

Incentive Guidelines

Interest Rate Subsidy Scheme for the Refurbishment of Hotels, Accommodation Facilities and Restaurants



MALTAENTERPRISE

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<http://support.maltaenterprise.com>

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1. Introduction

1.1 Scope

The Maltese tourism sector must compete with destinations which are better known and which also enjoy economies of scale and lower cost structures. The size of the Maltese tourism sector and the heavy competition between local providers to maintain their market share hinders enterprises to react timely to shifting market expectations. This could result in a loss of competitiveness of the whole sector, as operators fail to innovate and align their offering to market needs. This Interest Rate Subsidy Scheme has the scope of supporting hotels, restaurants and holiday accommodation providers in upgrading their operations and product offering so as to provide new and improved services. These investments should enhance the competitiveness of the undertaking and the whole tourism sector.

The objectives of this incentive are:

- a. To encourage holiday accommodation providers and restaurateurs to improve their product through upgrades and extension works;
- b. To support hotels and restaurants address the requirements of a wider client base through the diversification of products and services offered;
- c. To increase competitiveness of the tourism sector, by increasing the number of satisfied visitors through the provision of value added hospitality services.

1.2 Duration of the Incentive

Eligible undertakings may submit applications for support under this scheme is available till 31st December 2013.

These Incentive Guidelines have been approved under the GBER. This approval expires on the 31st December 2013.

Malta Enterprise may periodically update and amend these Incentive Guidelines.

1.3 Legal Basis

Malta Enterprise is enabled to issue and publish official Incentive Guidelines in terms of Article 8(3)(a) of the Malta Enterprise Act, Chapter 463 of the Laws of Malta.

Assistance for Refurbishment of Hotels and Restaurants (Loan Interest Subsidy) Regulations, 2010, is the legal basis of this incentive.

1.4 Designated Authority

This incentive is administered by Malta Enterprise.

2. Eligibility

2.1 Eligible Undertakings

This incentive is open to undertakings¹ engaged in an economic activity in Malta.

Undertakings engaged in the operation of hotels (NACE 55.10)², restaurants (NACE 56.10), and holiday farmhouses (included in NACE 55.20), embarking on investment projects to provide new and improved services are eligible for this incentive. Applicants must be operators of property licensed by the Malta Tourism Authority as:

- a. hotels;
- b. guesthouses;
- c. hostels;
- d. farmhouses;
- e. snack bars or
- f. restaurants.

2.2 Exclusions

- a. Public entities defined as: “Ministries, Departments, Entities, Authorities, Public Commissions Public Sector Foundations and similar organisations that carry out a public or regulatory function which does not involve the carrying out of an economic activity, whether or not such organisations are established by law” and Commercial undertakings in which Government has a direct or indirect holding of more than 25% are not eligible.
- b. Assistance under the scheme cannot be granted to undertakings in difficulty as defined under the applicable State Aid Regulations (vide Section 6).
- c. Persons or undertakings engaged in activities specifically excluded under the applicable State Aid Regulations (vide Section 6) are not eligible for this incentive.
- d. This incentive is intended to support undertakings that carry out a trade or business, hence it not intended for voluntary organisations.

2.3 Additional Provisions

- a. Assistance may only be granted to applicants that have complied with obligations or conditions set by Malta Enterprise with respect to any support granted previously.
- b. Applicants defaulting on Value Added Tax (VAT), Income Tax, National Insurance, and rent payment to Government will be disqualified.

¹ An undertaking may be: a company set up under the Companies Act, Chapter 386 of the Laws of Malta; a sole trader; or a co-operative society set up under the Co-operative Societies Act, Chapter 442 of the Laws of Malta. The term ‘undertaking’ includes also all companies in a group (which fall under the direct or indirect ownership or control of the same ultimate parent company) and relevant partner and linked enterprises as defined in Annex I of Commission Regulation (EC No 800/2008).

² Further details on NACE classification can be found at:
http://epp.eurostat.ec.europa.eu/portal/page/portal/nace_rev2/introduction

3. Incentive Description

3.1 Incentive Details

This incentive consists of an Interest Rate Subsidy of between 1% and 3%. This Interest Rate Subsidy may be granted on interest payable to a bank during the first five years of a loan period. The maximum subsidy is calculated on a straight line reducing balance of the eligible loan amount over a period of five years

- a. Undertakings investing in an eligible project on a property licensed by the MTA as a hotel, guest house or hostel; may qualify for an interest rate subsidy on a loan of a maximum value of EURO 7,000,000.
- b. Undertakings investing in an eligible project on a property licensed by the MTA as a farmhouse, snack bar or restaurant may qualify for an interest rate subsidy on a loan of a maximum value of EURO 500,000.

