

Annual Implementation Report

SME Initiative – Stimulating private sector investment for economic growth

CCI 2014MT16RFSM001

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Managing Authority, SME Initiative Operational Programme

Planning and Priorities Coordination Division

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1. Identification of the Annual Implementation Report

CCI	2014MT16RFSM001
Title	Stimulating private sector investment for economic growth
Version	2015.0
Reporting Year	2015
Date of the Report by the Monitoring Committee	

2. Overview of the Implementation of the Operational Programme (Article 50(2) and 111(3)(a) of Regulation (EU) No 1303/2013)

Following the approval of the single dedicated Operational Programme (OP) for the SME Initiative, the Maltese Authorities commenced the necessary discussions for the finalisation of the Funding Agreement and the Inter-creditor Agreement. The negotiations were concluded successfully and resulted in the signature of the Funding Agreement with the European Investment Fund (EIF), and the Inter-Creditor Agreement with the European Investment Bank (EIB) and the European Commission (EC) on the 15th July 2015.

During these negotiations, in order to prepare the market of the upcoming launch of the instrument, an activity was held in February 2015 during which the instrument was presented to all possible commercial banks with a local presence in Malta and Gozo and which might be interested in participating in the envisaged Open Call for the Selection of Financial Intermediaries.

The Investors Board was formally convened for its first meeting also on the 15th July 2015, chaired by the Permanent Secretary of the Ministry for European Affairs and the Implementation of the Electoral Manifesto (MEAIM), and composed of representatives from the Ministry for Finance, Ministry for the Economy, Investment and Small Businesses, the Managing Authority and the European Investment Fund. Representatives from DG Regio, DG Research and Innovation, and the EIB were also present as observers. During such meeting, the Rules of Procedure were adopted, followed by the formal review and approval of the Call for Expression of Interest.

Following the approval by the Investors Board, the Call for Expression of Interest for Financial Intermediaries was launched, together with another more detailed information session on the 15th July 2015 soon after the Investors board meeting. The information session was attended by four main banks in Malta (out of the six eligible ones, i.e. those having an operational presence both in Malta and in Gozo). This led to the submission of Expressions of Interest by three Financial Intermediaries by the 15th October deadline.

Following an initial assessment, European Investment Fund (EIF) started the due diligence process with all three banks that had shown an interest. It was noted that the information submitted by Banif Bank Malta and HSBC Malta, despite the lengthy due diligence process, did not place EIF in a position to fully assess key elements needed for a transaction to be pursued further. The situation as at 31st December 2015 was that only Bank of Valletta had submitted a proposal which provided all the necessary information and clarification as prescribed under the Call for Expression of Interest. The due diligence process on Banif Bank Malta and HSBC Malta was still ongoing as at 31st December 2015 with a view to commit part of the available amount to a second operation in case of positive assessment by EIF.

The process would eventually be concluded in January 2016 with, as explained above, one Financial Intermediary being selected with the possibility of a second Financial Intermediary if certain conditions are met. The 1st Operational Agreement was signed on the 26th January 2016, with the instrument being made available to and on the market a few weeks later on 15th February 2016.

Communication Strategy

Article 116(1) of Regulation (EU) No 1303/2013 states that a common Communication Strategy may be drawn up for several Programmes in accordance with the principle of proportionality. Thus, Malta opted to adopt one Communication Strategy to cover the five ESIF in order to ensure consistency, synergies and synchronisation. In the light of this decision and as per Article 116(2), the Monitoring Committee for the ERDF and CF will be the responsible MC, in consultation with other ESIF MCs, for the approval of this Strategy and any subsequent amendments. In fact, the Communication Strategy was presented and approved by OP I Monitoring Committee on 22nd May 2015.

3. Implementation of the Priority Axis (Article 50(2) of Regulation (EU) No 1303/2013)

3.1 Overview of the Implementation

ID	Priority axis (PA)	Key information on the implementation of the PA with reference to key developments, significant problems and steps taken to address these problems
	PA 1	<p>Following the closing date for the Call for Expression of interest in October 2015, EIF proceeded to carry out the required due diligence exercise for the ultimate selection of the Financial Intermediaries. No significant problems were identified during this selection procedure but as explained above, by the end of 2015, only Bank of Valletta had submitted a proposal and provided all the necessary information and clarification as prescribed under the Call for Expression of Interest. The information submitted by other Financial Intermediaries, despite the lengthy due diligence process, did not place EIF in a position to fully assess key elements needed for a transaction to be pursued. EIF committed a target portfolio of €50Million with the remaining €11Million released at EIF's discretion. The due diligence process on the other financial intermediaries was still ongoing as at 31st December 2015 with a view to commit part of the available amount to a second operation in case of positive assessment by EIF.</p>

3.2 Common and programme specific indicators (Article 50(2) of Regulation (EU) No 1303/2013)

Table 1, 2 and 3.

