THE MDB COVID-19 GUARANTEE SCHEME: AN EX-POST ASSESSMENT

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Research Paper

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Abstract

This paper evaluates the effectiveness of the Malta Development Bank's (MDB) COVID-19 Guarantee Scheme (CGS) in lessening liquidity shortages for businesses amidst the Pandemic. Through survey analysis and economic impact assessment, critical findings emerge regarding the Scheme's success in supporting various sectors, reasons for loan uptake, and its contribution to preserving jobs and business competitiveness. Employing gross value added (GVA) data, the study estimates the extent of CGS support to Malta's economy, shedding light on its substantial role. Limitations and recommendations for future schemes are also discussed, emphasising transparency and evidence-based decision-making for effective economic support mechanisms.

Keywords: COVID-19, promotional banks, guarantees, liquidity support measures

Contents

The MDB COVID-19 Guarantee Scheme: An ex-post assessment

Introduction

The COVID-19 outbreak, and the ensuing period of heightened uncertainty and economic volatility, precipitated a sudden and acute liquidity shortage for businesses in Malta. The MDB's swift response through the COVID-19 Guarantee Scheme (CGS) provided guarantees to commercial banks to help businesses in Malta access bank financing for working capital requirements.

The CGS was approved by the European Commission in April 2020 under the State aid Temporary Framework to support the economy, as part of the wider package of the Government of Malta's COVID-19 Response Support Programme. A Guarantee Fund of €350 million was allocated by Government for the purpose of guaranteeing loans by commercial banks. The CGS addressed working capital needs for hundreds of businesses and was rolled out in record time by the MDB. The CGS peaked at more than half a billion euro in sanctioned working capital loans and remains MDB's largest scheme to date.

By the end of the inclusion period in June 2022, slightly more than two years from the launch of the CGS, the total amount of working capital loans sanctioned by the nine partnering commercial banks that were accredited to roll-out the CGS stood at €482.6 million, supporting close to 600 CGS facilities to more than 500 businesses. The supported businesses collectively employ around 40,000 persons and range from hotels to large retail outlets, but also to smaller firms from all economic sectors.

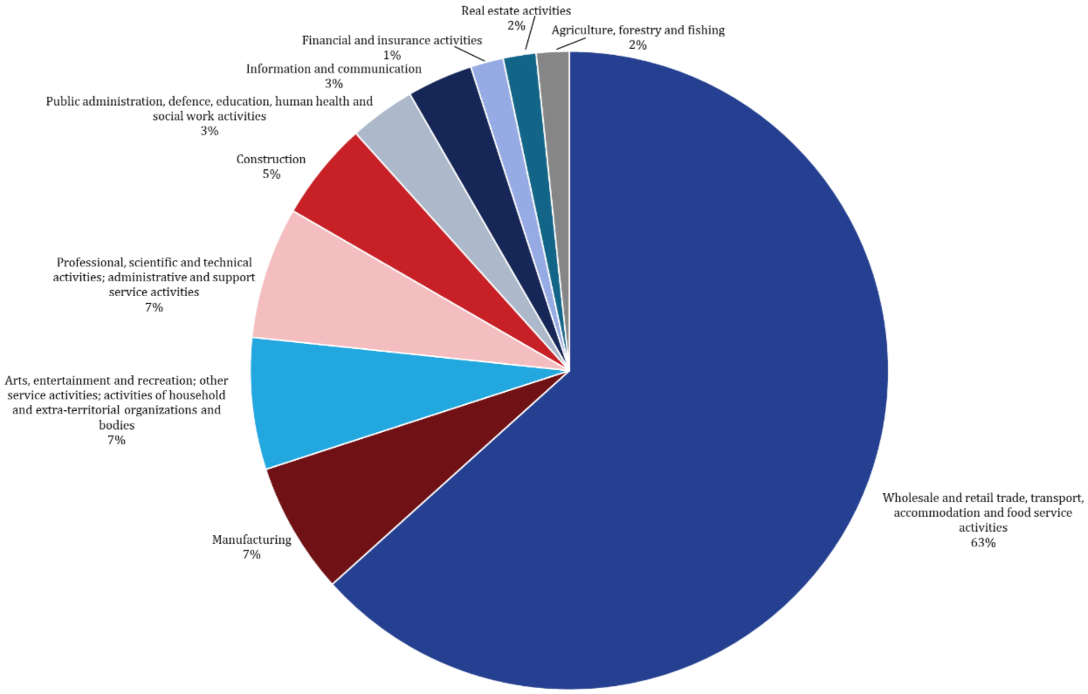
The assessment presented in this study is based on field research in the form of a survey conducted amongst a sample of beneficiaries of the CGS, as well as an economic impact measure based on the Gross Value Added data of all businesses benefitting from the scheme. This assessment aims to identify lessons learned, providing valuable insights to enhance future decision-making by pinpointing areas for improvement in both scheme design and implementation.

