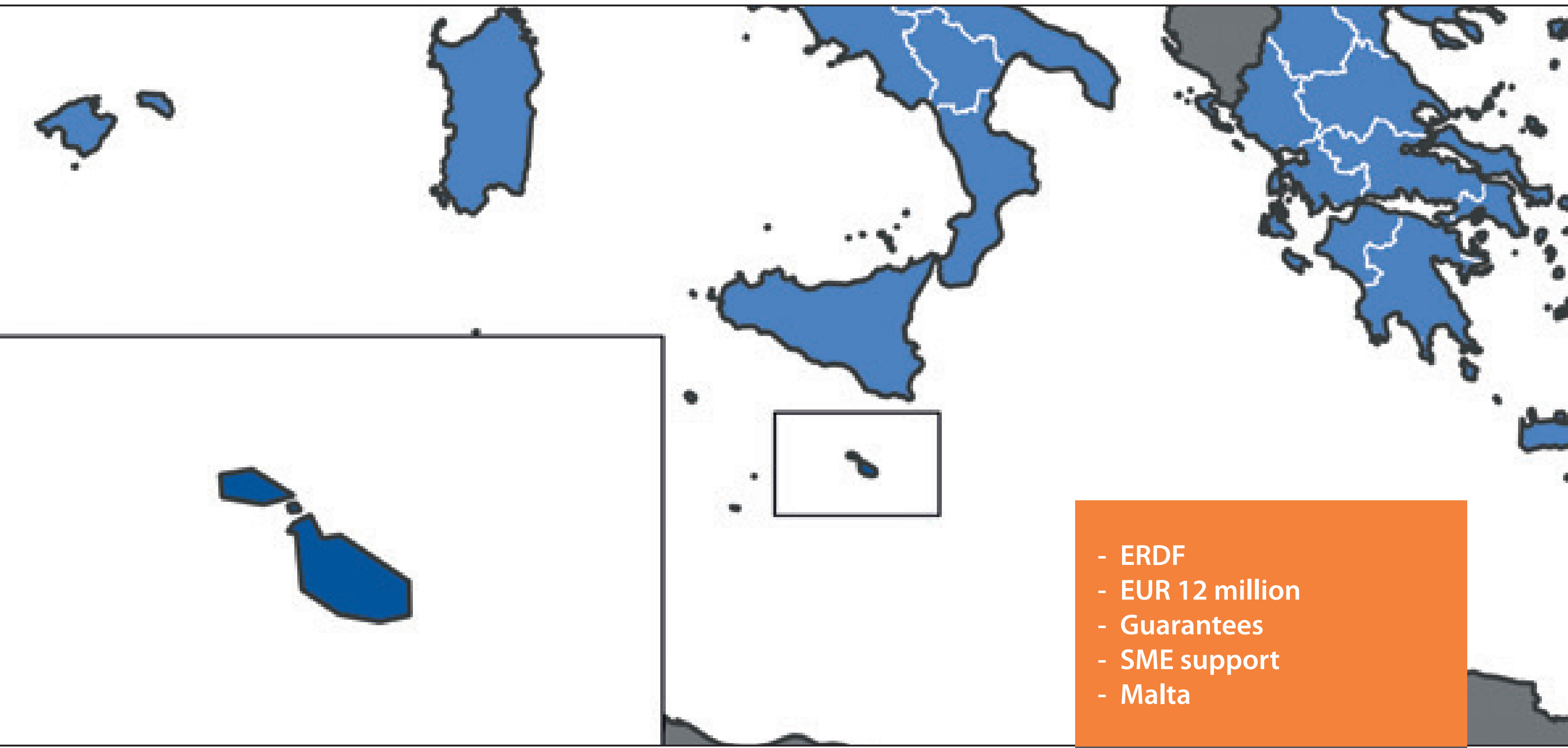

- ERDF
- EUR 12 million
- Guarantees
- SME support
- Malta

… bridging market gaps in SME financing in a small market like Malta …

The First Loss Portfolio Guarantee instrument in Malta

Case Study

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The case projects can in no way be taken to reflect projects that will actually be financed using Financial Instruments. Neither the European Investment Bank nor the European Commission gives any undertaking to provide any additional information on this document or correct any inaccuracies contained therein.

The authors of this study are a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, infeurope and Spatial Foresight.

