SGS – Sustainability (SGS-S)

GCLS – Sustainability (GCLS-S)

Incentive Guidelines

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1. Background

The Malta Development Bank (MDB) seeks to increase its positive environmental impact by collaborating with commercial banks active in SME lending in Malta to act as MDB's intermediary partners for the SGS-Sustainability (SGS-S) and the GCLS-Sustainability Scheme (GCLS-S). Commercial banks already accredited to intermediate the SME Guarantee Scheme (SGS) and Guaranteed Co-Lending Scheme (GCLS) will automatically qualify for the SGS-S and GCLS-S. The SGS is an uncapped portfolio guarantee scheme where the MDB provides an uncapped guarantee of 80% on a portfolio of loans generated by the intermediary partner banks. The GCLS is a risk-sharing facility involving intermediated loans or co-lending between the MDB and the intermediary partner bank on a 50:50 basis. Depending on the loan size, 'Sustainable' loan facilities will be processed through the SGS under SGS-S, or through the GCLS under GCLS-S.

1.1 Objective

To enhance access to bank finance for business investments towards climate action, and environment sustainability. This includes investments for climate action purposes, and environmental sustainability, as well as green investments in agriculture and forestry and in social accessibility investment. Moreover, it also includes any investment by eligible beneficiaries classified as green, based on an Eco-label, Sustainable/Green Business model or an environmentally certified enterprise.[1]

1.2 Structure

The loan portfolio allocated to the Sustainability schemes is to be apportioned based on the take-up of loans under the SGS-S and GCLS-S accordingly.

The portion of the loan portfolio reserved for the SGS-S and GCLS-S will be apportioned by the MDB between the accredited intermediary partner banks participating in the schemes on a first-come-first-served basis.

The SGS-S and the GCLS-S are backed by a Counter-Guarantee from the EIF under the InvestEU Sustainability Guarantee programme. The provisions, eligibilities and requirements considered under this EIF Guarantee apply. Refer to the Use Case Document linked with this product.

Accredited intermediary partners operating facilities under the SGS and GCLS will 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;

[1] For an in depth reference to the eligibility assessment, terms and conditions related to the use of the EIF Sustainability Guarantee, kindly refer to the latest Sustainability Guarantee use case document, as published by the EIF here.

- Higher client retention due to increased fulfilment of customers' requests;
- Enhanced customer relationship.

1.3 Conditions of the Facility

On the basis of the positive impacts typically associated with green investment efforts, guarantee fees will be lower for facilities under the SGS-S and GCLS-S.

- **Term of loan** - The scheme offers a loan tenor with a maximum duration of 10 years under the SGS-S and a maximum of 15 years under the GCLS-S. In the case of GCLS-S, the tenure of the loan determines the applicable state aid regime (de minimis and/or General Block Exemption Regulation).
- **Minimum loan size** - €10,000 under SGS-S, €1,000,001 under GCLS-S.
- **Maximum loan size** - €1,000,000 under SGS-S, €10,000,000 under GCLS-S (depending on the term of loan, and applicable State Aid regime).
- **Guarantee Fee** - 0.72% at facility level on SGS-S and GCLS-S for the 10-year term. Different fees apply for longer terms.
- **Interest rate** - The interest rate charged to the end beneficiary will be set by the Commercial Bank. For the facilities under GCLS-S, the MDB's rate shall be at a minimum of 25 bps lower than that of the Commercial Bank.
- Loan amounts and compatibility with State aid regimes:
  - Facilities operating under the SGS-S will be implemented under the de minimis Regulation.
  - Facilities operating under the GCLS-S will be implemented in line with the provisions of the De Minimis Regulation, and the General Block Exemption Regulation (GBER).
- Last date for inclusion of loans under the Scheme - Up to 19 April 2027.

1.4 Benefits for the SME and other eligible enterprises

The purpose of the MDB SGS-Sustainability and the GCLS-Sustainability is to assist SMEs and small mid-caps in their transition towards a green, and more environmentally sustainable position. Eligible applicants will benefit from:

- Enhanced access to credit for eligible investment projects.
- Better terms and conditions, including a longer repayment period.
- Lower interest rates resulting from the credit risk protection of the MDB, EIF, and Governmental guarantees.

Multiple delivery partners enable further diversification of lending available to beneficiaries from the commercial bank of choice.

2. Eligibility Criteria

2.1 Who can apply?

- Applicants must be viable SMEs and small mid-caps.

- 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:[2]
    - 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
- 'Small mid-cap' means an entity with fewer than 500 full-time equivalent employees that is not an SME.

3. What type of projects are eligible?

- The project must be supported by a viable business plan.
- The project is considered bankable by the commercial bank and the MDB, meaning that the business is reasonably expected to generate sufficient cash flow to enable timely repayments.
- The project is not physically completed or fully implemented on the approval date of the facility; and
- The activities of the SME/small mid-cap are not in the exclusion criteria laid down in Annex 1.