By conducting ex-post analyses, the MDB ensures accountability, transparency, and evidence-based decision-making, fostering a culture of continuous learning and optimisation of its initiatives.

CGS Survey Analysis

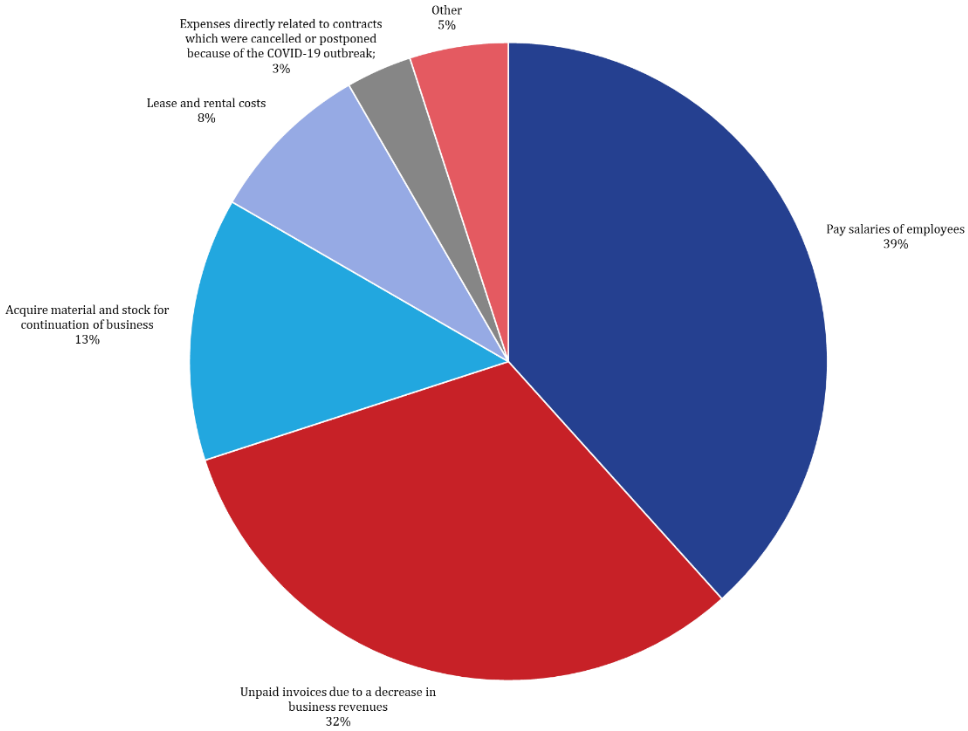
The MDB carried out a survey to assess the success of the CGS, and to identify areas for improvement of future schemes. The survey was carried out in December 2023 through a collaboration with the Malta Chamber of SMEs. The questionnaire, tailored specifically for beneficiaries of the CGS scheme, garnered 60 complete responses, representing 11.7% of all recipients.

