



# *Guaranteed Co-Lending Scheme (GCLS)*

## *Incentive Guidelines*

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## 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 to act as MDB's implementing partners for the Guaranteed Co-Lending Scheme (GCLS) (hereinafter, "the facility"). The GCLS is a risk-sharing facility involving co-lending between the MDB and the accredited Commercial Bank on a 50:50 basis. The MDB provides an interest rate reduction on the value of the loan granted by the MDB and a guarantee of 60% on the Commercial Bank's part of the lending. This is consistent with MDB's objective to improve access to finance and to diversify the financing options to SMEs.

### 1.1 Objective

To enhance access to bank financing for SMEs that, in spite of having viable projects, are unable to access the required bank finance for various reasons. The scheme addresses the following barriers to lending: (i) inadequate collateral; (ii) lack of credit history; and (iii) novel business market, sector or technology that is perceived by finance providers as higher risk under current credit risk evaluation practices. The GCLS caters for SMEs with larger loan requirements that exceed the maximum of €750,000.

### 1.2 Structure

The targeted GCLS global loan portfolio is €100 million of which €50 million will be originated by MDB and €50 million by the participating Banks. MDB shall provide an additional guarantee of €30 million on the €50 million loans by the participating Banks.

The global loan portfolio will be apportioned by the MDB between the implementing banks participating in the GCLS on a first-come-first-served basis.

The GCLS is backed by a Guarantee from the European Investment Fund (EIF) under the Pan-European Guarantee Fund (EGF) programme.

Intermediary partners benefit from:

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

### 1.3 Conditions of the Facility

- Term of loan - The scheme offers two types of loan tenors: with a maximum of 10 years and 15 years. The tenor of the loan determines the applicable state aid regime as follows:
  - (i) Up to 10 years – De Minimis
  - (ii) Up to 15 years –General Block Exemption Regulation (GBER)
- Minimum loan size - €750,001
- Maximum loan size - €10,000,000 depending on term of loan and State Aid regime
- Interest rate - The interest rate charged to the end beneficiary will be set by the Commercial Bank and the MDB accordingly, on a case-by-case basis.
- Loan amounts and compatibility with State aid regimes - The GCLS will be implemented in line with the provisions of the De Minimis Regulation and the General Block Exemption Regulation (GBER). The following are the maximum loan amounts compatible with each of the state aid regimes:
  - (i) €10,000,000 – (€5,000,000 MDB and €5,000,000 Commercial Bank) - GBER.
  - (ii) €3,300,000 (€1,650,000 MDB and €1,650,000 Commercial Bank) - De Minimis
- Last date for inclusion of loans under the scheme - Up to 31 December 2024
- Last date for inclusion of loans under the scheme covered by the EGF guarantee – Up to 31 December 2022
- Borrower’s front contribution towards the project - Minimum of 20% upfront cash contribution
- Moratorium on capital repayments – Maximum 24 months

### 1.4 Benefits for the SME

The benefit of the MDB guarantee shall be passed on to the final beneficiaries in the form of lower than market interest rates charged by the Commercial Banks and lower collateral requirements. Moreover, the GCLS enhances access to finance for SMEs with larger loan requirements that exceed €750,000 over a longer a repayment period.

## 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 aspects<sup>1</sup>:

- 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
- Borrowers under the GCLS must be independent SMEs/single undertakings whose operations are located in Malta and/or Gozo, regardless of their legal form (sole proprietaries, partnerships, limited liability companies, listed commercial enterprises).
  - The SME is potentially economically viable (as assessed by the Bank in accordance with its internal procedures) and is not an “undertaking in difficulty” within the meaning established in the General Block Exemption Regulation (Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (as amended). However, this Regulation shall apply by derogation to undertakings which were not in difficulty on 31 December 2019 but became undertakings in difficulty in the period from 1 January 2020 to 31 December 2021;
  - The SME must not be subject to an outstanding recovery order following a previous Commission decision declaring an aid granted by the same Member State illegal and incompatible with the internal market;
  - The SME’s business activities do not consist of one or more of the activities listed under SME Restricted Sectors, or any of the excluded sectors outlined in Article 1 of the de minimis Regulation or in Article 1 of the General Block Exemption Regulation, as mentioned below.

## 2.2 What type of projects are eligible?

The projects financed under the GCLS must not have commenced before the sanctioning of the loan. Moreover, the GCLS cannot be used to refinance existing facilities held by the borrower. Eligible costs under the GCLS are:

- a) Cost of investment in tangible and intangible assets.
- b) Other investment-related working capital including the estimated wage costs of employment directly created by the investment project, calculated over a period of

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

two years, subject to a maximum amount of not more than 20% of the total loan amount.

Employment directly created by an investment project shall fulfil the following conditions:

- (a) it shall be created within three years of completion of the investment;
- (b) there shall be a net increase in the number of employees in the establishment concerned, compared with the average over the previous 12 months;
- (c) it shall be maintained during a minimum period of three years from the date the post was first filled.