Abbreviations

EIF	European Investment Fund
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
EU	European Union
FLPG	First Loss Portfolio Guarantee
JEREMIE	Joint European Resources for Small and Medium Sized Enterprises
OP	Operational programme
SMEs	Small and medium-sized enterprises

Table of contents

1 Summary

This case study describes the First Loss Portfolio Guarantee (FLPG), a European Regional Development Fund (ERDF) co-financed instrument that provides a financing package to small and medium-sized enterprises (SMEs). As part of the JEREMIE[1] holding fund Malta, the FLPG addresses the difficulty of SMEs in raising enough capital to develop their business, through guaranteeing a portfolio of loans issued by the Bank of Valletta. Loans help companies like AAT Research, a medical research consortium, to fund and market ideas. Assisted by the FLPG financing part of its start-up costs, AAT Research now employs 20 staff and exports its new product to over 20 countries.

The case shows how ERDF allocations can help bridge SME financing gaps even in small markets such as Malta. The EUR 12 million total allocation, of which EUR 10.2 million ERDF, will be used to create a SME loan portfolio of EUR 62.6 million, a leverage ratio of 6.1 on the ERDF contribution. The loans are provided at advantageous conditions, the most important being the reduced collateral requirements, which are often preventing SMEs from accessing finance. By March 2015, 99% of the portfolio was committed, and 760 loans granted to 650 enterprises for a total loan value of EUR 61.6 million. Including final recipient contributions, these loans have in turn stimulated investment of about EUR 103 million.

One of the main reasons for the instrument's successful implementation is the effective communication between all parties involved and its marketing by the Bank of Valletta. Despite the initial lack of experience of the financial intermediary with European Union (EU) -funded financial instruments, this scheme proved to be effective in stimulating investment, and had its allocation increased from EUR 10 million to EUR 12 million in 2013. It exceeded expectations and targets and generated positive spillovers such as an expansion of funding products offered by the financial intermediary.

1 Acronym for 'Joint European Resources for Micro to Medium Enterprises' and refers to a joint initiative developed by the European Commission (Directorate General for Regional and Urban Policy) in co-operation with the European Investment Bank Group and other financial institutions during the 2007-2013 programming period.

First Loss Portfolio Guarantee, Malta

THE FINANCIAL INSTRUMENT

Funding source

European Regional Development Fund (ERDF), Operational Programme (OP) 'Investing in Competitiveness for a Better Quality of Life' 2007-2013

Type of financial products

Loan combined with soft support from the financial intermediary

Financial size

EUR 12 million OP resources (EUR 10.2 million from ERDF and EUR 1.8 million from national public funding)

The guarantee is used to build up a loan portfolio of EUR 62.6 million.

Thematic focus

SME support

Timing

April 2011 to December 2015

Partners involved

Planning and Priorities Co-ordination Division (managing authority)

The European Investment Fund (guarantee fund manager)

Bank of Valletta (financial intermediary)

ACHIEVEMENTS

Absorption rate

99% of portfolio (March 2015)

EU leverage

6.1 times[2]

ESIF programme multiplier

5.2 times[3]

Re-investment

n.a.

Main results

760 projects supported in 650 SMEs, with total loans of EUR 61.8 million at March 2015. Over EUR 103 million (including recipient contribution) invested in SMEs, of which EUR 22.8 million for start-ups.

2 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 62.6 million, divided by the total amount of ERDF allocation to this financial instrument, i.e. EUR 10.2 million. It does not include the reuse of resources returned to the instrument.

3 ESIF programme multiplier is calculated as the total amount of finance to eligible final recipients, i.e. EUR 62.6 million, divided by the total amount of programme resources allocated to the financial instrument, i.e. EUR 12 million. It does not include the reuse of resources returned to the instrument.

2 Objectives

SMEs in Malta represent over 99.8% of firms with more than 94% considered as micro firms. These generate about 79% of the jobs in Malta, similar to the EU average. Their added value in Malta is 73% of the total in the economy. This is significantly higher than 58% average in the EU. The number of Maltese SMEs, their added value and the jobs created by these firms has persistently increased despite the challenges presented by the economic slowdown. Their sustained growth depends on the extent to which they can access finance.

A survey conducted by the Malta Business Bureau in 2013[4], indicated that a major challenge is the financial market gap where SMEs are unable to raise enough capital to support their development. This gap is further fuelled by the lack of venture capital markets and the scarcity of business angels, making capital markets not a viable solution for SMEs. Commercial banks are their main providers of finance, but collateral requirements and loan pricing often makes it difficult for SMEs to raise enough funds. Other sources of finance are personal savings, financing from family and friends as well as bank overdrafts.

A financing gap for SMEs was already identified in the JEREMIE Gap Assessment for Malta carried out by the EIF and completed in September 2007, which resulted in three proposed remedies. These included a guarantee scheme, a microcredit scheme for promoting entrepreneurship and a risk capital fund to stimulate financing from business angels. The gap analysis study indicated that an initial portfolio of instruments should range from EUR 5 to 15 million and could be funded through Structural Funds.

