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## *SME Guarantee Scheme (SGS)*

### *Incentive Guidelines*

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# 1. Background

The SME Guarantee Scheme (SGS) is an uncapped portfolio guarantee scheme, enabling the intermediating partner banks to be more responsive to the borrowing requirements of smaller businesses, which, in turn, allows businesses to grow. The SGS aims to enhance SME access to bank credit for new investment as well as other purposes; including for working capital related to new investment, and business transfers. This is consistent with MDB's objective to improve access to finance, and to diversify the financing options for 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.

## 1.2 Structure

The SGS is an uncapped guarantee scheme. The MDB provides an uncapped guarantee of a maximum of 80% on the loans issued by the intermediating partner banks under the scheme. The maximum size of the loan portfolio under this Scheme is €80 million, which implies that the maximum guaranteed amount is €64 million.

Under the SGS, two additional sub-schemes have been introduced, the SGS-Sustainability (SGS-S) and the SGS-Culture and Creative (SGS-CC) that are backed by a Counter Guarantee from the European Investment Fund (EIF). Further details on these sub-schemes can be found in the respective incentive guidelines documents.

Intermediating partner banks 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 a maximum term of loan of up to ten (10) years. The applicable European Union (EU) state aid regime will be the *de minimis* Regulation.<sup>1</sup>
- Minimum loan size - €10,000.

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<sup>1</sup> COMMISSION REGULATION (EU) 2023/2831 of 13 December 2023, as may be amended.

- Maximum loan size - €1,000,000.
- Guarantee Fee - 0.80% at the facility level.
- Interest rate - The interest rate charged to the end beneficiary will be set by the partner bank. The MDB will ensure that the interest rate reflects the transfer of benefit of the guarantee.
- Loan amounts and compatibility with State aid regimes - The SGS will be implemented in line with the provisions of the *de minimis* regulation. With the simplified method, and a loan size reaching up to €1,000,000 depending on the gross grant equivalent.
- Last date for inclusion of loans under the scheme - Up to 31 December 2027.
- Applicable terms and conditions for sub-schemes linked to the Sustainable Investment for Climate Action under the EIF InvestEU SGS-S and SGS-CC can be found in the respective Incentive Guidelines document.
- Last date for inclusion of loans under the sub-scheme covered by the EGF Sustainability guarantee (refer to SGS-S and SGS-CC Incentive Guidelines document) – Up to 30 April 2027.
- Borrower’s front contribution towards the project with a minimum of 10% of the facility amount.
- The MDB restricts the take up of collateral to a maximum of 20% of the facility amount.
- Moratorium on capital investment – maximum 12 months, any longer moratorium period but not longer than 18 months – on an ad hoc basis – and requires prior approval by MDB.

#### **1.4 Benefits for the SME**

The purpose of the SGS is to assist SMEs, including start-ups, by enhancing their access to bank finance. 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 partner banks. Financial assistance is also extended to SMEs in novel business markets, sectors, or technologies that are perceived by finance providers as higher risk under current credit risk evaluation practices. SMEs also benefit from better terms and conditions, a longer repayment period and lower interest rates reflecting the credit risk protection through the MDB’s uncapped guarantee of 80%.

## 2. Eligibility Criteria

### 2.1 Who can apply?

- An SME 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>2</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 or voting rights controlled by a public body.
  - is established and operating in the Republic of Malta.
- Borrowers under the SGS 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 applying for the loan under the SGS must be potentially economically viable (as assessed by the Bank in accordance with its internal procedures) and is not an “undertaking in difficulty” within the meaning of the Commission Regulation (EU) N°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 (OJ L 187 26.6.2014, p. 1) as amended on the 23rd of June 2023 by Commission Regulation (EU) 2023/1315. However, in view of the economic and financial consequences that the COVID-19 outbreak has on undertakings and in order to ensure consistency with the general policy response adopted by the Commission, especially in the period 2020-2021, the Regulation (EU) No 651/2014 has been amended to cater for undertakings which were not in difficulty on 31 December 2019, but which became undertakings in difficulty during the period from 1 January 2020 to 31 December 2021. In this respect, the proposed scheme shall cover undertakings that, as a consequence of the COVID-19 outbreak have become in difficulty during the period from 1 January 2020 to 31 December 2021 and the MDB shall apply this derogation on a case-by-case basis.