Table 1: Result indicators for the ERDF and the Cohesion Fund (CF) (by PA and specific objective); applies also to Technical Assistance PA

ID	Indicators	Measurement Unit	Category of region (where relevant)	Baseline Value	Baseline Year	Target Value (2023)	2014			15			16			Observations (if necessary)
1	% of unsuccessful enterprises in obtaining loan finance	%	Transition	8.70	2010	7.50	0	0	0	0	0	0				
2	Value Added	Millions	Transition	2,415	2013	2,851	0	0	0	0	0	0				

Table 2: Common and programme specific output indicators for the ERDF and the CF (by PA, investment priority (IP), broken down by category of region for the ERDF; applies also to Technical assistance priority axes)

ID	Indicators	Measure ment Unit	Category of region (where relevant)	Target Value (2023)	2014			15			16			Observations (if necessary)
CO01	Productive Investment: Number of enterprises receiving support	Enterprises	Transition	845	0	0	0	0	0	0				
CO03	Productive investment: Number of enterprises receiving financial support other than grants	Enterprises	Transition	845	0	0	0	0	0	0				
1	ERDF amounted committed to cover the New Debt Finance portfolio to be built up by the selected Financial Intermediary	EUR	Transition	15,000,000	0	0	0	0	0	0				
2	Total amount of underlying New Debt Finance originated by the Financial Intermediary	EUR	Transition	60,000,000	0	0	0	0	0	0				
4	Expected Leverage	EUR	Transition	4	0	0	0	0	0	0				

Table 3: Number of Enterprises Supported by the OP net of multiple support to the same Enterprises

Name of indicator	Number of enterprises supported by OP net of multiple support
CO01 Productive investment: Number of enterprises receiving support	0
CO03 Productive investment: Number of enterprises receiving financial support other than grants	0

3.3 Milestones and targets defined in the performance framework (Article 50(2) of Regulation (EU) No 1303/2013)

Not Applicable

3.4 Financial data (Article 50(2) of Regulation (EU) No 1303/2013

Table 4: Financial information at PA and programme level

1	2	3	4	5	6	7	8	9	10	11	12
The financial allocation of the PA based on the OP (extracted from Table 18a of the OP)						Cumulative data on the financial progress of the OP					
PA	Fund	Category of region	Basis for the calculation of Union support (Total eligible cost or public eligible cost)	Total funding (EUR) 000	Co-financing rate (%)	Total eligible cost of operations selected for support (EU)	Proportion of the total allocation covered with selected operations (%) [column 7 / column 5 x 100]	Public eligible cost of operations selected for support (EUR)	Total eligible expenditure declared by beneficiaries to the managing authority	Proportion of the total allocation covered by eligible expenditure declared by beneficiaries (%) [column 10 / column 5 x 100]	Number of operations selected
							Calculation			Calculation	
PA 1	ERDF	Transition	Public eligible	15,000	100	0	0	0	0	0	0

Table 5: Breakdown of the cumulative financial data by category of intervention for the ERDF, the ESF and the CF (Article 112(1) and (2) of Regulation (EU) No 1303/2013 and Article 5 of Regulation (EU) No 1304/2013)

PA	Characteristics of expenditure		Categorisation								Financial data			
	Fund	Category of region	1 Intervention field	2 Form of finance	3 Territorial dimension	4 Territorial delivery mechanism	5 Thematic objective dimension ERDF/CF	6 ESF secondary theme	7 Economic dimension	8 Location dimension	Total eligible cost of operations selected for support (EUR)	Public eligible cost of operations selected for support (EUR)	The total eligible expenditure declared by beneficiaries to the managing authority	Number of operations selected
1	ERDF	Transition	n/a	Support through financial instruments: loan or equivalent	n/a	n/a	ERDF	n/a	n/a	n/a	0	0	0	0

4. Synthesis of the Evaluations (Article 50(2) of Regulation (EU) No 1303/2013)

No evaluation was carried out in 2015 with regard to the SME Initiative OP. In terms of the regulatory ex-ante assessment related to the implementation of the SME initiative, the Managing Authority would like to highlight the study that was prepared by the Commission services with the input from the EIB and the EIF in 2013. This study served to identify the market gaps for each Member State in terms of additional lending to SMEs that can potentially be addressed under this joint instrument.

As per evaluation plan, the SME Initiative will be assessed as part of the bigger assessment to be undertaken in relation to the impact of the measures put in place for the benefit and to assist SMEs.

5. Information on the Implementation of the Youth Employment initiative (Article 19(2) and 19(4) of Regulation (EU) No 1304/2013)

Not Applicable

6. Issues affecting the performance of the Programme and Measures taken (Article 50(2) of Regulation (EU) No 1303/2013)

6.1 Issues which affect the performance of the programme and the measures taken

The finalisation of the negotiations and the discussions on the Funding Agreement as well as the inter-creditor agreement took longer than originally planned. This resulted in a delay in the signing of the said agreements as well as a delay in the launch of the call for expression of interest for the selection of the Financial Intermediary/ies. The delay in the duration of the inter-service consultation at the level of the inter creditor agreement had not been factored in by the Managing Authority taking into account previous experience for the SME Initiative in Spain. In order to mitigate against the delay in the finalisation of the negotiations of the Funding Agreement and the inter-service consultation on the inter-creditor agreement the Managing Authority together with EIF and the Commission worked in parallel so that once the agreement was signed the expression of interest for the selection of the financial intermediary/ies could be launched without delays. Furthermore EIF were asked to process as swiftly as possible the applications received in order to see the first Operational Agreement being put in place in order to ensure that SMEs start benefiting from the instrument in the shortest time possible.

