



**2019**

**SME**

**CONFERENCE**

**Workshop 4 – Acquiring Finance – Incentives, Investment and Guarantees**

31 October 2019

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# **MDB Overview, Mission and Business Model**





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# Mission

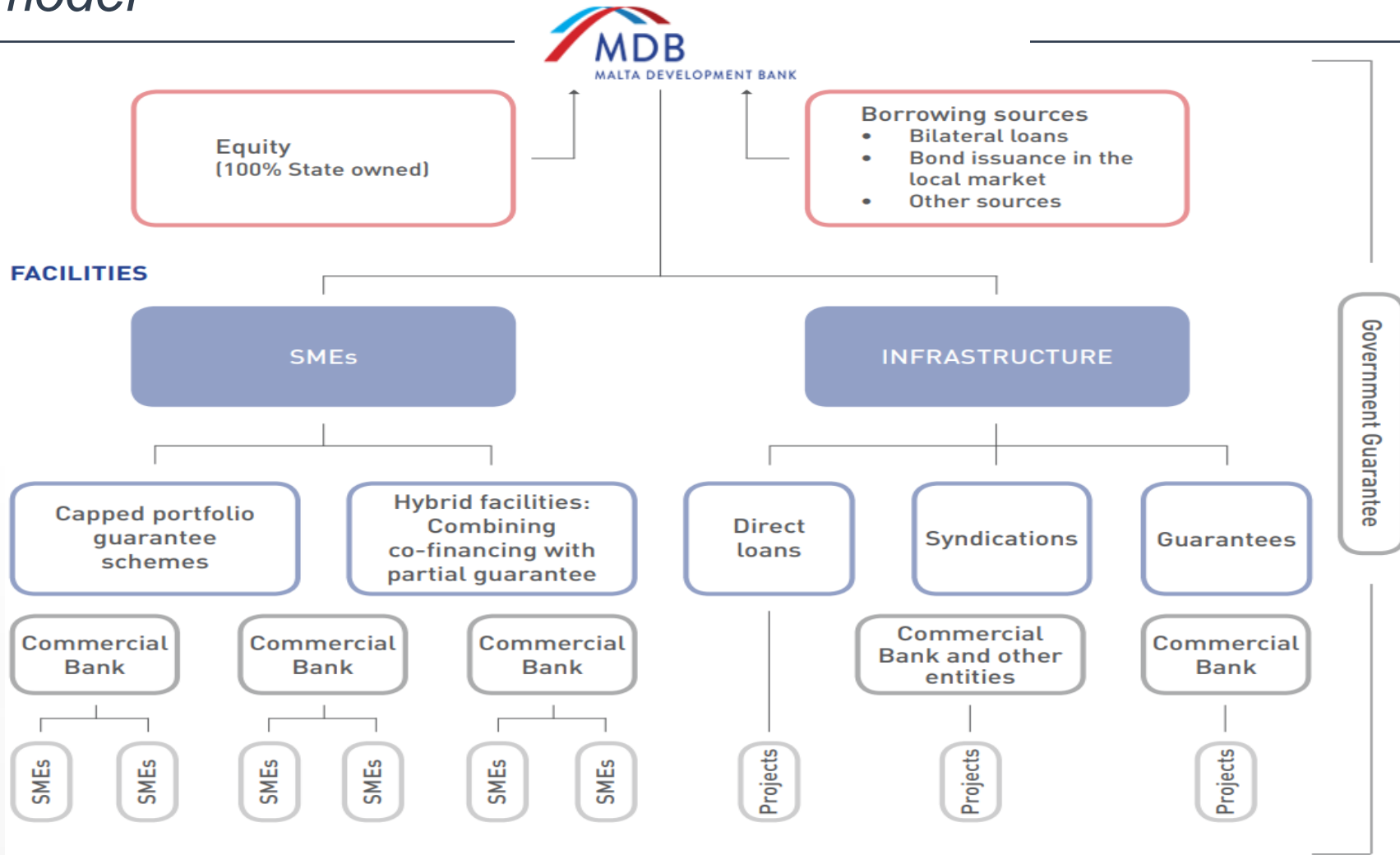
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-  To contribute to sustainable socio-economic development in line with public policy
-  To encourage inclusive and environmentally sustainable economic growth
-  To support infrastructural development
-  To support entrepreneurship, in particular SMEs and start-ups