After reviewing the JEREMIE initiative, as well as through consultations with local bodies, the government recognised that loan guarantees could be important to partly address the unmet demand for finance, especially for small business start-ups.

On this basis, a FLGP instrument was envisaged to be financed under Malta's OP 'Investing in Competitiveness for a Better Quality of Life', which could improve access to finance and support business expansion, job creation and economic growth. The FLPG was intended to contribute to the objectives of priority axis one, which supports the development of a competitive knowledge economy, by promoting entrepreneurship and a better access to finance.

4 Market Gaps on Access to Finance (Malta Business Bureau).

3 Design and set up

After identifying a financing gap, the managing authority allocated EUR 10 million of OP funds to the JEREMIE holding fund of Malta, under which the FLPG instrument was set up as a specific fund. The amount allocated to the holding fund was subsequently raised to EUR 12 million. The Bank of Valletta was selected to set up a portfolio of loans to be partly guaranteed by the FLPG instrument. On this basis, the FLPG could enable the creation of a loan portfolio of up to EUR 62.6 million (see section 3.3 for more details).

3.1 Preceding events

At the start of the 2007-2013 programming period, the OP anticipated support to the private sector but did not directly include the use of financial instruments. In the original version of the OP, 0.58% of total funds were allocated to 'other forms of finance'.[5] The specific type of assistance to be provided was left open since the actions of the JEREMIE initiative were, at the time, still ongoing. The opportunity for JEREMIE to improve access to finance was later recognised and the managing authority announced a contribution of EUR 5 million from the OP to a guarantee fund.

Following the conclusion of negotiations with the EIF in 2009, Malta confirmed its intention to launch a financial instrument. In March 2010, based on the results of the EIF's gap assessment for Malta completed in 2007, the Government of Malta, represented by the Ministry for Finance, Economy and Investment, signed a funding agreement with the EIF, which established the JEREMIE holding fund of Malta, and allocated programme resources to a newly created guarantee fund under this holding fund.

The amount committed under the agreement was increased from EUR 5 million initially announced, to EUR 10 million, to mitigate the impact of the economic crisis. The intention was to sustain investment while generating economic growth and jobs at a time when the economy was facing a slowdown.

5 Expert Evaluation Network delivering policy analysis on the performance of Cohesion Policy 2007-2013: Task1: Financial Engineering Malta (2012)

The managing authority decided to confer the holding fund's management role to the EIF. After signing the funding agreement, the EIF launched a call for expression of interest for selecting financial intermediaries that would manage the FLPG specific fund. It received three applications and in early 2011, Bank of Valletta was the selected financial intermediary. The bank built up the portfolio of SME loans required under the funding agreement. Given the high demand, in 2013 the managing authority topped up the fund by an additional EUR 2 million. For this reason, the EIF launched an additional call for financial intermediaries that would manage this extra allocation and the Bank of Valletta was once again selected.

Table 1: Timeline of the financial instrument design

Time period	Action taken
2006 to 2007	Gap analysis study
April 2010 to November 2010	JEREMIE Malta holding fund's management entrusted to the EIF. Launch of a call for expression of interest to select the manager of the FLPG instrument.
March 2011	Selection of financial intermediary to manage the FLPG instrument completed, and funding agreement signed
April 2011	First guaranteed loans provided to SMEs under the FLPG instrument

AAT Research: Financing gap

AAT Research is a group of small medical companies that has developed a neurofeedback device called Mente, for children with Autism Spectrum Disorder. Dr. Adrian Attard Trevisan, the founder and CEO, stressed that many research projects tend to die once funding runs out, no matter how worthwhile they may be, especially those that are initially developed using grants. In fact, these projects are often shelved and not commercialised due to the fact that traditional lending sources do not cater for innovative products that appear risky. More often than not, start-up firms would have tapped their internal resources to fund the initial research, limiting the possibility of further financing the business. As a result, the success rate of firms in research and development and the commercialisation of innovative products is often very low. Traditional sources of finance relate primarily to overdrafts and loans, both of which are tied to collateral and a higher cost of financing than the FLPG.

