



***MDB Guarantee Facility for Loans to
Small and Medium-sized Enterprises
(SMEs)***

Incentive Guidelines for SMEs

1. Background

The Malta Development Bank (MDB) seeks to magnify the outreach of its impact by collaborating with commercial banks active in SME lending in Malta and offering them the opportunity to act as MDB's implementing partners for the MDB Guarantee Facility for Loans to SMEs (hereinafter, "the facility"). This is consistent with MDB's objective to improve access to finance and to diversify financing options to SMEs. The facility enables lenders to be more responsive to the borrowing requirements of smaller businesses, which, in turn, allows smaller businesses to fulfil their growth ambitions. This facility should generate a positive contribution to the Maltese economy.

1.1 Objective

The purpose of this facility is to assist SMEs, including start-ups, in enhancing their access to finance. 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 framework of credit institutions.
- Other factors for which credit institutions may not be willing or able to provide the required financing in whole or in part.

The facility is available through credit institutions, acting as implementing partners of the MDB. With this set-up, the MDB complements the activities of credit institutions through a non-competitive relationship and contributes to additionality and diversification of Malta's financial base in a cost-effective manner.

1.2 Structure

The facility is structured as follows:

- a) the MDB provides a First Loss Guarantee covering 80% of the individual loans under the scheme, with a cap rate of 25% at the portfolio level, generating a multiplier of 5. For instance, a guarantee of €10 million by the MDB under the facility enables an implementing partner to generate a portfolio of up to €50 million new loans to SMEs.
- b) A guarantee fee of 0.5% is payable by implementing partners to the MDB in respect of the credit risk protection provided by the MDB. The guarantee fee is collected by the implementing partner as part of the final interest rate on the loan.

1.3 Conditions of the Facility

- The size of eligible loans guaranteed under the facility ranges from a minimum of €10,000 up to a maximum of €750,000. The minimum loan size may vary from one implementing partner to another.
- The maximum term of loans is 10 years including the moratorium period if any.
- Possibility of a twelve-month moratorium on capital repayments at the discretion of the commercial bank.
- The minimum contribution by the SME is normally 10% of the project costs, at the discretion of the commercial bank.
- The commercial bank may require collateral in addition to MDB's guarantee to cover the exposure.

1.4 Benefits for the SME

Eligible SMEs benefit from:

- Enhanced access to credit as insufficient collateral and lack of credit history should not remain an obstacle when seeking finance from the banking sector.
- Better terms and conditions, including a longer repayment period.
- Lower interest rates as a result of the credit risk protection from the MDB's guarantee.

2. Eligibility Criteria

2.1 Who can apply?

- Applicants must be viable SMEs. An SME is defined by Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC) as an enterprise that, among other aspects¹:
 - has fewer than 250 employees
 - has an annual turnover of up to €50 million or a balance sheet total of up to €43 million

¹ <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:EN:PDF>

- has less than 25% of its capital held by public sector entities
- is established and operating in Malta

2.2 What type of projects are eligible?

- The project must be supported by a viable business plan.
- The project is considered bankable by the credit institution, 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 are not in the list of excluded activities laid down in Annex 1.

The purpose of the financing covers a wide spectrum of possible activities including:

- (a) the establishment of new enterprises,
- (b) expansion capital,
- (c) capital for the strengthening and/or stabilisation of the general activities of an enterprise;
- (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises.
- (e) investment-related working capital.

2.3 Who cannot apply?

- An SME cannot apply for the facility if it: –
 - is in financial difficulty
 - has suspended its business activities
 - is bankrupt/insolvent or being wound up or having its affairs administered by the courts

- in the last 5 years has entered into an arrangement with its creditors, in the context of being bankrupt/insolvent or wound up or having its affairs administered by the courts
- in case of a sole trader or of the individuals managing a corporate entity, is convicted of an offence concerning professional misconduct by judgment, fraud, corruption, involvement in a criminal organisation, money laundering or any other illegal activity.

2.4 Additionality

Lending under this ad-hoc facility must provide 'additionality', meaning that under the commercial bank's normal credit approval process, the loan would not have been granted at all (or to the required amount) due to: (i) absent or inadequate collateral and/or (ii) the novelty or the nature of the business venture do not fall within the risk appetite of the commercial bank.

3. Application Process

- The scheme is available through MDB's implementing partners (*link to implementing partners*).
- SMEs are to apply for the facility through the commercial banks by providing their borrowing proposal and any other related documentation requested by the commercial bank.
- The approval of the loan under the facility is at the discretion of the commercial bank. The evaluation of the SME's request will be made according to the commercial bank's credit assessment policies.

4. General Provisions

4.1 Monitoring

Approved applications will be subject to monitoring and control by the commercial bank and the MDB in terms of their respective rules and procedures.

The MDB reserves the right to request the participating commercial bank for information on the SMEs benefitting from the facility as may be deemed necessary for the MDB's internal controls and purposes.

4.2 State Aid Rules and Obligations

The provision of funding under the facility is made in accordance with Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis*.

The *de minimis* Regulation limits the overall amount of State aid that may be availed of by an SME to €200,000 in any three-year fiscal period.

5. Contact Details

Further information on the facility can be obtained by contacting:

Malta Development Bank

Pope Pius V Street

Valletta VLT 1041

Contact number +356 2226 1700

Email: info@mdb.org.mt

Website: <https://mdb.org.mt>

ANNEX 1: Excluded Activities

1. Illegal Economic Activities

Any production, trade or other activity, which is illegal under the laws or regulations applicable to the Family Business (“Illegal Economic Activity”).

Human cloning for reproduction purposes is considered an Illegal Economic Activity.

2. Tobacco and Distilled Alcoholic Beverages

The production of and trade in tobacco and distilled alcoholic beverages and related products.

3. Production of and Trade in Weapons and Ammunition

The financing of the production of and trade in weapons and ammunition of any kind or military operations of any kind.

4. Casinos

Casinos and equivalent enterprises.

5. Internet Gambling and online casinos

6. Pornography and prostitution

7. Nuclear Energy

8. IT Sector Restrictions

Research, development or technical applications relating to electronic data programs or solutions, which:

- (i) aim specifically at supporting any activity included in the Restricted Sectors referred to under 1 to 7 (inclusive) above; or
- (ii) are intended to enable to illegally:
 - a. enter into electronic data networks; or
 - b. download electronic data.

9. Life Science Sector Restrictions

When providing support to the financing of the research, development or technical applications relating to:

- (i) human cloning for research or therapeutic purposes; and
- (ii) Genetically Modified Organisms (“GMOs”),

10. Activities Involving Live Animals

Activities involving live animals for experimental and scientific purposes insofar as compliance with the "Council of Europe's Convention for the Protection of Vertebrate Animals used for Experimental and other Scientific Purposes" cannot be guaranteed.

11. Activities which give rise to significant negative environmental impacts

12. Pure Agriculture and Fisheries (due to state aid regulations)

13. Speculative Real Estate Development Activities

14. Activities constituting pure financial transactions (such as trading in financial instruments).