By way of:

-  Addressing market failures by supporting productive and viable operations where the market is unable or unwilling to accommodate such activities in part or whole
-  Bridging any financial gaps in bankable investments by complementing commercial banks, thus enhancing investors' access to bank financing

# Business model



# Business Model

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MDB's remit focuses on the two major sectors which are most characterised by market failures in Malta:

## SMEs

*Typical market gaps:*

- *Insufficient collateral*
- *Lack of credit history*
- *Higher overall risk*
- *Banks' regulatory capital requirements*

## Infrastructure

*Typical market gaps:*

- *Duration of loan requirement - long gestation period*
- *Size of project - large exposure*
- *Concentration risks*
- *Higher overall risk*



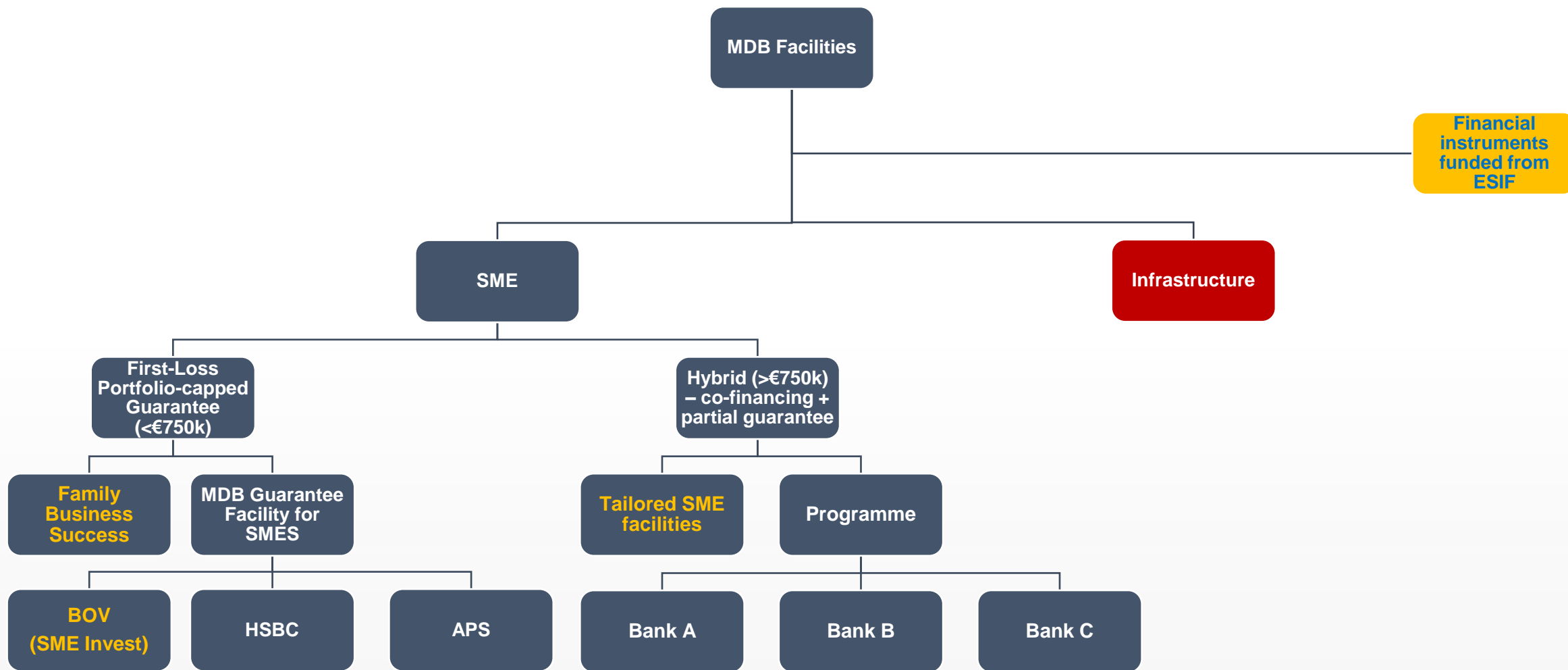
# MDB facilities for SMEs

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# Current facilities and plans for the future



