



***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 banks active in SME lending in Malta to act as MDB's partner banks for the Guaranteed Co-Lending Scheme (GCLS). The GCLS is a risk-sharing facility involving co-lending between the MDB and partner banks on a 50:50 basis. In addition, the MDB will provide a guarantee of 60% on the partner banks' part of the lending. 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. The GCLS is designed for SMEs with loan requirements exceeding €1,000,000.

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 intermediating partner banks. The MDB shall provide a guarantee of €30 million on the €50 million loans underwritten by participating intermediating partner banks. Total MDB's exposure shall be €80 million.

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

The GCLS includes a sub-scheme, the GCLS-Sustainability (GCLS-S) that is backed by a Counter Guarantee from the European Investment Fund (EIF). Further details can be found in the GCLS-S incentive guidelines document.

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 three types of loan tenors: with a maximum of 10 years, 12 years, and 15 years. The tenor of the loan determines the applicable state aid regime as follows:
 - i. Up to 10 years – *de minimis* regulation.
 - ii. Up to 12 years – General Block Exemption Regulation (GBER).
 - iii. Up to 15 years – General Block Exemption Regulation (GBER).
- Minimum loan size - €1,000,001.
- Maximum loan size - €10,000,000 depending on the term of loan, and state aid regime.
- Interest rate - The interest rate charged to the end beneficiary will be set by the partner 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/or the General Block Exemption Regulation (GBER).
- Last date for inclusion of loans under the scheme - Up to 31 December 2027.
- Applicable terms and conditions for a sub-scheme linked to the Sustainable Investment for Climate Action under the EIF InvestEU GCLS Sustainability scheme (GCLS-S) can be found in the GCLS-S Incentive Guidelines document.
- Last date for inclusion of loans under the sub-scheme covered by the EGF Sustainability guarantee (refer to GCLS-S Incentive Guidelines document) – Up to 30 April 2027.
- Borrower’s front contribution towards the project - Minimum of 20% upfront cash contribution.
- Moratorium on capital repayments – Maximum 12 months. A longer moratorium may be granted on a case-by-case basis subject to MDB approval.

1.4 Benefits for the SME

The benefit of the MDB guarantee shall be passed on to the final beneficiaries through lower-than-market interest rates charged by partner banks and lower collateral requirements. Additionally, the GCLS improves access to finance for SMEs requiring loans exceeding €1,000,000 by offering an extended repayment period.

2. Eligibility Criteria

2.1 Who can apply?

- An SME defined by the 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 aspects¹:
 - 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 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.

¹ [COMMISSION RECOMMENDATION of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises \(notified under document number C\(2003\) 1422\) \(2003/361/EC\)](#)

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 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 for 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 an 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 amortisable 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 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 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 partner bank's normal credit approval process, the loan may not have been granted (or to the required amount) for various reasons.

3. Application Process

SMEs are to apply with the accredited 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 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

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 labour²/harmful child labour³.
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 biphenyls⁴
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

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

³ 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.

⁴ Ozone depleting substances: Chemical compounds, which react with and delete stratospheric ozone, resulting in ‘holes in the ozone layer’.

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 CO₂e 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 CO₂-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 ferroalloys (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”)