Property of AAT Medical Ltd

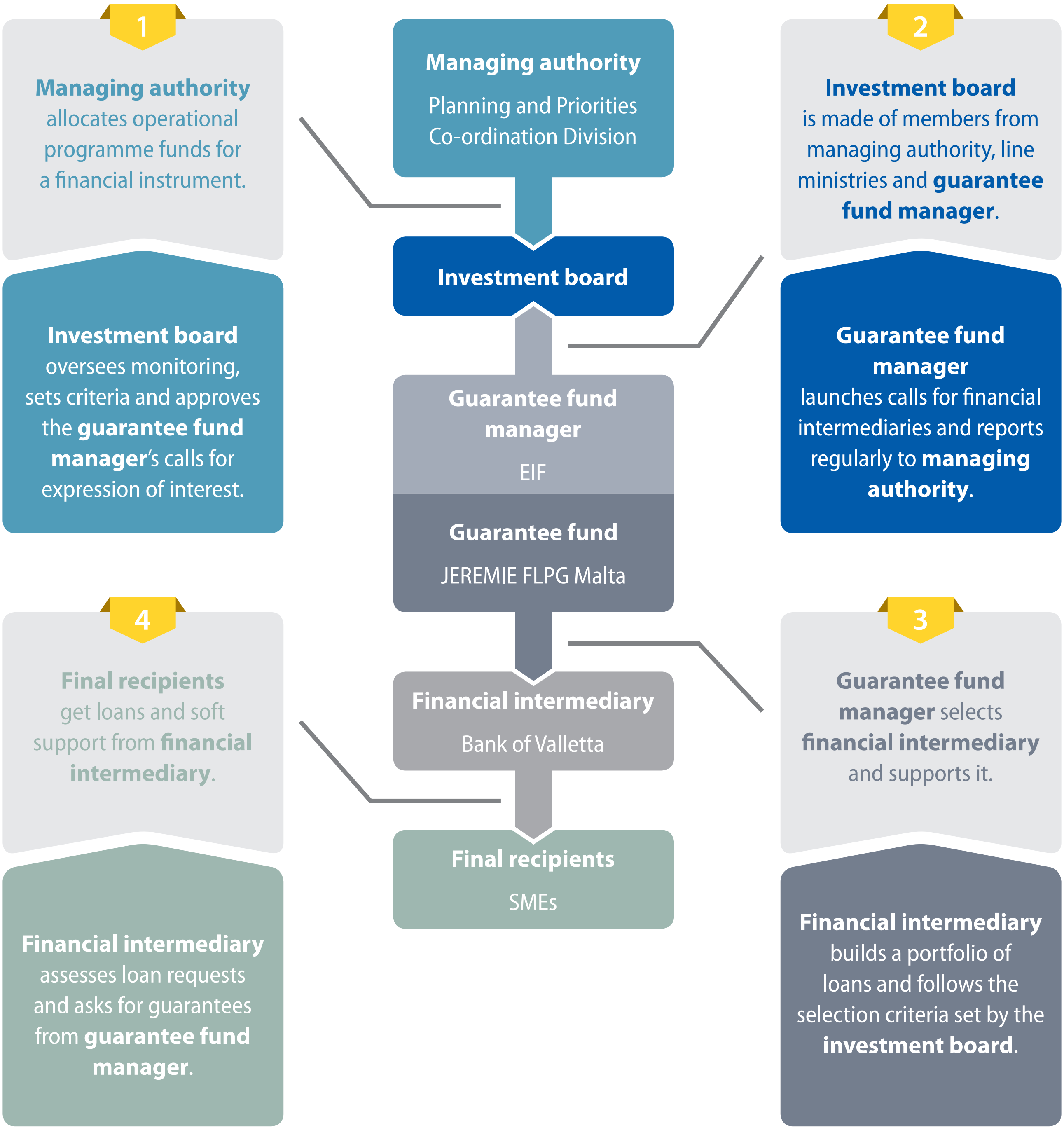
'Important ideas can get lost due to lack of financing - especially the fruition of academic ones'

Dr. Adrian Attard Trevisan

3.2 Funding and partners

The main partners involved in the implementation and monitoring of the FLPG scheme are the **managing authority** (Planning and Priorities Co-ordination Division), the **guarantee fund manager** (EIF), the **financial intermediary** providing loans (Bank of Valletta) and the **investment board** of the JEREMIE holding fund.

Figure 1: Governance structure of the financial instrument



The EUR 12 million allocated to the JEREMIE Malta holding fund is made of 85% from ERDF and 15% from national co-financing.

Table 2: Funding of the JEREMIE holding fund Malta

Funding sources	EUR
ERDF	10.2 million
Public (co-financing)	1.8 million
- of which national	1.8 million
TOTAL	12 million

3.3 Investment strategy

The FLPG's main objective is to improve access to finance for SMEs in the Maltese Isles through credit risk protection and loans at preferential interest rates. It contributes to the objectives of the OP to promote SME growth and competiveness. The instrument targets all sectors of the economy except agriculture, construction, fisheries, transport and real estate to ensure the development of strategic sectors with growth potential but which lack funding.

