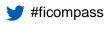




Financial instruments for SME support in practice –

Case study demonstrating the delivery cycle and results of a First Loss Portfolio Guarantee

Daniela GRECH, Ministry for European Affairs and Equality, Malta







### First Loss Portfolio Guarantee Instrument – the Maltese experience

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#### Malta



European Union
European Structural and Investment Funds





### **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. 437,000. (ca 32,000 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
- Limited 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 2007-2013



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
- Multi Annual Programme 2001 2005: three Loan Guarantee Schemes
- 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

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# Financial Instruments: GAP Assessment (1)



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
- 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 previous 10 years

# Financial Instruments: GAP Assessment (2)



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

# Financial Instruments: GAP Assessment (3)



- More awareness raising of the assistance available was needed
- The Gap Analysis, identified a number of options, one of the options identified was a First Loss Portfolio Guarantee
- EIF were selected to manage the Holding Fund allocated to JEREMIE ( ERDF + national co-financing) charging a flat annual management fee amounting to 2% per annum of the Funds allocated

### FLPG: Timeline



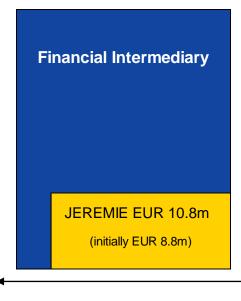
- March 2010: Signature of the Funding Agreement between Government of Malta & EIF
- April September 2010: Fact finding among Maltese Financial Intermediaries + Approval of the Call for Expression of Interest
- September 2010: Launch of the Call for Expression of Interest to select Financial Intermediary
- 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

## FLPG: Structure (1)



#### **First Loss Portfolio Guarantee**

to build a portfolio up to EUR 62.61m (initially EUR 51.01m)



Total Portfolio in EURm	62,61
Guarantee rate	<b>75</b> %
Cap rate	23 %
OP resources	10,8
OP multiplier	5,8
EU leverage	6,8

Cap rate up to 23%

**Guarantee rate of 75%** 

## FLPG: Structure (2)



- A portfolio of loans to be created during the availability period
- Risk coverage on loan-by-loan basis
- Guarantee rate of 75%
- Cap rate at 23%
- ▶ OP multiplier of 5.8x on JEREMIE funding and leverage of 6.8x of EU funding
- 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

# FLPG: 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.

# FLPG: Portfolio Analysis at closure



	2011	2012	2013	2014	2015	2016
Number of SMEs	153	413	583	650	650	654
Number of loans	163	456	665	760	759	763
Loan amount (commitments, EURm)	14	37	54	62	61.6	62.5
Utilisation % (Committed Loans/Maximum Portfolio Volume of EUR 62.6m)	22%	59%	86%	98%	97.7%	99.5%

### FLPG: Enterprise Size and Portfolio Volume



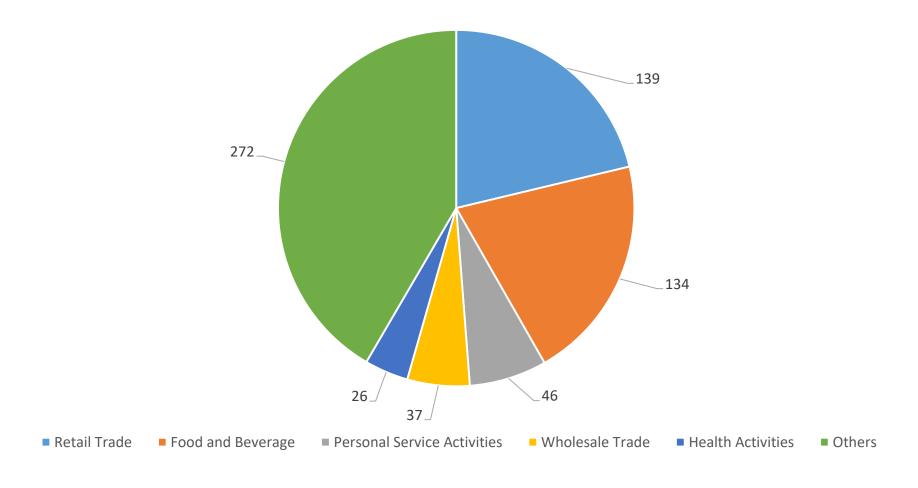
Enterprise size	Number of SMEs	Actual Portfolio Volume
MICRO	516	36,761,652
SMALL	126	21,445,252
MEDIUM	14	4,117,332
TOTAL	650	62,324,236

- 335 loans worth €22.58M (36% of total loan volume) were granted to Start Up Companies
- Average loan size amounted to €82K granted for a period of 8 years

## FLPG: Benefitting Sectors



Number of SMEs Benefitting from JEREMIE per sector



# FLPG: Benefitting Sectors



An analysis was undertaken by the MA in order to determine the impact of JEREMIE in Malta. On a sample of 40% of Maltese SMEs, it results that:

- Where an increase in employment was registered, this averaged at 2FTEs per SME;
- Increase in value of assets by circa €312,000;
- Increase in value of turnover by an average of €379,000.