# *The Family Business Transfer Guarantee Scheme*

## ***Rationale***

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-  Intermediated through BOV – Family Business Success
-  A niche-market product targeting a specific market gap
-  Only a small proportion of family businesses manage to survive in the longer term. For instance, only around 12% of family businesses manage to transfer to the fourth generation
-  Banks are reluctant to provide credit for family business transfers because such transactions are generally perceived to add debt rather than value



# *The Family Business Transfer Guarantee Scheme*

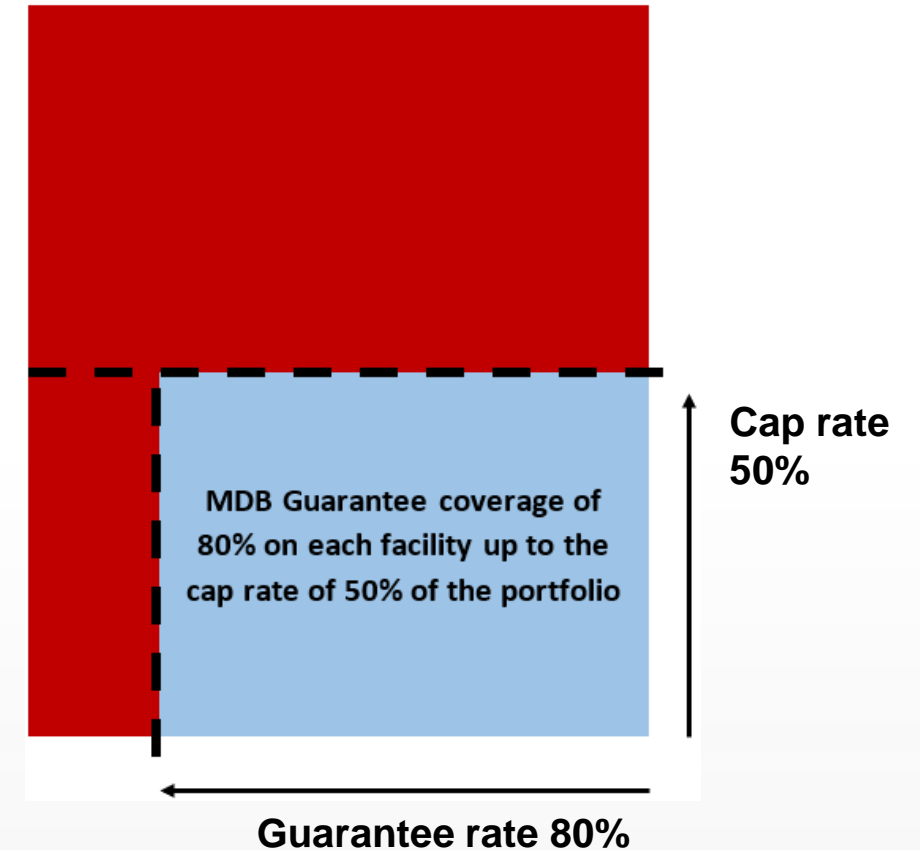
## **Objective**

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-  Enables more family businesses to transfer their businesses and complements the fiscal incentives to support such transfers, thereby ensuring continuity, stability and further growth in future of such businesses – which in Malta constitute a significant segment of the SME sector.
-  Purpose: (i) take over by family member/s, (ii) reduction of issued share capital, (iii) payment of dividend, (iv) repayment of shareholders' loans as part of the process to transfer shareholding in a certified family business company