In order to be considered an eligible cost, an investment shall consist of an investment in tangible and/or intangible assets relating to:

- (a) the establishment of new enterprises,
- (b) expansion capital,
- (c) capital for the strengthening and/or stabilisation of the general activities of an enterprise or
- (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises
- (e) investment-related working capital.
- (f) The acquisition of the asset belonging to an establishment, where the following conditions are fulfilled:
  - i. The Establishment has closed or would have closed had it not been purchased;
  - ii. The transaction takes place under market conditions.
  - iii. The assets are purchased from third parties unrelated to the buyer subject that, where a member of the family of the original owner, or an employee, takes over a small enterprise, the condition that the assets shall be bought from third parties unrelated to the buyer shall be waived.
  - iv. The sole acquisition of the shares of an undertaking shall not be constituted as investment.

Intangible assets shall fulfil the following conditions:

- (a) they shall be used exclusively in the establishment receiving the aid;
- (b) they shall be regarded as amortizable assets;
- (c) they shall be purchased under market conditions from third parties unrelated to the buyer; subject that, where a member of the family of the original owner, or an employee, takes over a small enterprise, the condition that the assets shall be bought from third parties unrelated to the buyer shall be waived
- (d) they shall be included in the assets of the undertaking for at least three years;

## 2.3 Who cannot apply?

- An SME 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.
- The GCLS targets all market sectors including hospitality and tourism, retail, health and related facilities, manufacturing, crafts, commerce and other services, education and sports, green and waste collection, innovation and ICT, provided that none of these operations are considered to be excluded activities for the purpose of the scheme. Excluded activities are listed below under Annex I.

## 2.4 Additionality

Lending 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 does not fall under the risk appetite of the commercial bank.

## 3. Application Process

SMEs are to apply with the accredited commercial bank. The application submitted by the SME shall include the following information: (a) undertaking's name and size; (b) description of the project, including its start and end dates; (c) location of the project; and (d) list of project costs (e) business plan and cash flow projections (f) recent financial statements.

## **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 applicants as may be deemed necessary for its internal controls and purposes.

### **4.2 State Aid Rules and Obligations**

The GCLS will be implemented in line with the provisions of the De Minimis Regulation and the General Block Exemption Regulation (GBER).

### **4.3 Disclosure of Confidential Information**

MDB may disclose confidential information in pursuance to the granting of a facility:

(a) to officers, directors, employees, representatives, auditors, professional advisers and service providers to the extent necessary for, or in connection with, the granting of the facility and to comply with its statutory requirements;

(b) to the Central Bank of Malta, Supervisory Board set up under the MDB Act, State Aid Monitoring Board, local audit and statistics authorities, relevant EU authorities, and to their respective officers, directors, employees, representatives, auditors and professional advisers to comply with statutory requirements.

### **4.4 Publication of information**

The Intermediary agrees that, (i) the Counter-Guarantor (ii) the EIB or (iii) the Commission shall be entitled to publish on their website information on Intermediaries, Sub-Intermediaries and Final Recipients supported under the EGF Counter-Guarantee including (i) the name, nature and purpose of the Sub-Operation and the underlying Final Recipient Transaction; (ii) the name and address of the Intermediary, and the type and amount of financial support received; (iii) the name and address of the Sub-Intermediary, and the type and amount of financial support received; (iv) the name, country of establishment of each Final Recipient and the region at NUTS 2 level, and the type of financial support received; except if:

(i) with respect to the Intermediary, (1) it would be illegal under the applicable laws and regulations, or (2) prior to receiving financial support under the Counter-Guarantee, the Intermediary informs the Counter-Guarantor in writing that:

- (a) the publication requirement risks harming its commercial interests; or
- (b) it risks threatening the rights and freedoms of individuals concerned as protected by the Charter of Fundamental Rights of the European Union;

(ii) with respect to Sub-Intermediaries, (1) if it would be illegal under the applicable laws and regulations, or (2) prior to receiving financial support under the Sub-Operation, the Sub-Intermediary informs the Intermediary in writing that:

- (a) the publication requirement risks harming its commercial interests, or
- (b) it risks threatening the rights and freedoms of individuals concerned as protected by the Charter of Fundamental Rights of the European Union; and

(iii) with respect to Final Recipients,

- (a) prior to receiving financial support under the Final Recipient Transaction, the Final Recipient informs the Sub-Intermediary in writing that the Final Recipient is a natural person who objects to publication.

## 5. Contact Details

Further information on the facility can be obtained by contacting:

Malta Development Bank  
5 Market Street  
Floriana FRN 1083  
Contact number +356 2226 1700  
Email: [info@mdb.org.mt](mailto:info@mdb.org.mt)  
Website: <https://mdb.org.mt>



## ANNEX 1: Exclusion Activities

### A) Restricted Activities

It is within the discretion of the MDB, on a case-by-case basis, whether to exceptionally accept customers who undertake, whether principally or secondarily, the following activities:

1. Pure Agriculture and Fisheries
2. Non-conventional prospection, exploration, and extraction of oil from bituminous shale, tar sands or oil sands.
3. Tobacco and Distilled Alcoholic Beverages – the production of and trade in tobacco and distilled beverages and related products
4. Activities which give rise to significant environmental impact. Projects for non-conventional prospection, exploration and extraction of gas will need to provide a disclosure in accordance with international standards, provided that:
  - (a) No material groundwater drawdown or contamination is to be expected;
  - (b) Measures for resources protection (in particular water) and recycling are taken;
  - (c) Suitable technology is used for safe drilling, which includes integrated bore piping and pressure testing.
5. Speculative Real Estate Activity
6. Speculative Investments and Financial Transactions. For example, acting as principal in the following transactions provided these transactions are not ancillary to and necessary to carry out an approved activity or project: e.g. contracts for differences, derivatives contracts including option, forwards, swaps, foreign exchange contracts and similar agreements, securities lending transactions, sale and buy back agreements, repurchase and reverse repurchase agreements and similar agreements, obligations linked to the performance of an asset, a currency, an index or other market recognised value reference, etc.

### B) Prohibited Activities

Applicants that are conducting, or have conducted, any of the following activities or operated in any of the following sectors are rejected outright:

1. Illegal Economic Activities

- Any production, trade or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade or activity.
2. Production or activities involving harmful or exploitative forms of forced labour<sup>2</sup>/harmful child labour<sup>3</sup>.
  3. Any business relating to pornography or prostitution.
  4. Production or trade in wildlife or wildlife products regulated under the Convention or International Trade in Endangered Species or Wild Fauna and Flora (CITES).
  5. Production or use of or trade in hazardous materials such as radioactive materials (except for medical isotopes and materials for diagnostics and treatment in healthcare provisions), unbounded asbestos fibres and products containing polychlorinated biphenyls<sup>4</sup>
  6. Human cloning for reproduction purposes is considered an Illegal Economic Activity in the context of these Guidelines.
  7. Production of and Trade in Weapons and Ammunition. The financing of the production of and trade in weapons and ammunition of any kind. This prohibition does not apply to the extent such activities are part of or accessory to explicit National or European Union policies.
  8. IT Sector Restrictions Research, development or technical applications relating to electronic data programs or solutions, which (i) aim specifically at: (a) supporting any activity included in the MDB prohibited sectors; (b) internet gambling and online casinos; or (c) pornography, or which (ii) are intended to enable to illegally (a) enter into electronic data networks; or (b) download electronic data
  9. Casinos and equivalent enterprises such as Internet Gambling and online casinos
  10. Nuclear energy
  11. 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; or (ii) Genetically Modified Organisms (“GMOs”).

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<sup>2</sup> Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>3</sup> Harmful child labour means the employment of children that is economically exploitative, or is likely to be hazardous to, or to interfere with, the child’s education, or to be harmful to the child’s health, or physical, mental, moral or social development. In addition, any labour that is performed by a person which has not yet reached the age of 15 is considered to be harmful, unless the local legislation specifies compulsory school attendance or the minimum age for working to be higher, in such cases, the higher age will be applied for defining child labour.

<sup>4</sup> Ozone depleting substances: Chemical compounds, which react with and deplete stratospheric ozone, resulting in ‘holes in the ozone layer’.

12. Prospection, exploration, and mining of coal; land-based means of transport and related infrastructure essentially used for coal; power plants, heating stations and cogeneration facilities essentially fired with coal, as well as associated stub lines.
13. Production or trade in any product or activity subject to national or international phase-out or prohibition regulations or to an international ban, for example: (i) Certain pharmaceuticals, pesticides, herbicides, and other toxic substances and (ii) investments which could be associated with the destruction or significant impairment of areas particularly worthy of protection (without adequate compensation in accordance with international standards).
14. Fossil fuel-based energy production and related activities
  - (i) Coal mining, processing, transport and storage;
  - (ii) Electric power generation exceeding the Emissions Performance Standard (i.e. 250 grams of CO<sub>2</sub>e per kWh of electricity), applicable to fossil fuel-fired power and cogeneration plants, geothermal and hydropower plants with large reservoirs.
15. Energy-intensive and/or high CO<sub>2</sub>-emitting industries and sectors (NACE nomenclature, 4 digits)
  - (i) Manufacture of other organic basic chemicals (NACE 20.14);
  - (ii) Manufacture of other inorganic basic chemicals (NACE 20.13);
  - (iii) Manufacture of fertilisers and nitrogen compounds (NACE 20.15);
  - (iv) Manufacture of plastics in primary forms (NACE 20.16);
  - (v) Manufacture of cement (NACE 23.51);
  - (vi) Manufacture of basic iron and steel and ferro-alloys (NACE 24.10);
  - (vii) Manufacture of tubes, pipes, hollow profiles and related fittings, of steel (NACE 24.20);
  - (viii) Cold drawing of bars (NACE 24.31);
  - (ix) Cold rolling of narrow strip (NACE 24.32);
  - (x) Cold forming or folding (NACE 24.33);
  - (xi) Cold drawing of wire (NACE 24.34);
  - (xii) Aluminium production (NACE 24.42);
  - (xiii) Manufacture of conventionally-fuelled aircraft and related machinery (sub-activities contained within NACE 30.30 activity “Manufacture of air- and spacecraft and related machinery”)