The purpose of the financing covers a wide spectrum of possible activities including:

(a) Investment in measures directed towards:
- Green investment (climate change mitigation, climate change adaptation, transition to a circular economy, investments related to environmental impact and sustainable management of natural resources, protection and restoration of biodiversity and ecosystems).

or satisfying the:
- Green Investments in Agriculture and Forestry criteria (Sustainable forests and other climate mitigation investments, investments in the development or adoption of sustainable and organic agricultural practices).
- Social Accessibility Investment criteria (investments to enhance accessibility of services, products and infrastructures and to develop

[2] L 124/36 - Commission Recommendation of 6 May 2023 concerning the definition of micro, small and medium-sized enterprises (notified under document number C(2003) 1422)

assistive technologies as well as for making the organisation and its premises accessible for customers and employees with disabilities and/or impaired function.

(b) Any investment by SMEs classified as green based on an Eco-label, Sustainable/Green Business model or an environmentally certified enterprise.[3]

These categories are covered in Annex 2.

3.1 Who cannot apply?

- An SME/small mid-cap 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.

4. Application Process

- The scheme is available through MDB's accredited intermediary partners (*see link to accredited intermediary partner banks on MDB website*).
- SMEs/small mid-caps are to apply for the facility through the accredited intermediary partners by providing their borrowing proposal and any other necessary documentation.
- For the borrower to be included under the scheme, the proposal for financing needs to be approved by both the accredited intermediary partner bank and the MDB.

[3] For an in depth reference to the eligibility assessment, terms and conditions related to the use of the EIF Sustainability Guarantee, kindly refer to the latest Sustainability Guarantee use case document, as published by the EIF here.

5. General Provisions

5.1 Monitoring

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

The MDB reserves the right to request the participating accredited intermediary partner bank for information on the applicants as may be deemed necessary for its internal controls and purposes.

5.2 State Aid Rules and Obligations

The SGS-Sustainability and the GCLS-Sustainability Schemes will be implemented in line with the provisions of the de minimis Regulation, and/or the General Block Exemption Regulation (GBER).

5.3 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.

5.4 Publication of information

(c) 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:

(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/small mid-caps (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/small mid-cap (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/small mid-caps, (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/small mid-cap; 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.

6. ANNEX 1: Exclusion Activities including InvestEU

1. Illegal Economic Activities

Any production, trade or other activity, which is illegal under the laws or regulations applicable to the enterprise ("Illegal Economic Activity"), and any other activities forbidden by applicable national legislation.

Human cloning for reproduction purposes is considered an Illegal Economic Activity.

2. Activities which limit individual rights and freedoms or that violate human rights

3. Tobacco and Distilled Alcoholic Beverages

The production of and trade in tobacco and distilled alcoholic beverages and related products. These include tobacco-related products and activities (production, distribution, processing and trade).

4. Production of and Trade in Weapons and Ammunition

The financing of the production of and trade in weapons and ammunition of any kind or military operations of any kind. This restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies.

5. Activities in the area of defence activities, the use, development, or production of products and technologies that are prohibited by applicable international law.

6. Casinos, gambling and internet gambling and online casinos

Casinos and equivalent enterprises, or enterprises involved in the production-, construction-, distribution-, processing-, trade- or software-related activities for the above enterprises, including for internet gambling and online casinos

7. Pornography and prostitution

Sex trade and related infrastructure, services and media.

8. Nuclear Energy

The decommissioning, operation, adaptation or construction of nuclear power stations.

9. IT Sector Restrictions

Research, development or technical applications relating to electronic data programs or solutions, which:

(i) aim specifically at supporting any activity included in the Restricted Sectors referred to under 1. to 7. (inclusive) above; or

(ii) are intended to enable to illegally:

a. enter into electronic data networks; or

b. download electronic data.

10. 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; and

(ii) Genetically Modified Organisms ("GMOs"),

11. **Activities excluded from financing pursuant to the relevant provisions of the Horizon Europe Regulation (Regulation (EU) 2021/695 of the European Parliament and of the Council of 28 April 2021 establishing Horizon Europe – the Framework Programme for Research and Innovation, laying down its rules for participation and dissemination):** research on human cloning for reproductive purposes; activities intended to modify the genetic heritage of human beings which could make such changes heritable; and activities to create human embryos solely for the purpose of research or for the purpose of stem cell procurement, including by means of somatic cell nuclear transfer.

12. **Activities Involving Live Animals**

Activities involving live animals for experimental and scientific purposes insofar as compliance with the European Convention for the Protection of Vertebrate Animals used for Experimental and other Scientific Purposes cannot be guaranteed.

