



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

*Information to potential Implementing Partners*

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## **1. Background**

In accordance with its objectives of creating a more diverse and vibrant credit market with more choice of options and providers, the Malta Development Bank (MDB) seeks to magnify the outreach of its promotional role by collaborating with commercial banks to stimulate more active SME lending in Malta by offering the opportunity for banks to act as MDB's implementing partners for the MDB Guarantee Facility for Loans to SMEs (hereinafter, "the facility"). The facility enables lenders to be more responsive to the borrowing requirements of smaller businesses, which, in turn, allows smaller businesses to fulfil their investment plans and growth ambitions. This helps generate a positive contribution to the Maltese economy in terms of new investment, more competitiveness, employment opportunities and higher economic activity.

### **1.1 Objective**

The purpose of this facility is to assist SMEs, including start-ups, by enhancing their access to bank 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 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.

Accredited commercial banks are appointed to act as implementing partners of the MDB. With this set-up, the MDB complements the activities of commercial banks through a non-competitive relationship and thereby contributing 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 minimum leverage of 5.
- b) A guarantee fee of 0.5% is payable by the implementing partner to the MDB in respect of the credit risk protection. 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 the loans covered by 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 the loan is 10 years, including the moratorium period if any.
- Possibility of a twelve months moratorium on capital repayments at the discretion of the implementing partner.
- The purpose of the new loans is to provide SMEs with investment costs and investment related working capital.
- The implementing partner shall pass on the benefit from MDB's guarantee to the SME in the form of a lower risk premium, lower collateral requirements and better conditions.
- The minimum contribution by the SME is normally 10% of the project costs, at the discretion of the implementing partner.
- Collateral requirements:
  - A maximum extendible collateral of 30% of the total portfolio volume will be allowed in addition to MDB's guarantee.

### **1.4 Benefits for the implementing partner**

The implementing partners benefit from:

- Lower credit risk exposure;
- Enhanced opportunity to increase the size of the balance sheet and profitability;
- Efficient use of capital and lower charges to the profit and loss;
- Greater flexibility in adhering with the risk appetite framework;
- Higher possibility of client retention due to the fulfilment of customers' requests.
- Improving customer relationship.

## **2. Eligibility Criteria for potential implementing partners**

### **2.1 Who can apply to act as implementing partner?**

Implementing partners of the MDB Guarantee Facility for Loans to SMEs must be Commercial Banks licensed to operate under the Banking Act, Chapter 371 of the Laws of Malta.

## **2.2 How can one apply to act as implementing partner?**

- To become an implementing partner, interested credit institutions need to fill in the prescribed Expression of Interest form and to provide all the required information specified in the form.
- The Expression of Interest form can be downloaded from this link.
- Applicants must be able to fulfil all requirements and eligibility criteria to the satisfaction of the MDB in order to be considered for further negotiations to act as implementing partners.
- The negotiations with successful applicants are concluded by the signing of a Risk Sharing Agreement and a Service Level Agreement between the accredited implementing partner and the MDB.

## **2.3 What is the size of the loan portfolio that will be available for a potential implementing partner under the facility?**

The size of the loan portfolio covered under the facility will be subject to negotiations between the applicant and MDB, taking into account various considerations including:

- the size of the applicant and availability of capital,
- the track record of the applicant regarding lending to SMEs
- the ability of the applicant to build the targeted portfolio;
- operational capacity

## **2.4 What type of entities can be serviced by implementing partners under the facility?**

Entities that may be considered by accredited implementing partners under the facility 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).

## **2.5 What type of projects are eligible under the facility?**

- The project must be supported by a viable business plan.
- The project is considered bankable by the implementing partner.

- 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 under the facility can cover 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.

## **2.6 Additionality**

Lending by implementing partners under this 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 of the business venture and/or (iii) the duration of the loan does not fall under the risk appetite of the commercial bank.

## **2.7 What types of SMEs are not eligible under the facility?**

- A non-eligible SME is one that: –
  - is in financial difficulty
  - has suspended its business activities
  - is bankrupt/insolvent or being wound up or having its affairs administered by 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 judgement, fraud, corruption, involvement in a criminal organisation, money laundering or any other illegal activity where such illegal activity is detrimental to the European Union's financial interests.

## **3. General Provisions**

### **3.1 Monitoring**

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

The facility will be subject to regular reporting by the implementing partner to MDB. In addition to such regular reporting, the MDB reserves the right to request the participating commercial bank for information on the applicants as may be deemed necessary for its internal controls and purposes.

### **3.2 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*.

### **3.3 Product Labelling and Marketing**

Implementing partners shall be required to carry out adequate marketing and publicity campaigns aimed at advertising the facility and shall be required to:

- Label the Product - the name of the facility and the support provided by the MDB should be clearly indicated. All documents concerning the facility, including amongst others, loan application templates, loan agreements, promotional material, etc. shall contain a statement mentioning that the facility was made possible with the support of the MDB.
- Promote the product through its Website.
- Display promotional posters and make available promotional leaflets promoting the facility in all branches.

- Advertise the facility on the local media, journals and other communication channels in line with the Bank's promotion policy

## 4. Contact Details

Further information on the facility and how to become an implementing partner 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](mailto:info@mdb.org.mt)

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

## ANNEX 1: Exclusion 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).**