Chart 1 - Distribution of beneficiary respondents, by broad economic sector



The line of business most popular with beneficiaries was *Wholesale and retail trade, transport, accommodation and food service activities*, accounting for 62.3% of respondents. This sector, typically linked with the tourism industry in Malta, was particularly hard hit during the COVID-19 Pandemic. Respondents from other sectors were broadly balanced (see Chart 1), with the overall distribution being similar – although not necessarily fully representative – of the list of CGS beneficiaries. As a result, the information gathered in this analysis can only be considered conjunctural and anecdotal evidence, and not empirically representative.

Chart 2 - Critical reasons behind beneficiaries' take-up of CGS funds

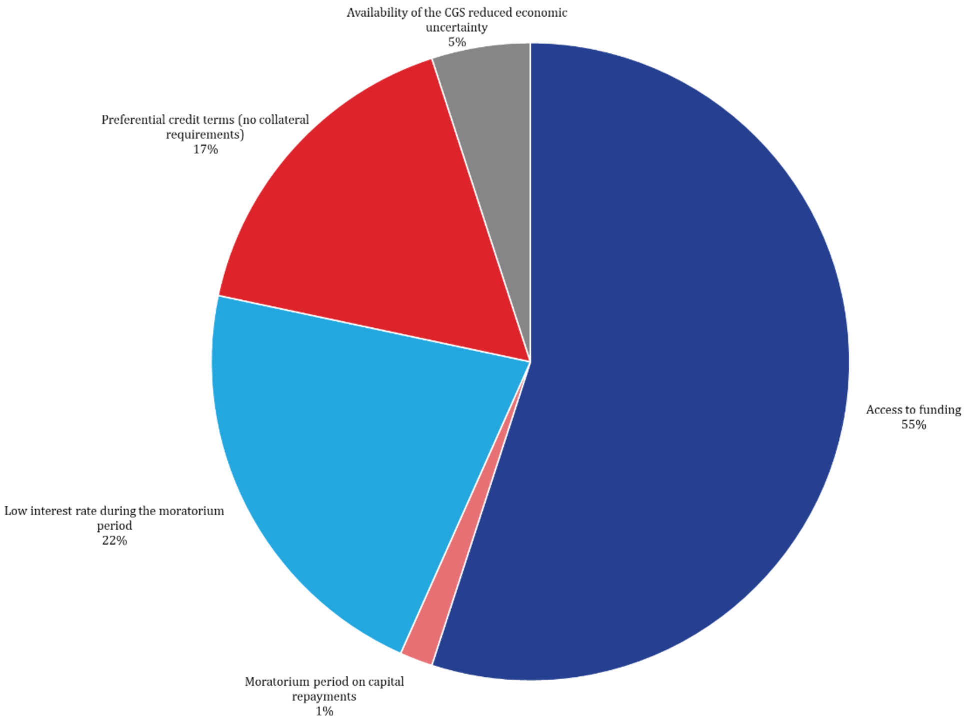


The distribution for loan amounts reported by the surveyed firms resembles that of beneficiaries' population. Moreover, firms were asked for the critical reasons behind their take-up of CGS loans (see Chart 2). The two main reasons were to pay employees' salaries (38.3%), and to support liquidity, either because of unpaid invoices (31.7%), or for firms to acquire stock or materials (13.3%).

When asked for other non-critical reasons that led to the loan take up, beneficiaries focused on lease and rental costs (16.7%), to pay utility bills (9.9%), or to offset losses due to postponed or cancelled contracts (8.3%).