# The Family Business Transfer Guarantee Scheme Structure







- Intermediated via commercial banks responsible for: client due diligence process, project appraisal, assessment and selection of loan applications under pre-agreed conditions
- Guarantee issued by the MDB for the benefit of the commercial bank to partly cover the credit risk of the guaranteed portfolio
- Guarantee covers 80% of the loss on each SME loan up to a max of 50% of the total portfolio
- MDB guarantee fund of €4 million enables BOV to generate €10 million of new SME loans (Leverage X2.5)
- The benefit of the guarantee is passed on to eligible beneficiaries via reduced collateral as well as a reduction in the interest rate



# *The Family Business Transfer Guarantee Scheme*

## **Terms and conditions**



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-  The size of the loan ranges from a minimum of €10,000 up to a maximum of €750,000.
-  Maximum term of loan 10 years
-  Possibility of a twelve months moratorium on capital repayments
-  The purpose of the new loans is to enable SMEs to finance new investment and investment-related working capital
-  The minimum contribution by the SME is normally 20% of the project costs.
-  Depending on the risk, BOV may ask for higher than 20% collateral on individual loan facilities. However, on a portfolio basis, BOV is to ensure that other extendible security does not exceed 30%.

# *The Family Business Transfer Guarantee Scheme*

## *Who can apply?*

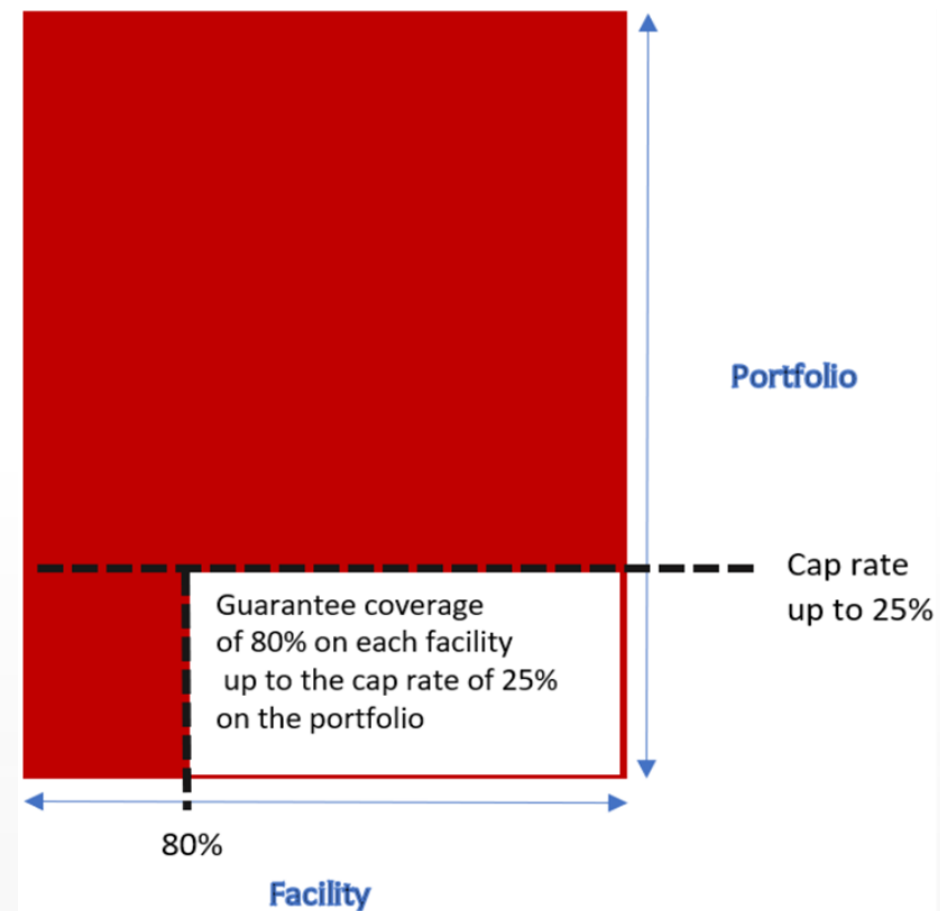
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-  Applicants must be viable SMEs. An SME is defined by Commission Recommendation of 6 May 2003 (2003/361/EC)
-  To qualify for the Scheme the Business undertaking has to be registered under the Family Business Act (Cap 565) with the Family Business Office

