Guarantee and dedicated products under Maltese SME support scheme – Maltese experience

Mr Jonathan Vassallo, Director General, Planning and Priorities Coordination Division and Head of the Managing Authority in Malta
Guarantee and dedicated products under Maltese SME support scheme – Maltese experience

Mr Jonathan Vassallo
Director General, Planning and Priorities Coordination Division
Head of the Managing Authority in Malta
Malta in Brief

- 3 islands: - Malta (246 sq.km.), Gozo (67 sq.km.), Comino (2.7 sq.km.)
- 100km south of Sicily, 300km east of Tunis
- Population of ca. 425,000. (ca 50,000 living in Gozo)
Malta in Brief (2)

**STRENGTHS**

- Politically stable, strong social fabric and safe country
- Strategic location in the Mediterranean and favourable climate conditions
- Good airport infrastructures

**WEAKNESSES:**

- Vulnerability as a small island state
- Impossibility to reach a critical mass in some key sectors
- Small internal market
- Lack of adequate support structures for micro-enterprises and SMEs
Malta in Brief (3)

OPPORTUNITIES:

- Expansion of back-office operations and ICT services
- Capitalising on untapped financial services potential
- Potential increase in Research & Development activities

THREATS:

- Declining birth rate
- Ageing population
- Increased vulnerability of some economic sectors due to globalisation
Financial Instruments (pre-JEREMIE)

A number of financing initiatives had been launched in the past without the desired success:

- **Technology Venture Fund**: set up by the Maltese Government in 2001 through the Malta Development Corporation to support the development of technology and innovation for SMEs.

- **Malta BAN**: a national representative for Business Angels and Business Angels syndicates. It was expected to assist potential or active investors in developing their trusted network in Malta and overseas.


- **Soft Loans from Malta Enterprise**: Direct loans to SMEs and large enterprises at low interest rates in order to support new investment projects in the manufacturing industry.
In 2006, the Government of Malta asked the European Investment Fund (EIF) to draw up an SME Financing Gap Assessment and to make recommendations based on this analysis.

The Gap Analysis determined that:

- 95.8% of business enterprises were Micro enterprises with the most popular activities being the following:
  - retail trade and repair of personal and household-goods sectors – 24.8%
  - other business activities – 12.7%
  - construction divisions – 11.4%
It was also found that:

- the economy was heavily oriented towards trade, tourism and the manufacturing sector (but gravitating towards services).

- the tertiary sector accounted for 72% of the GDP with the financial services sector experiencing an impressive development in the past 10 years.
The Gap Analysis also highlighted the following limitations:

- SMEs financed their activities by mortgaging their own properties with the banks, with family ownership hindering outside investors.
- It was difficult for SMEs to access innovative financing tools due to their small size, making them less attractive for Venture Capitals.
- Banks applied severe rules setting the collateral, the payback time or the required contribution from the SMEs.
- More awareness raising of the assistance available was needed.
Following the Gap Analysis, it was determined that a need for the JEREMIE products does exist, in the form of a First Loss Portfolio Guarantee was required, and an initial €10million was allocated towards this instrument.

EIF were selected to manage the Holding Fund allocated to JEREMIE charging a flat annual management fee amounting to 2% per annum of the Funds allocated.
**JEREMIE – Timeline**

- **March 2010**: Signature of the Funding Agreement between Government of Malta & EIF
- **April – September 2010**: Fact finding among Maltese Financial Intermediaries + Approval of the Call for Expression of Interest
- **September 2010**: Launch of the Call for Expression of Interest to select Financial Intermediary
- **November 2010**: Three proposals received from Maltese Financial Intermediaries
- **November 2010 – March 2011**: EIF internal selection process
- **April 2011**: Signature of the Operational Agreement with the retained candidate: Bank of Valletta
- **September 2013**: Addendum to the Funding Agreement signed between Government of Malta & EIF to top up the OP allocation towards JEREMIE by EUR 2million
JEREMIE – Structure

First Loss Portfolio Guarantee
to build a portfolio up to EUR 62.61m (initially EUR 51.01m)

<table>
<thead>
<tr>
<th>Financial Intermediary</th>
</tr>
</thead>
<tbody>
<tr>
<td>JEREMIE EUR 10.8m</td>
</tr>
<tr>
<td>(initially EUR 8.8m)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Portfolio in EURm</th>
<th>62.61</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantee rate</td>
<td>75%</td>
</tr>
<tr>
<td>Cap rate</td>
<td>23%</td>
</tr>
<tr>
<td>JEREMIE cap amount EURm</td>
<td>10.8</td>
</tr>
<tr>
<td>Leverage</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Cap rate up to 23%

Guarantee rate of 75%
A portfolio of loans is being created during the availability period (up to 31.03.2015)

- Risk coverage on loan-by-loan basis
- Guarantee rate of 75%
- Cap rate at 23%
- Multiplier on JEREMIE funding 5.8x

Procedures vis-à-vis Financial Intermediary:

- Full delegation to originate loans according to FI policy
- Automatic inclusion based on eligibility criteria
- Quarterly reporting and regular controls
JEREMIE – Eligible Sectors

All SMEs are being supported by the Guarantee except for:

- Firms in difficulty or
- SMEs active in the following field:
  - Arms production and trading,
  - Gambling,
  - Tobacco,
  - Human cloning,
  - Genetically modified organisms,
  - Fishery and aquaculture sectors,
  - Primary production of agricultural products,
  - SMEs presented in article 1 (c-g) of the De-Minimis regulation,
  - Real estate, Construction.
JEREMIE – Portfolio Analysis as at 31\textsuperscript{st} August 2015

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of SMEs</td>
<td>153</td>
<td>413</td>
<td>583</td>
<td>650</td>
<td>650</td>
</tr>
<tr>
<td>Number of loans</td>
<td>163</td>
<td>456</td>
<td>665</td>
<td>760</td>
<td>759</td>
</tr>
<tr>
<td>Loan amount (commitments, EURm)</td>
<td>14</td>
<td>37</td>
<td>54</td>
<td>62</td>
<td>61.6</td>
</tr>
<tr>
<td>Utilisation % (Committed Loans/Maximum Portfolio Volume of EUR 62.6m)</td>
<td>22%</td>
<td>59%</td>
<td>86%</td>
<td>98%</td>
<td>97.7%</td>
</tr>
</tbody>
</table>
## JEREMIE – Portfolio Analysis
### SME Size

<table>
<thead>
<tr>
<th>Enterprise size</th>
<th>Number of SMEs</th>
<th>Actual Portfolio Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>MICRO</td>
<td>516</td>
<td>36,773,195</td>
</tr>
<tr>
<td>SMALL</td>
<td>120</td>
<td>20,712,395</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>14</td>
<td>4,075,539</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>650</strong></td>
<td><strong>61,561,129</strong></td>
</tr>
</tbody>
</table>
Post JEREMIE – Lessons learnt and 2014-2020 Period

- More than one Financial Intermediary to ensure greater competition, better rates and increased awareness
- Greater focus on Micro-SMEs and the introduction of the concept of microfinance
- The financing of Working Capital should be considered as eligible
- The consideration of the possibility of an equity instrument to be financed through the reflows of the current JEREMIE instrument
THANK YOU

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