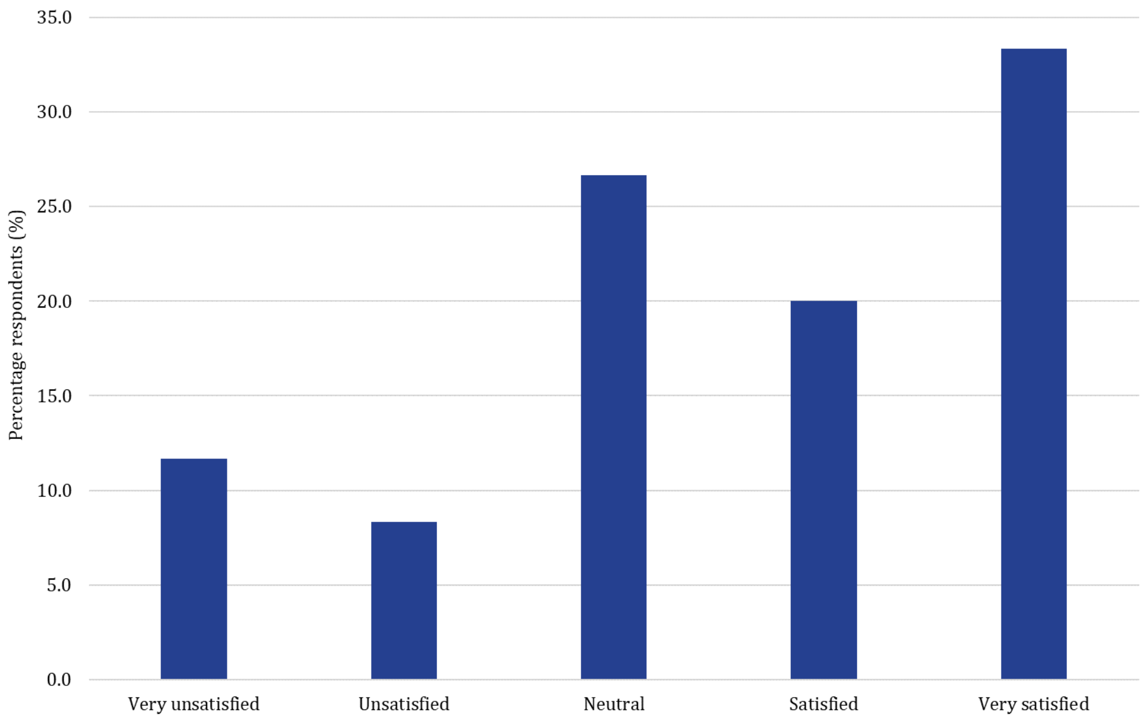
78.3% of respondents were either very satisfied or satisfied with the time taken for the loan to be approved, reflecting MDB's swift support. 55.0% of respondents indicated how access to finance was the main advantage of the CGS, followed by the low interest rate during the moratorium period (21.7%), and the preferential credit terms (16.7%), (see Chart 3).

Chart 3 - Main advantages of the CGS



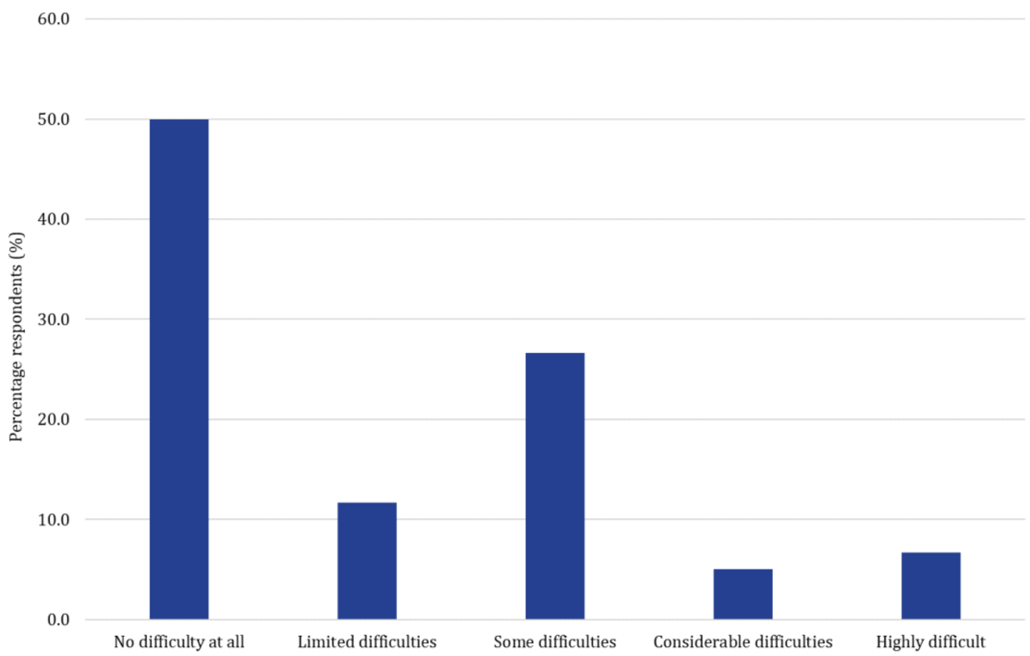
When asked about whether they are satisfied with the conditions of the loan received, in particular the interest rates and repayment terms, more than half of the respondents (53.3%) indicated they were satisfied or very satisfied (see Chart 4). These replies should be framed in the context of industry wide surveys carried out by the EIB on investment which highlighted costs as one of the main pain-points for businesses' access to finance.