# SME Guarantee scheme

## Structure


- Intermediated via BOV (SME Invest), responsible for: client due diligence process, project appraisal, assessment and selection of loan applications under pre-agreed conditions
- Guarantee issued by the MDB for the benefit of the commercial bank to partly cover the credit risk of the guaranteed portfolio
- Guarantee covers 80% of the loss on each SME loan up to a max of 25% of the total portfolio
- MDB guarantee fund of €10 million enables BOV to generate €50 million of new SME loans (Leverage X5)
- The benefit of the guarantee is passed on to eligible beneficiaries via reduced collateral as well as a reduction in the interest rate



# *SME Guarantee scheme*

## *Additionality*

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-  The facility is designed to address the following major barriers to lending:
- Insufficient value or type of collateral
  - Innovative business ventures, economic sectors or technologies which fall outside the risk appetite and tolerance of commercial banks.
  - Other factors for which commercial banks may not be willing or able to provide the required financing in whole or part.

# *SME Guarantee scheme*

## *Who can apply?*

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 Applicants must be viable SMEs. An SME is defined by Commission Recommendation of 6 May 2003 (2003/361/EC):

- 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
- is established and operating in the Republic of Malta

# *SME Guarantee scheme*

## *Terms and conditions*

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-  The size of the loan (under SME Invest) ranges from a minimum of €200,000 up to a maximum of €750,000. The minimum loan size may vary from one implementing partner to the other.
-  MDB currently negotiating with other banks where the minimum loan size can be as low as €10,000.
-  Maximum term of loan 10 years
-  Possibility of a twelve months moratorium on capital repayments
-  The purpose of the new loans is to enable SMEs to finance new investment and investment related working capital
-  The minimum contribution by the SME is normally 10% of the project costs.
-  The commercial bank may require a minimum collateral of 20%.



# *SME Guarantee scheme*

## *What projects are eligible?*

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-  The project must be supported by a viable business plan.
-  The project is considered bankable by the commercial bank, 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 should not be in the exclusion criteria
-  The purpose of the financing covers a wide spectrum of possible activities including:
  - the establishment of new enterprises,
  - expansion capital,
  - capital for the strengthening and/or stabilisation of the general activities of an enterprise or
  - the realisation of new projects, penetration of new markets or new developments by existing enterprises.