13. **Activities which give rise to significant negative environmental impacts**

14. **Investments related to mining or to the extraction, processing, distribution, storage or combustion of solid fossil fuels and oil, as well as investments related to the extraction of gas.** This exclusion does not apply to (a) projects where there is no viable alternative technology; (b) projects related to pollution prevention and control; (c) projects equipped with carbon capture and storage or carbon capture and utilisation installations; industrial or research projects that lead to substantial reductions of greenhouse gas emissions as compared with the applicable European Union Emission Trading System benchmarks.

15. **Fossil fuel-based energy production and related activities**

(i) Coal mining, processing, transport and storage;

(ii) Oil exploration & production, refining, transport, distribution and storage;

(iii) Natural gas exploration & production, liquefaction, regasification, transport, distribution and storage; or

(iv) Electric power generation exceeding the Emissions Performance Standard (i.e. 250 grams of CO_2e per kWh of electricity), applicable to fossil fuel-fired power and cogeneration plants, geothermal and hydropower plants with large reservoirs.

16. **Energy-intensive and/or high CO_2-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");

(xiv) Conventionally-fuelled passenger air transport (sub-activities of NACE 51.10);

(xv) Conventionally-fuelled freight air transport (sub-activities of NACE 51.21);

(xvi) Service activities incidental to conventionally-fuelled air transportation. (sub-activities of NACE 52.23).

17. Pure Agriculture and Fisheries (due to state aid regulations)

18. Speculative Real Estate Development Activities

Real estate development activity, such as an activity with the sole purpose of renovating and re-leasing or re-selling existing buildings as well as building new projects; however, activities in the real estate sector that are related to the specific objectives of the InvestEU Programme as specified in Article 3(2) of the InvestEU Regulation and to the areas eligible for financing and investment operations under Annex II to the InvestEU Regulation, such as investments in energy efficiency projects or social housing, shall be eligible.

19. Activities constituting pure financial transactions (such as trading in financial instruments).

Financial activities such as purchasing or trading in financial instruments, in particular, interventions targeting buy-out intended for asset stripping or replacement capital intended for asset stripping shall be excluded.

20. Investments in facilities for the disposal of waste in landfill

This exclusion does not apply to investments in: (a) on-site landfill facilities that are an ancillary element of an industrial or mining investment project and where it has been demonstrated that landfilling is the only viable option to treat the industrial or mining waste produced by the activity concerned itself; (b) existing landfill facilities to ensure the utilisation of landfill gas and to promote landfill mining and the reprocessing of mining waste.

21. Investments in mechanical biological treatment (MBT) plants

This exclusion does not apply to investments to retrofit existing MBT plants for waste-to-energy purposes or recycling operations of separated waste such as composting and anaerobic digestion.

22. Investments in incinerators for the treatment of waste

This exclusion does not apply to investments in: (a) plants exclusively dedicated to treating non-recyclable hazardous waste; (b) existing plants, where the investment is for the purpose of increasing energy efficiency, capturing exhaust gases for storage or use or recovering materials from incineration ashes, provided such investments do not result in an increase of the plants' waste processing capacity.

7. ANNEX 2 – Eligibility use cases

EIF SUSTAINABILITY GUARANTEE ELIGIBILITY CRITERIA

This is a summary of a manual on eligibility criteria detailing use cases that may be subject to change triggered by the EIF. This Annex is for indicative purposes only, and should not be used for decision making purposes. Kindly refer to the full "Use Case Document",[4] that may be updated from time to time by the EIF. Further and complete technical details are available in a separate EIF document referred to as the "Use Case Document".

1 Sustainable enterprise criteria

1.1 Prize and/or Public support previously received

Eligibility Criteria no 1.1

The Final Recipient has been awarded within the last 3 years a clean-tech or "green" prize, grant or funding from an EU/National institution/body/support scheme, from a pre-defined list, and the purpose of the Final Recipient Transaction is to maintain or further develop the activity of the Final Recipient.

1.2 Clean energy/climate related intellectual property right

Eligibility Criteria no 1.2

The Final Recipient has registered within the last 3 years, at least one renewable energy, clean-tech or climate-related technology or other relevant technology right related to climate and environment and the purpose of the Final Recipient Transaction is to enable, directly or indirectly, the use of this technology right.

1.3 Eco-label business

Eligibility Criteria no 1.3

The Final Recipient has registered, an eco-label from an EU, national or international, environmental, labelling scheme from a pre-defined list and the purpose of the Final Recipient Transaction is to maintain or further develop the activity of the Final Recipient.

1.4 Sustainable/Green business/supply chain

Eligibility Criteria no 1.4

The Final Recipient´s main activity falls into one or more of the specified "green" activities, provided that Final Recipient's revenues from such green activities represent at least 90% of its turnover.