Through the FLPG, the EIF, as guarantee fund manager, shares the risks of providing SME loans with the Bank of Valletta.

The strategy of the instrument was to obtain a leverage of 5.2 times on its initial allocation from the OP, leading to a total possible loan portfolio volume of EUR 62.6 million, or 5.2 times the initial EUR 12 million. This was made possible since, under the funding agreement, the FLPG would guarantee 75% of each loan from this portfolio, up to a total portfolio cap of 23%.

3.4 Governance

The overall governance structure involves four entities.

The **managing authority** (Planning and Priorities Co-ordination Division, which falls under the Ministry for European Affairs and Implementation of the Electoral Manifesto) is responsible for monitoring and implementing the OP that funds the instrument. It is not directly responsible for the instrument's implementation. However, the managing authority specified the criteria for selection of the final recipients, identifying target sectors and special provisions to encourage the take up of the scheme by SMEs on the island of Gozo. This is in line with the commitment of 10% of funds that is earmarked for this island.

The **investment board** was set up in 2010 and brought together representatives from the Ministry of Finance, Ministry for the Economy, Investment and Small Business, the managing authority and the fund manager. The board initially approved the call for expression of interest and set out the specific requirements of the instrument. It now oversees monitoring of the financial instrument.

The **guarantee fund manager** is the EIF, which was entrusted this role by the Maltese government. The EIF and the Maltese Government, through the Ministry for Finance, Economy and Investment, signed a funding agreement in 2010, valid until the end of 2015. The EIF is responsible for the selection of the financial intermediary and for overseeing that the requirements of the operational agreement are abided by. It also provides regular support and assistance to the financial intermediary in implementing the FLPG. The EIF receives implementation reports from the financial intermediary, which it approves and subsequently incorporates into a wider report for the whole JEREMIE Malta holding fund, which it then provides to the managing authority.

The **financial intermediary** is the Bank of Valletta, a public limited company and one of the largest financial service providers in Malta. The bank provides loans that are guaranteed through the FLPG according to rules set out in the operational agreement between the bank and the fund manager. It also provides quarterly reports on SME loans to the fund manager. The bank uses an internal system, which builds on its credit assessment procedures, to select final recipients.

Figure 2: Flow of funds to final recipients

Operational Programme 'Investing in Competitiveness for a Better Quality of Life'

ERDF: EUR 10.2 million

Public: EUR 1.8 million

Total available: EUR 12.0 million

Guarantee Fund: JEREMIE Malta

Total available: EUR 12 million

Management costs & fees: EUR 1.2 million

Guarantee Fund Manager: EIF

Financial intermediary: Bank of Valletta

Total loan volume: EUR 62.6 million

Guaranteed share: 75% (EUR 47.1 million)

Guarantee cap: 23% (EUR 10.8 million)

Final recipients: SMEs

Financial products: loans

Other support: free soft support, e.g. mentoring and coaching

Provider: Financial Intermediary

AAT Research: Accessing the financial instrument

The recipient's decision to apply for a FLPG loan was based on the favourable terms of the instrument in particular the lower collateral requirements which often serve as a stumbling block for small firms to access finance. The offer was marketed in an effective manner by the Bank of Valletta, making it both visible and accessible to the recipient. The administrative burden was kept to a minimum and the instrument also contributed towards building a strong bank-client relationship, which has continued beyond the scheme.

Property of AAT Medical Ltd

4 Implementation

This scheme offers credit risk protection, which allows the financial intermediary to offer loans at advantageous interest rates and with lower collateral requirements. It is available to SMEs operating in sectors such as wholesale and retail, manufacturing, accommodation and restaurants.

4.1 State Aid

The FLPG falls under the obligations of the State aid de minimis regulation, which excludes the sectors of fishing, agriculture, construction, real estate and transport. Any 'single undertaking' can receive a maximum gross grant equivalent of EUR 200 000 under all de minimis measures, over a period of three consecutive fiscal years. The managing authority ensures that the de minimis condition is adhered to and that no double funding is awarded to the same undertaking.

4.2 Financial products and terms

Loans have a maturity of one to ten years with repayment either at maturity or by amortisation. Individual SMEs are only eligible for a maximum of EUR 500 000, while each economic sector is entitled to a maximum of 20% of the total portfolio.

Loans are provided at below-the-market interest rates and no collateral is to be provided by the borrower. The Bank of Valletta can call up the guarantee if a client defaults on a payment and namely for arrears in excess of 90 days, in line with the Basel II definition.

