

The Malta Development Bank

Leveraging EU Funds

**Gozo Business Chamber, Malta Chamber of Commerce,
Enterprise & Industry**

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-  Background
-  Role and functions
-  Governance structure
-  Capital and funding
-  Financing facilities
-  Consultations with stakeholders
-  Leveraging EU Resources

-  In August 2016, Commission published decision that MDB is in line with State Aid rules and in conformity with internal market (within state aid envelope of €255m, subject to review after 3 years)
-  In August 2016, Eurostat informed NSO that MDB should be classified outside general government sector
-  In May 2017, Parliament passed MDB Act (Act XXI of 2017)
-  On 24 November 2017, MDB Act came into force
-  On 11 December 2017, Minister for Finance appointed the Board of Directors and the Supervisory Board of the MDB
-  On 11 December 2017, MDB Board of Directors held its first meeting

-  Evident signs of ‘market failure’ (particularly post-2009) – high bank lending rates to SMEs (weak pass-through), lower NFC lending, excess liquidity in the banking system
-  Evident market gaps identified:
 - SME’s access to finance, particularly in sectors such as innovation, digitisation and green energy
 - SME’s (particularly start-ups) lacking adequate collateral or credit history
 - Large infrastructure projects with a long gestation period
 - Sectors with a ‘social dimension’ such as education, health, sport, green energy and housing
-  Number of studies determined and quantified a market gap
-  MDB - a necessary diversification of Malta’s financial base

-  MDB performs a promotional role in line with public policy
-  Addresses market failures and financing gaps through facilities that enhance investors' access to bank financing
-  Supports productive and viable operations where the market fails to do so (due to higher credit risks, insufficient collateral, size of project, duration of loan requirement, concentration risks, regulatory capital, etc...)
-  Aims to complement commercial banks to bridge any financial gaps in bankable investments

The MDB will operate mostly in the following sectors:

-  **Private sector development:** SME support, innovative financing, credit enhancement, venture capital, and advisory.
-  **Skills and technology:** sustain competitiveness by investment in innovation, skills, knowledge-generation digitisation, and technology.

-  **Infrastructure development:** support infrastructural projects especially those enhancing competitiveness.
-  **Green economy:** support clean energy and energy efficiency projects, sustainable transport and water resources.
-  **Community services:** support enterprises operating in sectors as education, health, sport and housing.

-  100% Government owned
-  Initial authorised capital: €200 million (Act); initial paid up €30 million rising to €100 million within 5 years (Business Plan)
-  Funding Sources:
 - Local bond issuance
 - Bilateral long term loans from international development institutions
 - Other funding (private placements; short/medium term bilateral credit lines etc...)
-  MDB Act provides for a Government Guarantee of up to 100% of the MDB's assets & liabilities (according to MOU the amount is renewable annually).

MDB's financing operations:

-  (About 60%) lending through banks that will also handle the due diligence process - focus is on SMEs that cannot be accommodated by banks in spite of having feasible projects
-  (About 40%) direct lending and co-financing to the bigger social/economic infrastructure projects
 - Subject to limitations on: direct lending by MDB on its own account; equity investments; single entity exposures.
 - All projects financed must be **bankable projects** and assessed according to **sound banking principles** (viable, revenue-generating)

 Lending may be **aided** as specified by Art 6 (7) of Act:

(a) aided financing authorised under:

- the General Block Exemption Regulation
- approved aid schemes
- approved aid under specific Guidelines issued by the European Commission; and
- EU financial instruments funded from EU Funds, where MDB will act as a vehicle to channel and manage EU funds, or as co-investor;

(b) aid that fulfils the conditions of the *de minimis* Regulation at the level of the final beneficiaries;

 Lending may also be on **non-aided** terms as specified by Art 6 (7) of the Act:

- Financing on market terms subject that in the case of infrastructure projects participation by private investors shall be at least 50% pari-passu with the MDB;
- Participation in EU financial instruments on market terms;
- Such other financing subject to prior approval by the European Commission.

 In case of infrastructure on market terms, in cases where there is documentary evidence of a market failure. This ensures non-crowding out.

Consultation process with stakeholders (1)

The MDB is currently engaged in a consultation process with a wide range of stakeholders (banks, public agencies, key Ministries) with a view to:

-  identifying gaps in the financing of viable and productive initiatives.
-  exploring financing opportunities with financial intermediaries and other stakeholders.
-  developing financial instruments to improve access to financing, particularly for SMEs and infrastructure projects
-  supporting socio-economic objectives in the public interest, especially health, education, affordable housing and other socially oriented projects.

Consultation process with stakeholders (2)

Areas of potential collaboration identified so far include:

-  MOU signed on 5 April 2018 with Malta Enterprise and Malta Industrial Parks - to help businesses get financing, or co-funding of larger-scale investment in innovation, R&D, industrial premises, etc.
-  Syndicated lending – addressing a gap in the financing of large projects where banks are constrained by the single client large exposure limit. MDB envisages a catalyst role to promote syndicated loan market in Malta.
-  Joint programmes with commercial banks on:
 - SME finance guarantee scheme (sharing the risk with banks to enhance SME's access to finance)
 - Green energy guarantee scheme
 - Soft loan scheme aiding students to further education abroad – with the possibility of leveraging ESIF resources

Consultation process with stakeholders (3)

-  Commercialisation of sport facilities, bankable projects by voluntary organisations and NGOs
-  Focused schemes for small business:
 - Restructuring aid - to support businesses with a viable business model to restructure and facilitate growth
 - Family business transfers - dedicated programme to support the financing of family business transfers.
-  Affordable housing – MDB as a partner in a pilot project introducing the concept of the third sector through a housing association.

Leveraging EU resource: More active role envisaged for NPBs

-  Less focus on grants and more on financial instruments that can achieve larger impact and are revolving, hence more sustainable in the long-run
-  Smarter use of public resources, in order to crowd-in private actors, is at the heart of the Investment Plan for Europe (EFSI)
-  Effective involvement of NPBs is necessary for deployment of EFSI2.0
-  There has been limited use of EFSI in Malta. MDB aims to act as vehicle for EFSI2.0 and EU resources (and blending)
-  Focus on policy areas such as climate change, environment, innovation, social & human capital development
-  MDB envisages joint efforts with Managing Authority to develop instruments in operational programmes (e.g. in deploying an ESF instrument supporting tertiary education or ERDF instrument in green energy)

Thank you for your attention

Contact details

Prof Josef Bonnici, Chairman

E: josef.bonnici@um.edu.mt; josef.bonnici@mdb.org.mt;

M: +(356) 7947 5992

T: +(356) 2226 1725

Mr Rene Saliba, Chief Executive Officer

E: rene.saliba@mfac.org.mt; rene.c.saliba@mdb.org.mt

M: +(356) 9934 6439

T: +(356) 2226 1714

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

Postal address: Malta Development Bank, Pope Pius V Street,
Valletta VLT 1041, Malta

Email: info@mdb.org.mt