7. Citizen's Summary (Article 50(9) of Regulation (EU) No 1303/2013)

See **Annex I** for Citizen's Summary.

8. Report on the Implementation of Financial Instruments (Article 46 of Regulation (EU) No 1303/2013)

Not Applicable

9. Action taken to fulfil Ex-Ante Conditionalities (Article 50(2) of Regulation (EU) No 1303/2013)

Ex-ante conditionality	Criteria non-fulfilled	Actions taken	Deadline (date)	Bodies responsible	Action completed by the deadline (Y/N)	Criteria fulfilled (Y/N)	Expected date for full implementation of remaining	Commentary (for each action)
T.03.1 -Specific actions have been carried out to underpin the promotion of entrepreneurship taking into account the Small Business Act (SBA)	1 - The specific actions are: measures have been put in place with the objective of reducing the time and cost involved in setting-up a business taking account of the targets of the SBA;	<ul style="list-style-type: none"> • set up a working committee to review current practices • draft report to include analysis and recommendation • Policy decision on fee structure 	31/12/2015	Ministry for the Economy, Investment and Small Business	Y	Y	N/A	Fulfilled
	3 - The specific actions are: mechanism is in place to monitor the implementation of the measures of the SBA which have been put in place and assess the impact on SMEs.	<ul style="list-style-type: none"> • Train and meet with entities and departments that legislate so as to go over the requirements and obligations of the SME Test; • Drafting of the Legal Notice that will bring in force the SME Test; • Publication of a legal notice to update current legislation and bring into force the SME Test. 	31/03/2016		Y	Y	N/A	Fulfilled

Annex I

7. Citizen's Summary (Article 50(9) of Regulation (EU) No 1303/2013)

In June 2013, the EC and EIB Group submitted to the European Council an initiative aimed at complementing existing SME support programmes, at both national and EU level, through a “joint-instrument” called the SME Initiative. A joint instrument blends EU funds available under different funding sources, and in this case, the proposal was that of using funds under the European Structural and Investment Funds (ESIF), Horizon 2020, the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) together with resources from the EIB and EIF. The aim of the SME Initiative, as implemented in Malta, is that of allocating €15Million of EU funding towards guarantees that will allow increased lending to SMEs at more favourable interest rates and collateral conditions. These guarantees are expected to result in €60Million worth of loans to be made available to about 850 SMEs by means of commercial banks that will act as a Financial Intermediaries.

In order to set up this instrument in Malta, a separate OP – Stimulating Private Sector Investment for Economic Growth was submitted to the European Commission and approved in December 2014. Following the approval of such OP, the Maltese Authorities commenced the necessary discussions for the finalisation of the Funding Agreement to be signed with the EIF in order to delegate to the latter the management of this instrument and the Inter-creditor Agreement with the Commission and the EIB Group to formalise the contributions of each fund and the obligations resulting from the Programme. The negotiations were concluded successfully and resulted in the signature of the Funding Agreement with the EIF, and the Inter-Creditor Agreement with the EIB and the European Commission on the 15th July 2015.

During these negotiations, and in order to prepare the market for the upcoming launch of the instrument, an activity was held in February 2015 during which the instrument was presented to all possible commercial banks with a local presence in Malta and Gozo, which might have been interested in participating in the envisaged Open Call for the Selection of Financial Intermediaries.

As part of the management and monitoring of the Financial Instrument, an “Investors Board” had to be formally set up. This Board is chaired by the Permanent Secretary of the Ministry for European Affairs and the Implementation of the Electoral Manifesto (MEAIM), and composed of representatives from the Ministry for Finance, Ministry for the Economy, Investment and Small Businesses, the Managing Authority and the European Investment Fund. Representatives from DG Regio, DG Research and Innovation, and the European Investment Bank also form part of this Board as observers.

The Board met for the first time in July 2015; during such meeting, the Rules of Procedure were adopted, followed by the formal review and approval of the Call for Expression of Interest for Financial Intermediaries that will be implementing this Financial Instrument. Following the approval by the Investors Board, this Call was launched, immediately followed by another more detailed information session on the 15th July 2015, soon after the Investors board meeting. The information session was attended by four main banks in Malta and resulted in the submission of Expressions of Interest by three Financial Intermediaries by the 15th October deadline.

The situation as at 31st December 2015 was that only Bank of Valletta had submitted a proposal which provided all the necessary information and clarifications as prescribed under the Call for Expression of Interest. The due diligence process on the other applicants was still ongoing as at 31st December 2015, with a view to commit part of the available amount to a second operation in case of positive assessment by EIF.

In conclusion, 2015 was a positive year for the SME Initiative. All the preparatory work paid off with the 1st operational agreement signed on the 26th January 2016, with the instrument being made available to and on the market a few weeks later on 15th February 2016.