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<sup>2</sup> [COMMISSION RECOMMENDATION of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises \(notified under document number C\(2003\) 1422\) \(2003/361/EC\)](#)

- The SME is not subject to collective insolvency proceedings nor fulfils the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors.
- The SME's business activities do not consist of one or more of the excluded sectors under the de minimis Regulation, or of any of the activities listed under the SME.
- The investment to be supported by the SGS facility shall not be physically completed or fully operational on the approval date of the documentation evidencing the SME transaction. In the case of the transfer of business purpose, this condition does not apply.

## **2.2 What type of projects are eligible?**

The projects financed under the SGS must not have commenced before the sanctioning of the loan. Moreover, the SGS cannot be used to refinance existing facilities held by the borrower, and the facility is denominated in euro. Eligible costs under the SGS relate 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,
- (d) the realisation of new projects, penetration of new markets or new developments by existing enterprises,
- (e) investment-related working capital,
- (f) business ownership transfers, in whole or in part.<sup>3</sup>

## **2.3 Who cannot apply?**

- An SME that: –
  - is in financial difficulty,<sup>4</sup>
  - has suspended its business activities,
  - is bankrupt/insolvent or being wound up or having its affairs administered by courts,

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<sup>3</sup> As long as this does not create or enhance a position of significant market dominance, conforming with applicable legislation (including but not limited to the Control of Concentrations Regulations (CCRs) issued as subsidiary legislation (SL 379.08) under the Competition Act (CAP 379 of the Laws of Malta).

<sup>4</sup> Where 'financial difficulty' has the meaning defined under Article (2)(18) of Commission Regulation (EU) N°651/2014 of 17 June 2014. The regulation has been amended to include undertakings that were not in difficulty on 31 December 2019 but became so during the period from 1 January 2020 to 31 December 2021. The MDB shall apply this exemption on a case-by-case basis.

- 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 a sole trader or one 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 SGS 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 partner bank's normal credit approval process, the loan may not have been granted (or to the required amount) due to various reasons.

## **3. Application Process**

SMEs are to apply with the accredited intermediating partner 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. Additional information may be requested to further assess the application.

## **4. General Provisions**

### **4.1 Monitoring**

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

The MDB reserves the right to request the participating partner 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 SGS will be implemented in line with the provisions of the *de minimis* regulation.

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

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

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

(b) to the Central Bank of Malta, the 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**

(c) The MDB agrees that, (i) the Counter-Guarantor, (ii) the EIB or (iii) the Commission shall be entitled to publish on their website information on:

(i) the name of the financial product, the financing form and the policy areas supported by the Counter-Guarantee;

(ii) the MDB and accredited intermediary partners, including their names, addresses, the financing forms, the Thematic Product names and the InvestEU guarantee amount; and

(iii) the SMEs (where the principal amount of the respective individual Final Recipient Transaction exceeds EUR 500,000), its name, the financing form and the location of the SME (meaning its address, when the Final Recipient is a legal person, or the region at NUTS 2 level, when the Final Recipient is a natural person).

except if

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

(W) the publication requirement risks harming the commercial interests of the MDB, the accredited intermediary partner and/or an SME; or

(X) it risks threatening the rights and freedoms of the persons or entities concerned as protected by the Charter of Fundamental Rights of the European Union.

## 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>5</sup>/harmful child labour<sup>6</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>7</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”).
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

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<sup>5</sup> Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>6</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>7</sup> Ozone depleting substances: Chemical compounds, which react with and delete stratospheric ozone, resulting in ‘holes in the ozone layer’.

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”)