Because of the reduced risk, the bank offers an average discount of approximately 1% compared to the interest rate charged on other commercial loans. Interest rates depend on the risk profile of the applicant but vary between 1.3% and a maximum of 2.85% over the base rate.

Figure 3 presents the operational flow from loan application to loan approval and subsequent submission to the guarantee fund.

Figure 3: Disbursement of funds to final recipients

1	2	3	4	5
Final recipient submits a loan request to **financial intermediary**.	**Financial intermediary** receives and processes the request	**Financial intermediary** assesses request and **final recipient** is informed of the result	**Financial intermediary** submits a guarantee request to **guarantee fund**	**Guarantee fund** evaluates loan and, if eligible, approves guarantee request
Loan application	**Loan processing**	**Loan decision**	**Guarantee request**	**Guarantee decision**
SMEs can apply for loans if they have a viable project and a business plan. They submit their loan application directly to Bank of Valletta.	Bank of Valletta receives the application at its relationship management unit, which forwards it to the business finance unit, the decisional body.	The business finance unit analyses the request according to a scorecard and price matrix. It sends its decision to the bank manager, who informs the applicant SME.	If approved, the head of the credit finance unit informs the EIF of the loan and submits a guarantee request.	The EIF assesses the loan according to its criteria agreed upon with the investment board. As of March 2015, no guarantee request was denied.

Typically, small-scale commercial loans are directly approved by the bank manager but for the FLPG the decision is taken using a scorecard and price matrix analysis by the business finance department within the Bank of Valetta. Any decision to award a loan is communicated to the bank manager who in turn informs the client. The provision of the loan is communicated to the Chief Officer of the Credit Finance Unit (which is part of the Bank of Valletta), which informs the guarantee fund manager accordingly. The Bank of Valletta adopts various checks and balances to ensure adequate approval of loans. Part of the success of the scheme is due to the operational approach adopted by the bank, where until March 2015 none of the loans have failed to receive a guarantee from the EIF-managed fund.

The bank charges a fee to the beneficiary, which is 0.3% of the loan or a minimum of EUR 50. This fee is waived for start-ups. There are no early repayment fees.

The Bank of Valletta also offers advisory services such as coaching and mentoring, at no additional cost. These are considered to be extremely effective particularly for start-ups with limited financial expertise.

AAT Research: Advantages and challenges of the financial instrument

The loan provided through the scheme significantly contributed to funding the start-up costs of the business. Bank of Valletta provided effective guidance on accessing the instrument and assistance on funding beyond the use of the FLPG scheme.

Property of AAT Medical Ltd

A suggestion from the recipient regarding possible future iterations of the scheme is to allow for more financing of clinical trials and intellectual property, which absorb significant amount of the firm's funds and are essential to the process of commercialising medical and healthcare products.

4.3 Final recipients targeted

The FLPG is accessible to enterprises with less than 250 employees and whose annual turnover does not exceed EUR 50 million or whose balance sheet total is not in excess of EUR 43 million. The FLPG is thus open to all SMEs unless excluded by State aid regulations. By March 2015, the scheme was used most by the wholesale and retail sector, accommodation and restaurants and the manufacturing sector, reflecting the overall Maltese economy (see the table below).

Table 3: Final recipients targeted

Recipients	• SMEs and start-ups
Economic Sectors	• Tourism and related services including accommodation and food service activities; • Creative sector including arts and recreation; • Information, communication and technology; • Manufacturing traditional and new products, services e.g. aviation; • Professional, scientific and technical services; • Wholesale, retail and the associated storage services.
Type of investments	• Setting up of new establishment/office/retail outlet; • Refurbishment of existing business premises; • Purchase of tangible assets like computer hardware; • Acquisition of LED billboards (e.g. for a marketing agency); • Purchase of an aircraft for a firm which provides flight training; • Purchase of energy efficient equipment; • Purchase of intangible assets like 'acquisition of pharmacy licence' which are capitalised in SMEs' balance sheet.

Source: Financial intermediary, Bank of Valletta

The success of the scheme has been in part due to effective marketing and promotion from the Bank of Valletta. This included articles in national media, intensive use of online and physical marketing tools as well as the organisation of dedicated workshops. In particular, information seminars to bodies like the Chamber of Commerce, Malta Hotels and Restaurants Association, the General Retailers and Traders Union and with accountants proved to be very useful, since these bodies in turn marketed the benefits of the instruments to their members.

