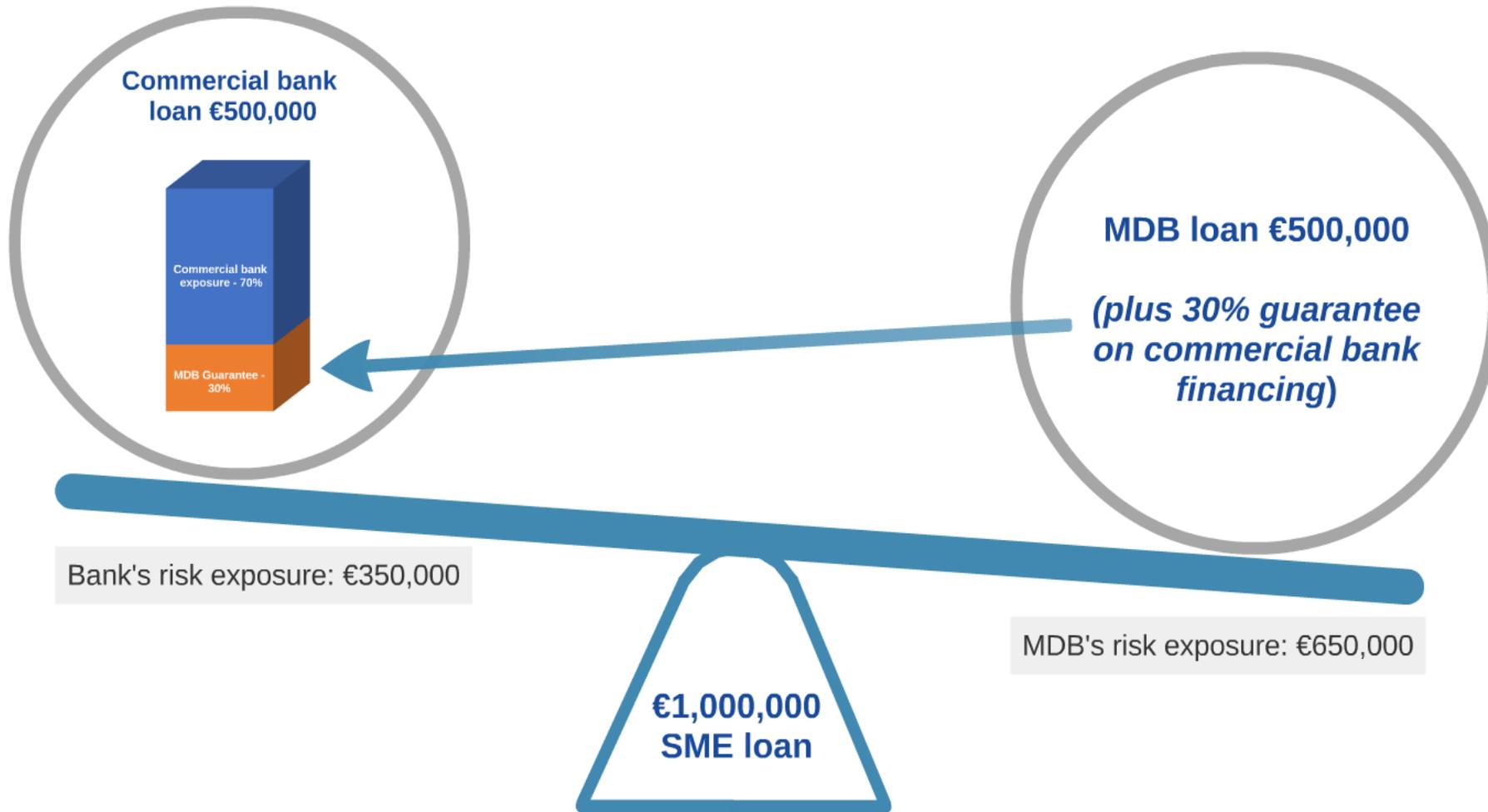


Co-financing & partial guarantee

Rationale

-  Larger loans over €750k can be accommodated – catering for larger SMEs
-  2019 – individual ad-hoc requests, each case treated on its own merits: Flexibility re size, co-financing arrangements, with/out MDB guarantee
-  Soft market testing of a new scheme catering for loans from €750 - €3 million, planned for 2020 launching (strong market interest from most banks):
 - Open to all banks to magnify the impact and ensure broad coverage and ease of access
 - MDB will provide fund of €50 million to be matched by €50 million from banks, to generate €100 million new loans to SMEs
 - The combination of different state aid terms (GBER & de minimis) depending on the case

Co-financing & partial guarantee Structure



MDB as implementing body for the implementation of Financial instruments funded from Structural Funds

-  First financial instrument funded from Structural Funds (ESF), in collaboration with the Managing Authority
-  Soft loans to individuals seeking to undertake full time, part time or distance learning study courses, in MQF 5 – 8, or internationally recognised certificates
-  Loan covers tuition fees, accommodation costs, subsistence expenses and other related expenses
-  Combining a guarantee (€1.1m – leveraged up to a portfolio of €5.5m), with a grant element (€900k covering interest rates during the moratorium)
-  Maximum moratorium of 5 years (with all interest payments during the moratorium covered with the grant element) and an attractive interest rate thereafter.
-  Loans up to €100,000; maximum repayment period 15 years.
-  No collateral or up-front contribution will be requested from the student.
-  BOV selected as financial intermediary through an open call

Thank you for your attention



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