## Lessons learnt: Comparison to past failures (1)



- Lack of expertise and administrative capacity: appointing EIF as the Holding Fund Manger meant that we could tap in expert advice and in a structure that was already in place and had experience in dealing with complex programme rules
- ▶ EU leverage: The involvement of the EU funding resulted in a leverage of 6.8x creating significant investments in Micro and SME in Malta, that would have not been otherwise possible
- Ownership: The selected instrument was complementing the ordinary banking business of the selected FI, and hence it was easy for the such intermediary to understand and promote the instrument

## Lessons learnt: Comparison to past failures (2)



- Publicity: The selected FI used diverse and continuous publicity actions such as articles in the national media, intensive use of online and physical marketing tools (posters, billboards, flyers, online portals, etc.), as well as the organisation of dedicated workshops and information sessions for the SME community
- At the level of the portfolio the selected Financial Intermediary had the obligation to waive the collateral requirement equivalent to the guarantee provided
- Cost of Financing, similarly the selected financial had to reduce the cost of borrowing by 1% percentage point at the level of the portfolio

# Lessons learnt: SME Reaction to the instrument



- Prior to the introduction of JEREMIE, the SME sector in Malta was used to receiving EU Grants, usually characterised by a higher level of uncertainty, with SMEs having to pay the cost incurred and receive reimbursement 3 to 9 months after that the necessary documentation is presented
- ▶ JEREMIE provided a simpler alternative in that even though it required the repayment of assistance given, it came with the benefit of expediency, simplicity and a tailor-made product that suited their needs
- The increased awareness of the product, together with its fast deployment, resulted in a positive reaction from the market, and an increased eagerness to tap into future Financial Instruments.

## Financial Instruments 2014-2020: The SME Initiative



#### **Objectives:**

- Improving competitiveness of SMEs in Malta by reaching 845 SMEs and achieving a leverage of at least 4x
- Reduce pricing and collateral requirements

#### **Financial Instrument:**

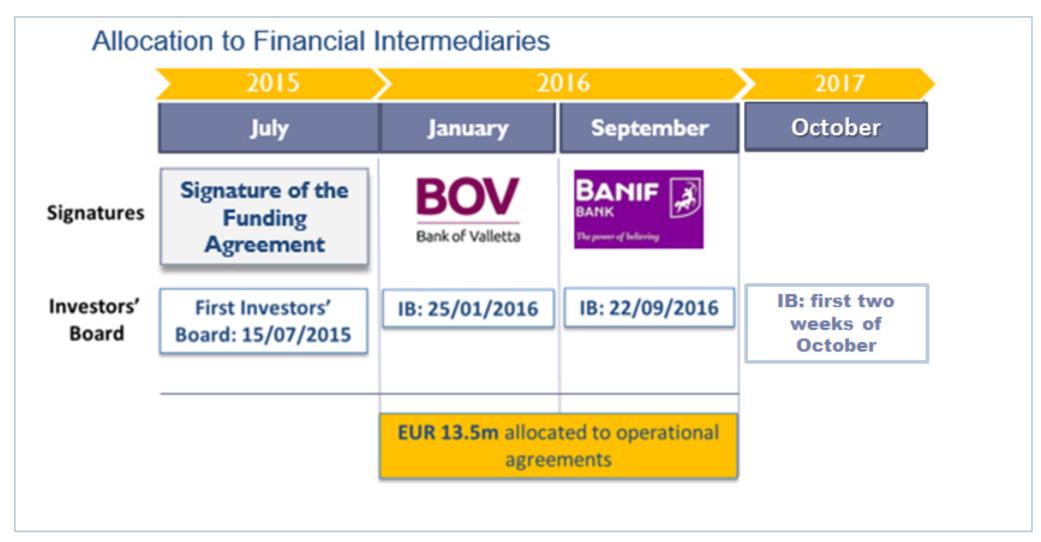
- Malta has earmarked EUR 15m of ERDF resources for this initiative. EIB Group has committed EUR 32m, the EC through H2020 EUR 0.23m
- Uncapped guarantee for a portfolio of new loans to SMEs supporting 75% of the risk of each loan originated by financial intermediaries