Chart 4 - Satisfaction with the interest rates and repayment terms



Turning to difficulties in paying the loan after the moratorium period, half of respondents did not find any difficulty in repaying the loan, with a further 11.7% finding only limited difficulties to repay the loan (see Chart 5). This confirms the need to sustain access to finance for these firms during, and in the aftermath of the COVID-19 pandemic – most of these businesses were able to repay the loans, either with no or limited difficulties, but were unable to access finance due to the exceptional circumstances that led commercial banks to be risk averse.

Chart 5 - Difficulties in repaying the loan after the moratorium period



Businesses were asked whether they believed that the COVID-19 Guarantee Scheme enhanced their business' competitiveness in the market. Close to 90% of respondents said that the Scheme had beneficial effects on their competitiveness – with 28.3% of respondents saying the CGS was highly beneficial, 15.0% that it provided considerable benefits, 30.0% that it brought some competitiveness benefits for their businesses and 15.0% enjoyed limited benefits (see Chart 6).

Chart 6 - Business competitiveness enhancement

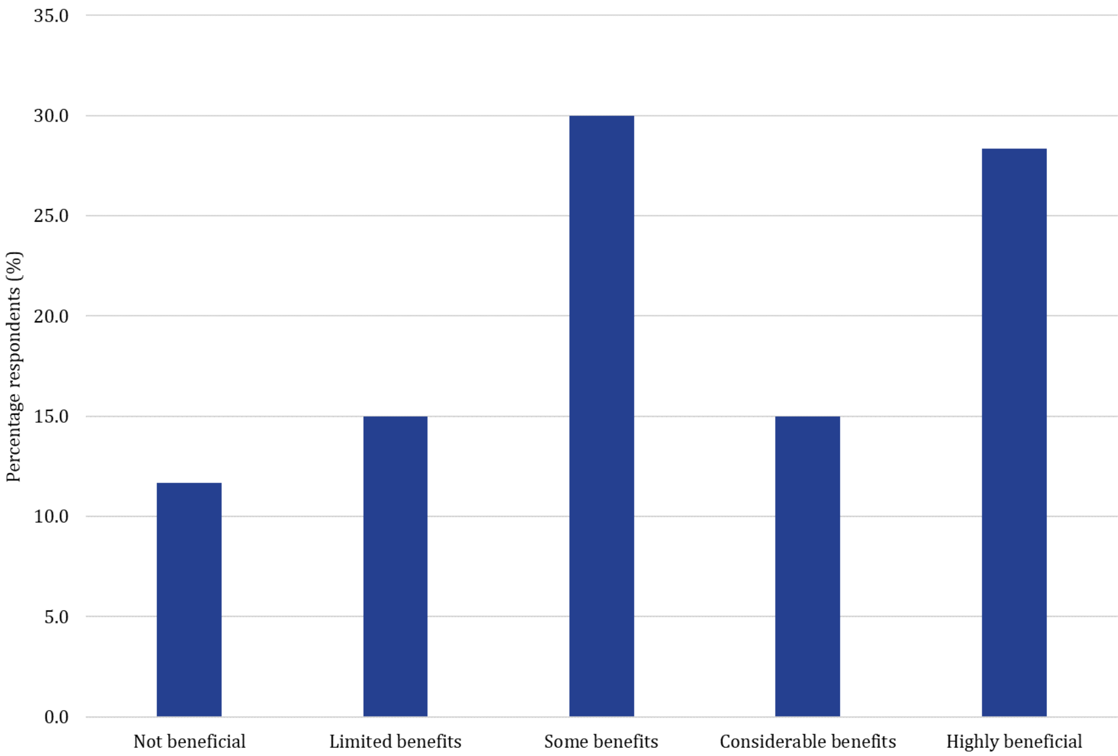
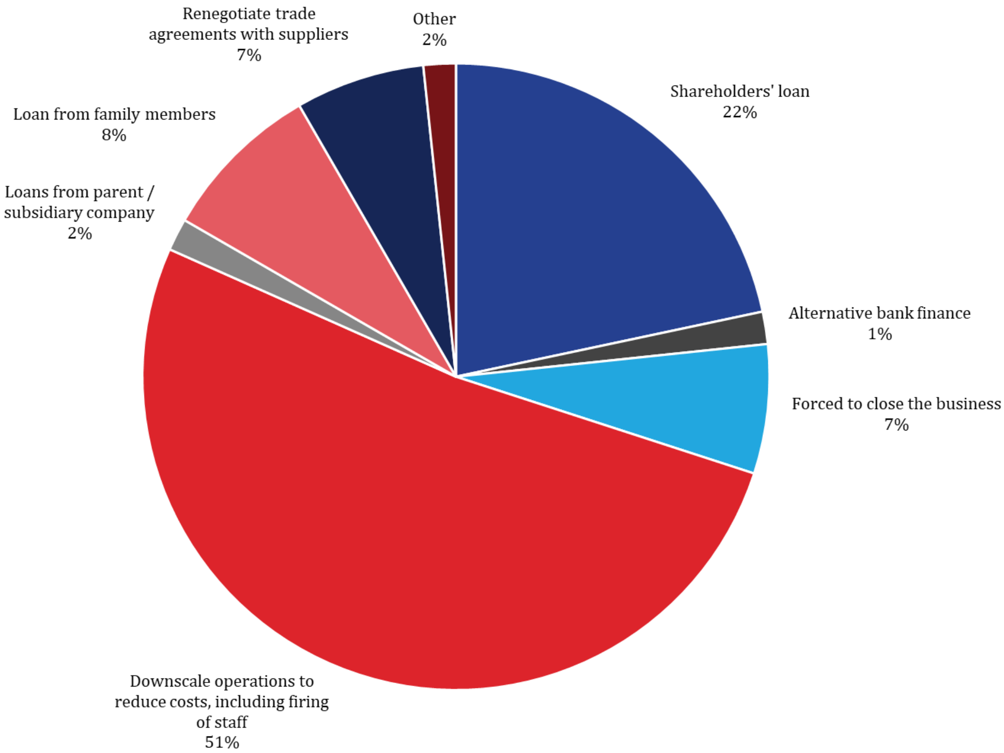


Chart 7 - Alternative to financing the gap caused by COVID-19



In the absence of the CGS, more than half of respondents (51.7%) indicated that they would have been forced to downscale their operations to reduce costs (see Chart 7). This would have included the firing of staff. Moreover, without the support provided through the CGS, around 22% of respondents would have needed fund injections from Shareholders' loans, or from family members (8%). Some respondents indicated that they would have had to close their business down completely without the Scheme (7%), with a further 7% saying they would have had to renegotiate payment terms and agreements with their suppliers.

The anecdotal evidence gathered from this survey is compelling. Indeed, the above replies are a testament of the depth with which the CGS supported the Maltese economy in the uncertainty precipitated by the COVID-19 Pandemic.