# SME Guarantee scheme

## Target sectors

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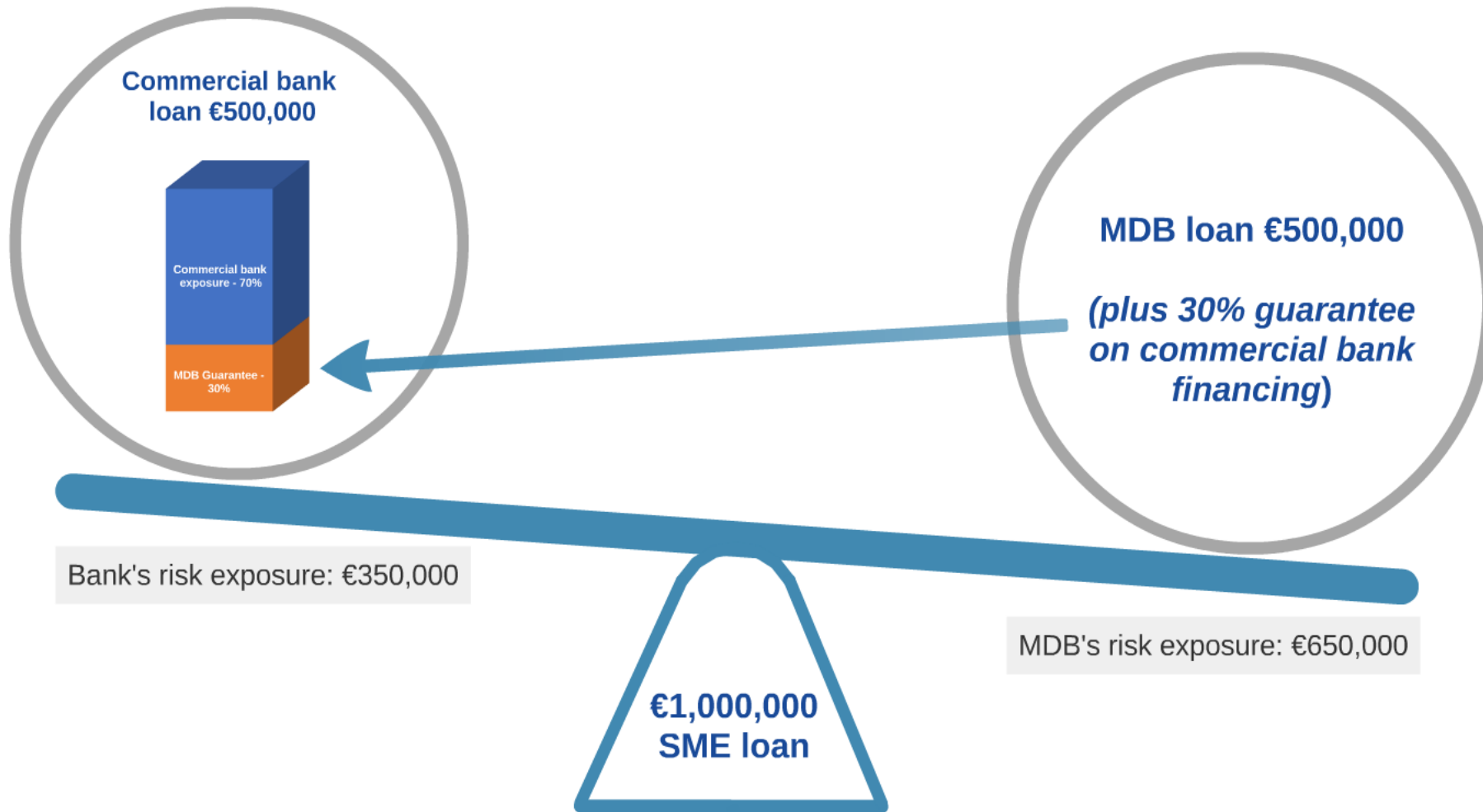
# Co-financing & partial guarantee

## Rationale

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- Larger loans over €750k can be accommodated – catering for larger SMEs
- 2019 – individual ad-hoc requests, each case treated on its own merits: Flexibility re size, co-financing arrangements, with/out MDB guarantee
- Soft market testing of a new scheme catering for loans from €750 - €3 million, planned for 2020 launching (strong market interest from most banks):
  - Open to all banks to magnify the impact and ensure broad coverage and ease of access
  - MDB will provide fund of €50 million to be matched by €50 million from banks, to generate €100 million new loans to SMEs
  - The combination of different state aid terms (GBER & de minimis) depending on the case

# Co-financing & partial guarantee Structure



## *MDB as implementing body for the implementation of Financial instruments funded from Structural Funds*

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-  First financial instrument funded from Structural Funds (ESF), in collaboration with the Managing Authority
-  Soft loans to individuals seeking to undertake full time, part time or distance learning study courses, in MQF 5 – 8, or internationally recognised certificates
-  Loan covers tuition fees, accommodation costs, subsistence expenses and other related expenses
-  Combining a guarantee (€1.1m – leveraged up to a portfolio of €5.5m), with a grant element (€900k covering interest rates during the moratorium)
-  Maximum moratorium of 5 years (with all interest payments during the moratorium covered with the grant element) and an attractive interest rate thereafter.
-  Loans up to €100,000; maximum repayment period 15 years.
-  No collateral or up-front contribution will be requested from the student.
-  BOV selected as financial intermediary through an open call

# Thank you for your attention



**Joseph Darmanin, Chief Business Development Officer**

E: [joseph.c.darmanin@mdb.org.mt](mailto:joseph.c.darmanin@mdb.org.mt)

T: +(356) 22261726

Malta Development Bank,  
Pope Pius V Street,  
Valletta VLT 1041,  
Malta.

W: <https://mdb.org.mt>

E: [info@md.org.mt](mailto:info@md.org.mt)