#### Purpose of the loan:

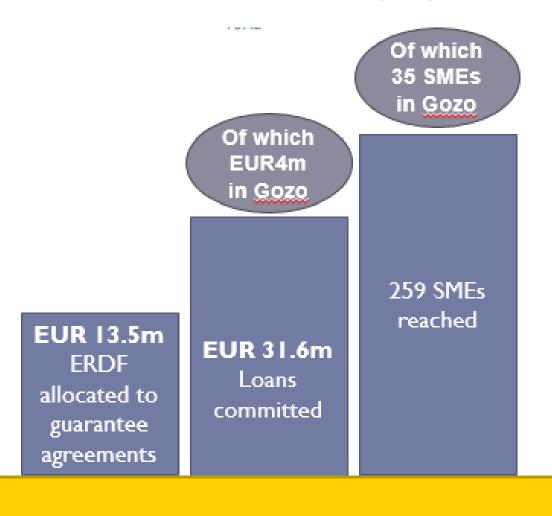
Investment in both intangible and tangible investments, working capital, others

# Financial Instruments 2014-2020: Progress to date





# Financial Instruments 2014-2020: EU funds | 2014 Progress as at December 2016 | 2020

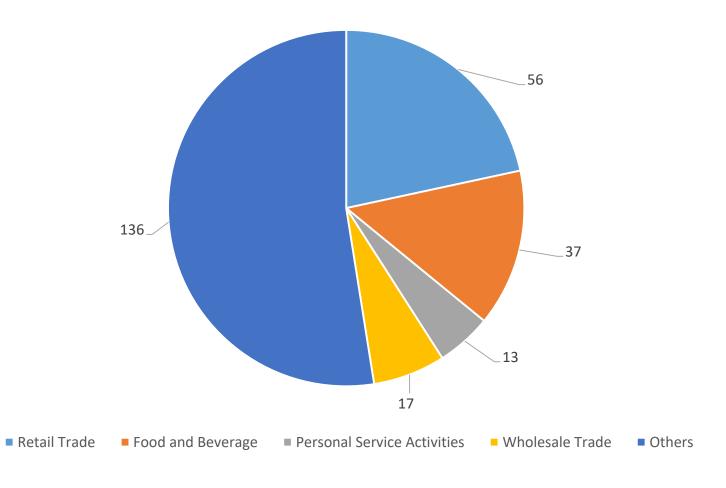


50% of the portfolio has been generated as at 31 December 2016

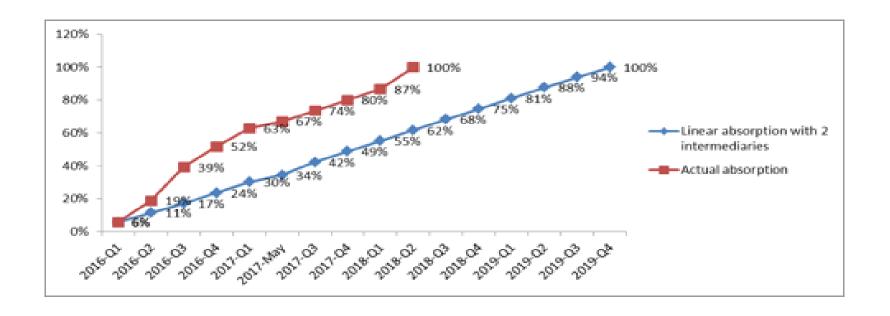
# FLPG: Benefitting Sectors as at Dec 2016



Number of SMEs Benefitting from the SMEi per sector



# Financial Instruments 2014-2020: EU funds | 2014 Progress as at March 2017



The portfolio should be fully built up by the second semester of 2018 with 1.5 year of advance



#### **THANK YOU**

#### **Contact Details:**

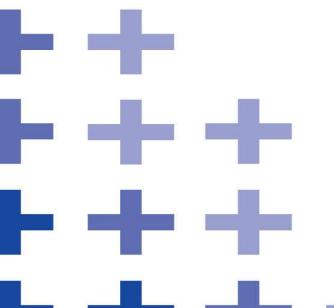
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