Assessing the extent of MDB's schemes in terms of Malta's Gross Value Added

Survey responses and feedback from beneficiaries indicate that MDB's efforts were instrumental in supporting businesses across the Maltese economy during the COVID-19 Pandemic. It is, however, difficult to assess the impact this support had on the broad economy in Malta.

Whereas traditional assessments based on Input-Output (I-O) methodology can be applied, relying on I-O methodology may lead to very large and implausible effects, that may not be credible, or prudent to report. I-O approaches to measuring impacts assume, among other points, that there are no supply side constraints.[2] One could compute multipliers from I-O figures, and then discount these estimates to allow for the effects mentioned above. However, such assumptions – unless backed by studies on the behaviour of firms and households – would not be transparent.

A more transparent and prudent way of estimating the direct level of support provided by MDB schemes is to use gross value added (GVA) and employment data from the National Accounts dataset. Every quarter, generally with a lag of one quarter, the National Statistics Office (NSO) publishes its gross domestic product (GDP) figures for Malta. This publication includes, from the production side approach, an estimate for GVA per broad sectoral definition.

The methodology suggested in this study is based on approaches used by other development banks or regional development authorities.[3] Using NSO data, the GVA per employee per sector is computed [A] (see Table 1). To calculate the extent of the support in GVA terms, we look at the number of workers directly employed by the business receiving an MDB loan by broad economic sector [B], using NACE categories.[4] The GVA per employee figure [A] is then multiplied by the number of employees employed by beneficiaries of the CGS scheme [B], resulting in [C]. The proportion of total GVA supported by MDB's facilities [E] is computed by dividing [C] by the overall sectoral GVA [D], [E] = 100* ([C]/[D]). This approach gives a more informative estimate of the Scheme's role in supporting the economy than a simple look at the distribution of loans by NACE categories [G].

Table 1 shows these estimates of support to total GVA in 2019, which is the final full-year before COVID-19, using Eurostat data based on NSO GDP News Release NR214/2023.

[2] For a full discussion on the problems associated with multipliers in I-O methods, refer to Department of Treasury and Finance Western Australia, March 2002, Economic Research Articles: "The Use and Abuse of Input–Output Multipliers" and Fjelsted, B.L, (1990).

[3] See Appendix 1: GVA estimation methodology, Economic Intelligence Wales, Annual Report, September 2023, or Methodologies for Assessing Social and Economic Performance in JESSICA, European Commission, European Investment Bank, Final report, December 2013.

[4] NACE is the "statistical classification of economic activities in the European Community" and is the subject of legislation at the European Union level, which imposes the use of the classification uniformly within all the Member States. For further details, see Regulation (EC) No 1893/2006 of the European Parliament and of the Council.

Table 1: Estimate for GVA supported by MDB COVID-19 Guarantee Scheme (CGS).

Industry in 2019 (NACE)	Total [being summation of i to xi, except iii]	Agriculture, forestry, and fishing [i]	Industry (except construction) [ii]	*Industry of which Manufacturing [iii]*	Construction [iv]	Wholesale and retail trade, transport, accommodation, and food service activities [v]	Information and communication [vi]	Financial and insurance activities [vii]	Real estate activities [viii]	Professional, scientific and technical activities; administrative and support service [ix]	Public administration, defence, education, human health and social work activities [x]	Arts, entertainment, and recreation; other service activities; activities of household and extra-territorial organizations and bodies [xi]
GVA per employee per sector (EUR) [A]	-	26,388.9	44,662.3	39,937.1	42,207.0	36,902.3	99,858.0	86,325.6	261,220.3	50,848.9	36,920.1	77,913.0
CGS sanctioned loans by NACE (EUR million) [G]	482.6	1.3	59.7	24.5	46.8	250.5	3.6	36.9	7.3	34.1	27.8	14.5
No. of employees of CGS beneficiaries [B]	39,768	105	3,494	2,329	2,508	23,024	236	580	166	3,216	4,951	1,488
GVA supported by the MDB: GVA per capita * jobs [C] = [A] * [B] (EUR million)	1,693.6*	2.8	156.1	93.0	105.9	849.6	23.6	50.1	43.4	163.5	182.8	115.9
Total sectoral GVA in 2019 **[D]** (EUR million)	12,798.1	66.5	1,163.9	952.9	615.8	2,474.3	1,054.5	1,113.6	770.6	2,096.5	2,117	1,325.3
Share of total 2019 GVA supported by CGS [E] = 100* ([C]/[D])	**13.2%**	**4.2%**	**13.4%**	**9.8%**	**17.2%**	**34.3%**	**2.2%**	**4.5%**	**5.6%**	**7.8%**	**8.6%**	**8.7%**