1.5 Sustainable/Green Business model & impact

Eligibility Criteria no 1.5

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[4] For an in depth reference to the eligibility assessment, terms and conditions related to the use of the EIF Sustainability Guarantee, kindly refer to the latest Sustainability Guarantee use case document, as published by the EIF here.

The Final Recipient has incorporated in its business model "green" practices with externally verifiable climate and environmental positive impact.

1.6 Environmentally certified enterprise

Eligibility Criteria no 1.6

The Final Recipient has been certified with an environmental certificate standard from a predefined list valid at the time of application for the Final Recipient Transaction.

2 Investments for climate change mitigation

2.1 Renewable energy (RE)

Eligibility Criteria no 2.1

Investments in RE projects, production and/or transmission of RE, RE electricity storage solutions, RE heating and/or cooling systems, manufacturing of products, components and machinery for RE.

2.2 Green and energy efficient certified buildings-commercial

Eligibility Criteria no 2.2

Investment in the construction or renovation of commercial buildings[5] resulting in minimum qualifying energy performance or meeting minimum thresholds.

2.3 Green and energy efficient buildings – residential

Eligibility Criteria no 2.3

Investments in renovation of residential buildings, resulting in minimum qualifying energy performance, or meeting minimum thresholds.

2.4 Industrial energy efficiency

Eligibility Criteria no 2.4

2.4.1. Investments in standardised energy efficiency measures from a pre-defined list

2.4.2 Investment in technology, equipment or machinery that reduce significantly energy consumption/GHG emissions (including replacements).

2.5 Zero and low emission mobility

Eligibility Criteria no 2.5

Investments in low and/or zero emission transport assets, in renewal and retrofitting of transport assets and infrastructure for zero-emission and clean energy vehicles and vessels.

2.6 Green ICT for climate mitigation

Eligibility Criteria no 2.6

[5] For the purpose of the implementation of the EIF Sustainability Guarantee product, Commercial buildings are understood to be any type of building other than residential buildings.

Developing or adopting green Information Communication Technology (ICT) and digital solutions, tools, equipment, applications that enable a decrease in energy consumption/pollutant emissions, or contribute to climate mitigation objectives.

3 Investments for climate adaptation

3.1 Climate resilience

Eligibility Criteria no 3.1

Investments that enable a higher climate resilience of the company or the territory against climate change and climate-related events and/or reduce climate vulnerabilities for agriculture.

4 Investments related to transition to circular economy, waste prevention and recycling

4.1 Sustainable use of materials

Eligibility Criteria no 4.1

1) Investments that contribute to the circular economy transition, by allowing reduction of primary raw material use and/or higher use of secondary materials compared to existing practice;

2) Investments in activities that are key to net resource saving through reuse, repair, refurbish, remanufacturing, repurpose or recycling activities;

4.2 Waste reduction, collection, recovery

Eligibility Criteria no 4.2

Investments in the segregated collection of waste, redundant products, parts, materials and residues in order to enable high quality recycling, reuse, recovery and/or valorisation.

4.3 Product as a service, reuse and sharing models that enable circular economy strategies

Eligibility Criteria no 4.3

Product-as-a-service, reuse and sharing models based on, inter alia, leasing, pay-per-use, subscription or deposit return schemes, that enable circular economy.

4.4 Green ICT enabling circular economy business models

Eligibility Criteria no 4.4

Development/deployment of tools, applications, and services enabling circular economy business models.

5 Investments related to environmental impact and sustainable management of natural resources

5.1 Water resources

Eligibility Criteria no 5.1

Investments in water resource management and efficiency and related technologies.

5.2 Pollution prevention and control

Eligibility Criteria no 5.2

Investments in reduction, control and prevention of pollutant emissions into air and noise reduction.

6 Protection and restoration of biodiversity and ecosystems Nature-based solutions

Eligibility Criteria no 6.1

Investments in nature-based solutions or financing of enterprises operating in sectors providing nature-based solutions.

7 Agricultural and forestry activities

7.1 Sustainable forests and other climate mitigation investments

Eligibility Criteria no 7.1

Investments in afforestation, reforestation, forest rehabilitation/restoration including related equipment as well as sustainable forest management (SFM).

7.2 Sustainable and organic agricultural or aquacultural practices

Eligibility Criteria no 7.2

Investments in new or existing (i) certified organic production, and/or (ii) sustainable agriculture, where such investments do not lead to the conversion, fragmentation or intensification of use of natural habitats (particularly areas of high-biodiversity value).

8 Accessibility criteria

Eligibility Criteria no 8.1

Investments to enhance accessibility of services, products and infrastructures and to develop assistive technologies as well as for making the organisation and its premises accessible for customers and employees with disabilities and/or impaired function.