Table 4: Marketing of the financial instrument

Promotional Material	• 50 information sessions with 3 000 participants • 6 000 brochures • Over 3 000 face to face meetings • Over 2 000 phone enquiries • Over 20 printed articles and press releases • Year-round advertising on TV, radio, LED billboards and electronic media

Source: Financial intermediary, Bank of Valletta

4.4 Changes in strategy

There were no changes in the strategy. The same sectors were targeted and the same eligibility conditions continued to be applied. The only important change was a EUR 2 million top-up of the scheme in 2013, which increased the funds available for guarantees up to EUR 12 million.

An exit strategy was expected to be agreed at the end of 2015.

5 Achievements

Indicators were established to measure the success of the scheme in terms of:

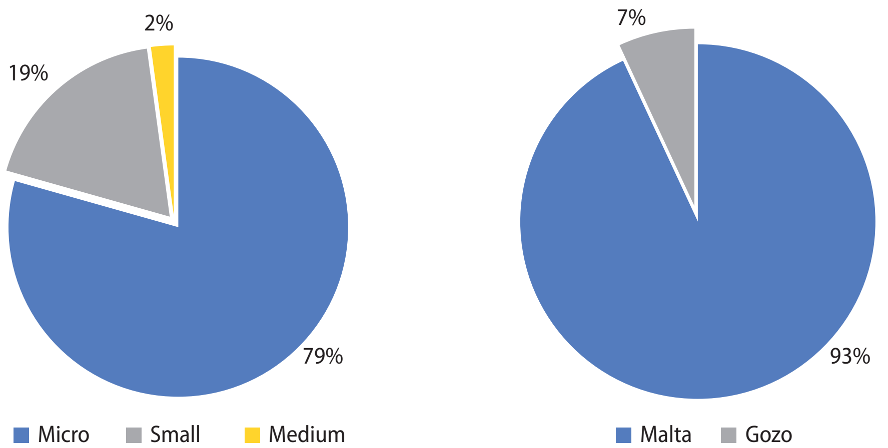
- outputs – Number of SMEs benefitting from the FLPG with a target of 600.
- results – Investment induced through the FLPG with a target of EUR 51.5 million.

These targets take account of the increased funding allocation in 2013.

At the end of March 2015, the target for both of these indicators had been exceeded.

In total, 650 SMEs have benefited, with the majority, or 79%, being micro firms. Some 7% of recipients were located on the island of Gozo and the rest were based on Malta. In total, 760 loans were issued, so some firms received more than one loan. Total investment (including the contribution of final recipients) was EUR 103 million.

Figure 4: Distribution of final recipients



Source: Annex one, Annual Progress Report, 2014

The average recipient SME had about ten employees and EUR 23 million went to start-up companies. The average loan provided as at March 2015 amounted to EUR 81 000.

Table 5: Distribution according to firm size

SME Category	No. of Loans	Actual portfolio volume (EUR million)
Micro	589	36.8
Small	150	20.7
Medium	21	4.1
Total	760	61.6

Source: JEREMIE Malta Annual Report 2014

About 30% of the loans were provided to firms in the wholesale and retail sector, which also absorbed roughly 30% of the available finance. This sector was followed by the accommodation and food services sector, which accounted for 20% of the loans and a total of EUR 12.16 million.

Table 6: Distribution of final recipients according to economic sector

Economic sector	Number of SMEs	Number of employees as at time of inclusion	Actual portfolio volume (EUR)*	Average loan per SME (EUR)
Manufacturing, electricity and water	94	1 751	9 734 735	103 561
Wholesale and retail	191	2 179	19 282 340	100 955
Transportation and storage	27	152	3 092 014	114 519
Accommodation and food services	139	1 068	12 167 862	87 539
ICT	26	196	1 671 629	64 293
Professional services	41	254	2 660 855	64 899
Other support services	24	340	3 299 807	137 492
Administration services	39	370	4 505 913	115 536
Arts, entertainment and recreation	69	408	5 145 974	74 579
	650	6 718	61 561 129	94 709.43

** as at March 2015*

Source: JEREMIE Malta Annual Report 2014

At March 2015, EUR 57 million of the EUR 61.8 million committed had been disbursed. This equates to 92.5% of the committed amount and 91% of the maximum portfolio volume. The disbursement lag is because the commitment is made when the loan is approved, but loans are only drawn when the investment has been undertaken. The financial intermediary has indicated that all funds committed are likely to be disbursed by the end of 2015.

The long-term results of the scheme have yet to be evaluated. The managing authority is expected to engage in a study to estimate the total value of jobs created from the scheme.