*Being the summation of [C] for economic sectors i to xi, except iii.

Sources: MDB, NSO & Eurostat.

Using the above methodology, after summing the sectoral GVAs [denoted by C], it is concluded that the MDB scheme supported €1.7 billion in GVA equivalent terms.[5] When taken as a share of total 2019 GVA, this €1.7 billion in GVA figures means that around 13.0% of Malta's 2019 GVA was supported by the MDB's CGS.[6] From a sectoral point of view, the level of GVA supported for "Wholesale and retail trade, transport, accommodation and food service activities" by the CGS at 2019 levels (nominal) was €849.6 million. This represented 34.3% of nominal sectoral GVA in Malta at 2019 levels. This sector is typically associated with tourism related activities such as restaurants and hotels.

Assumptions and limitations

GVA impact estimates of MDB's CGS are based on average GVA per employee in the different economic sectors. Businesses where jobs are created or safeguarded, are assumed to have the same productivity and other characteristics as the industrial sector's average. Therefore, one must stress that these figures should serve as an indication and not as a comprehensive estimate. The approach assumes that the job figures indicated when businesses availed themselves of the MDB CGS facility were retained.[7]

Finally, these figures are estimates of support to overall GVA, and are not economic indicators linked with investment, or broader macroeconomic variables. To arrive to the "true" impacts on the economy or Malta's GDP, one would need to refine the above estimates to include – among others – jobs displaced by the supported investment, leakages, substitutions, deadweight, and then consider the multiplier effects of the respective industries.

Conclusions

The ex-post assessment presented in this study is easily understandable, transparent and serves as an important measure of the impact of MDB's support to the Maltese economy during the Pandemic.

The assessment shows that the MDB scheme supported €1.7 billion in GVA equivalent terms. When taken as a share of total 2019 GVA, this €1.7 billion translates to around 13.0% of Malta's 2019 GVA. From a sectoral point of view, the level of GVA supported for "Wholesale and retail trade, transport, accommodation and food service activities" by the CGS at 2019 levels was €849.6 million, or 34.3% of nominal sectoral GVA in Malta at 2019 levels. Moreover, anecdotal evidence from the survey indicates that in the absence of the CGS, more than half of respondents (51.7%) would have been forced to downscale their operations to reduce overall costs, including the firing of staff.

The impact of MDB's countercyclical role cannot be assessed in isolation, but as part of broader government economic regeneration measures targeted towards local businesses, which amongst others included wage supplements and subsidies on utility bills and fuels. Nevertheless, economic literature suggests that working capital problems may severely affect the supply side of the economy. In this regard, the MDB's working capital scheme during the Pandemic has been of critical importance to ensure that operating liquidity is constantly available to firms, which in turn is crucial for the efficient operation of businesses.

[5] This is calculated by summing the respective sectoral values in the row marked [C], that is industries i to xi, except iii, as manufacturing is a part of Industry (ii). Manufacturing is excluded to avoid double counting.
[6] The figure may be higher when compared to the GVA originally published in 2020 for 2019, but national accounts figures for GDP, and therefore GVA, have since been revised upward significantly (see NSO NR158/2023).
[7] Data shows that unemployment did not rise during COVID-19.

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