AAT Research: Achievements


Property of AAT Medical Ltd

The effectiveness of the FLPG scheme is reflected in the success of AAT Research. Today, AAT Research employs 20 full-time personnel and is expected to continue to invest in its human resources with over 32 employees expected by the end of the year. AAT Research works together with three other Maltese firms to produce Mente, leading to further employment and added value. Mente is also exported to 20 countries in Europe, Asia, Latin America and the Middle East. In 2015, a contract was signed by AAT's Mente distributor for Italy with Red Cross Italy, so large volumes are expected to be exported over an initial three-year period.

The success of AAT research is also reflected in the network of esteemed academic links that the company has established, including with the University of Milan, University of Alicante, Cardiff University as well as local links with the University of Malta.

The company will continue to engage in research and development and the commercialisation of medical products, with a particular focus on neurology. To continue growing and succeeding, the company will no doubt need more finance.

6 Lessons learnt

The main challenge was the initial lack of expertise. This has been entirely overcome as attested by the success of the instrument. The key success factors are the effective communication channels between the main partners and the marketing undertaken by the financial intermediary ensuring that potential recipients are aware of the scheme.

6.1 Main challenges

The main challenge for the FLPG was the lack of local experience in implementing a EU-funded financial instrument. The financial intermediary experienced substantial costs for staff training and for marketing the scheme. This challenge has however been overcome. The Bank of Valletta now has the necessary knowledge to implement the scheme and has been instrumental in ensuring its success. According to the Hon. Louis Grech, the Minister responsible for European Affairs, the success story behind JEREMIE in Malta is to have the right partner involved and 'In this regard the Bank of Valletta has shown a commitment to deliver and has made this experiment a success'.[6] Furthermore, the EU SME envoy, which acts as an interface between the European Commission and the SME community,[7] congratulated the bank on its good track record in the provision of the instrument particularly in terms of the approach to financing requests, as described in figure 3.[8]

According to an evaluation report on financial engineering in Malta, an additional challenge has been the administrative burden experienced by recipients, particularly micro enterprises. While this may have been the case at the initial stages of the scheme, the authorities have tried to reduce the level of bureaucracy while ensuring consistency with reporting requirements. The scheme has also faced cultural challenges by final recipients, who are used to grants rather than loans.

Furthermore, the sectors that have benefited the most from the scheme fall within already established sectors of the economy. As a result the funds may not be spearheading the take-up of finance in niche sectors and in sectors that by their characteristics are likely to be riskier, such as research and development.

6 Malta Today Article: 'Additional EUR 2 million for BoVs JEREMIE Scheme for SMEs': 19th September, 2013

7 The Envoy listens to SMEs' concerns and represents their interests in the EU's law-making process.

8 Times of Malta Article: 'BoVs JEREMIE: A model for other EU Member States': 28th June, 2012

6.2 Main success factors

The FLPG has proved to be a successful instrument. This was helped by the fact that the instrument was provided through the banking sector, which is already the primary source of financing for enterprises in Malta.

From an operational perspective, the effective working relationship of all parties involved in its implementation was a key to success. It has exceeded expectations on account of the light governance structure as well as efficient collaboration and cooperation between the managing authority, the guarantee fund manager and the financial intermediary.

The steep learning curve, which local authorities and the financial intermediary experienced, has also been translated into additional SME products. Experience gained by the Bank of Valletta in providing these loans has led to instruments such as the financing package for SMEs 'START PLUS', which was funded by the EU's 'Competitiveness Innovation Framework Programme'.[9] This instrument also offers below-the-market interest rates and reduces collateral requirements for start-ups and micro-enterprises. In addition, the 'BoV 4 SME' product was launched, which is designed with a very attractive hybrid pricing mechanism. The product offers a fixed rate of interest for the first four years followed by a competitive flexible interest rate thereafter. This incentive is also possible since the bank leverages funding from the European Central Bank Targeted Longer-Term Refinancing Operations. These products are not funded through the ERDF but have been developed using experience the Bank of Valletta gained through the JEREMIE initiative.

The high take up of the instrument was due to the extensive marketing campaign undertaken by the Bank of Valletta but also to the suitable design of the product. This enabled it to support SMEs, particularly micro enterprises and start-ups, which may otherwise have not been offered finance due to difficulties with satisfying collateral requirements, thus addressing an existing market failure.

9 The programme 'COSME' followed up the CIP for the 2014-2020 programming period.

6.3 Outlook

Reflecting the government's intention, as established in the 2014-2020 OP, to facilitate access to finance for enterprises through financial instruments, Malta was among the first Member States to allocate funds to the EU-level SME initiative in 2015. Furthermore, the use of financial instruments is also envisaged for the promotion of renewable energy and energy efficiency within the commercial and industrial sectors.

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