This incentive may not be awarded to investment projects where the total assets with eligible costs calculated at prices and exchange rates on the date when the aid is granted is above EUR 50 million. Investments undertaken within a period of three years by the same undertaking or undertakings and consists of fixed assets combined in an economically indivisible way shall be considered to be a single investment project.

The loan on which the Interest Rate Subsidy is granted must be taken in relation to refurbishment, product upgrade or expansion project carried out after the project is approved by the Malta Enterprises. The project must support the applicant to diversify the existing market position through the introduction of new services and/or fundamental changes in business processes.

Interested enterprises must utilise the advisory services provided by Malta Enterprise when planning the project. This process will assist the enterprise in defining projects that are focused and that aim to achieve an identifiable increase in the activity and market offerings of the applicant.

Summary				
Type of licence	Maximum value of loan	Maximum Subsidy based on an Interest Rate Subsidy of:		Applications must be received by 31/12/2013. Eligible costs must be incurred after the project is approved but in any case before 31/12/2014. Subsidy covers interest paid in the first 5 years of the loan.
		1%	3%	
<ul style="list-style-type: none"> • Hotel • Guesthouse • Hostel 	€ 7,000,000	€ 210,000	€ 630,000	
<ul style="list-style-type: none"> • Farmhouse • Snack bar • Restaurant 	€ 500,000	€15,000	€ 45,000	

3.2 Aid Intensity

The aid intensity for projects supported under this incentive is calculated by summing up the present value of future subsidies as a percentage of the total investment. The total value of aid is calculated as follows:

$$VoA = \left(\frac{S_1}{1+R} + \frac{S_2}{(1+R)^2} + \frac{S_3}{(1+R)^3} + \frac{S_4}{(1+R)^4} + \frac{S_5}{(1+R)^5} \right)$$

Where:

VoA is the Value of Aid

S1-5 is the subsidy which will be granted annually based on the reduced principal of the loan.³

R is the applicable Reference Rate for Malta as calculated by the European Commission in accordance with Article 10 of Commission Regulation (EC) No 794/2004 of 21 April 2004 (OJ L 140, 30.04.2004).⁴

In line with Commission Regulation (EC) No. 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation), the total value of aid granted to projects supported under this incentive may not exceed:

- a. 50% of eligible costs in the case of Small Enterprises;
- b. 40% of eligible costs in the case of Medium-sized Enterprises; and
- c. 30% of eligible costs in the case of Large Enterprises.

The following two examples (overleaf) show how the total subsidy and the value of aid are calculated. The applicable Reference Rate for Malta is periodically adjusted by the European Commission⁴. For the purposes of the following examples the rate is here being assumed as 1.24%.

³ $S_{year} = (\text{Principal} - (\text{Principal} \div 5 \times (\text{year} - 1))) \times \text{Interest Rate Subsidy}$.

⁴ The applicable Reference Rate may be found at: http://ec.europa.eu/comm/competition/state_aid/legislation/reference_rates.html.

Example 1:

Loan Value: € 7,000,000

Subsidy Rate: 1.5%

Year	Outstanding Loan Value* ^A	Subsidy	Value of Aid =	Subsidy for the year $\frac{\text{Subsidy for the year}}{(1 + \text{Reference Rate})^{\text{year}}}$
1	€ 7,000,000	€ 105,000	$\frac{€ 105,000}{(1 + 0.0124)}$	= € 103,713.95
2	€ 5,600,000	€ 84,000	$\frac{€ 84,000}{(1 + 0.0124)^2}$	= € 81,954.92
3	€ 4,200,000	€ 63,000	$\frac{€ 63,000}{(1 + 0.0124)^3}$	= € 60,713.34
4	€ 2,800,000	€ 42,000	$\frac{€ 42,000}{(1 + 0.0124)^4}$	= € 39,979.81
5	€ 1,400,000	€ 21,000	$\frac{€ 21,000}{(1 + 0.0124)^5}$	= € 19,745.07
Total Subsidy*^B =		€ 315,000	Total Value of Aid	= € 306,107.08

Aid intensity*^C = Value of Aid ÷ Total Investment x 100
= € 306,107.08 ÷ € 7,000,000 x 100 = 4.37%

Example 2:

Loan Value: € 500,000

Subsidy Rate: 2%

Year	Outstanding Loan Value* ^A	Subsidy	Value of Aid =	Subsidy for the year $\frac{\text{Subsidy for the year}}{(1 + \text{Reference Rate})^{\text{year}}}$
1	€500,000	€ 10,000	$\frac{€ 10,000}{(1 + 0.0124)}$	= € 9,877.52
2	€400,000	€ 8,000	$\frac{€ 8,000}{(1 + 0.0124)^2}$	= € 7,805.23
3	€300,000	€ 6,000	$\frac{€ 6,000}{(1 + 0.0124)^3}$	= € 5,782.22
4	€200,000	€ 4,000	$\frac{€ 4,000}{(1 + 0.0124)^4}$	= € 3,807.60
5	€100,000	€ 2,000	$\frac{€ 2,000}{(1 + 0.0124)^5}$	= € 1,880.48
Total Subsidy*^B =		€30,000	Total Value of Aid	= € 29,153.06

Aid intensity*^C = Value of Aid ÷ Total Investment x 100
= € 29,153.06 ÷ € 500,000 x 100 = 5.83%

*^A A straight line repayment of principal over 5 years excluding interest is assumed to calculate the total subsidy.

*^B The total subsidy is the total value in Euro which can be reimbursed on interest paid during the whole supported period.

*^C The aid intensity indicates the percentage of the investment funded through this scheme. For cumulation purposes, this must be taken into account when any other aid is granted on the same investment project (vide section 6).

3.3 Eligible Costs

All project costs must be incurred and paid for between the date the project is approved and 31st December 2014. The loan on which the Interest Rate Subsidy is granted must be utilised only to fund tangible assets acquired in the implementation of a planned investment project that should result in the provision of additional services and/or fundamental changes of the business process.

Eligible costs must fit the following categories:

- a. refurbishing and upgrading of premises including extensions, modifications and extensions to premises⁵;
- b. the acquisition of plant, machinery, apparatus and instruments;

3.4 Ineligible Costs

Costs incurred in relation to the following items will not be considered as qualifying:

- a. Purchase of land and/or property;
- b. Wages;
- c. Purchase of vehicles, boats and any other asset which is not permanently situated at the site of the supported property;
- d. Operating expenditure.

3.5 Additional Provisions

The following additional provisions shall apply to any costs that may be supported through this incentive:

- a. All assets must be included in the Capital Assets Register;
- b. Except in the case of SMEs, all asset acquired must be new. If the beneficiary is an SME, the assets acquired must not have been previously used in Malta.
- c. All project costs must be incurred after the aid is granted;
- d. The Interest Rate Subsidy will be reimbursed on interest paid to the bank on an annual basis;
- e. Applicant must consent that data and information may be acquired from and shared with third parties for the scope of assessing and implementing this incentive;
- f. Any funds acquired through a loan supported through this scheme must be or have been utilised for the purpose for which this aid is granted;
- g. Malta Enterprise will not subsidise any interest on a loan if:
 - i. the company has gone into liquidation or has become insolvent or has assigned property for the benefit of creditors;
 - ii. there has been a breach or non-observance of any condition attached to the subsidy;
 - iii. the company is in default of its obligations to government in terms of pending dues and/or arrears.

⁵ Extension of premises will only be considered in relation to hotel facilities.

- h. All costs financed through the loan must be in relation to acquired assets or subcontracted services.
- i. Investment should be retained in Malta for a minimum of three years in the case of an SME and five years in the case of a large enterprise. In any case the investment should be retained for the duration of the assisted period.

4. Application Process⁶

4.1 Project Proposal

Interested enterprises should contact Malta Enterprise so as to request a business and operations review. The review will be conducted by a Malta Enterprise appointed advisor who will also provide the undertaking with recommendations on possible improvements and enhancements to the business. The project submitted for this scheme should fall in line with the recommendations of the business and operations review undertaken.

The use of a Malta Enterprise appointed advisor to review the business is mandatory for the application to be considered eligible.

4.2 Support in Compiling Application Forms

Business First staff may support interested applicants to understand the objectives of the incentive; explain details relevant to the scheme and address any problems they might encounter when completing their application. You may contact Business First by calling 144 or by email on info@businessfirst.com.mt.

4.3 Application

Applicants must submit their application to Malta Enterprise by not later than 31st December 2013.

Applicants would be required to submit the official application form. This application form can be downloaded from the incentives website <http://incentives.maltaenterprise.com>.

Applicants must approach a commercial bank of their choice so as to file a request for the loan. If the bank accepts the loan request it will issue a sanction letter by virtue of which the bank will inform its client of their availability to grant the loan. The applicant should provide a copy of this sanction letter with the application form submitted to Malta Enterprise.

No handwritten applications will be accepted. Applications may be posted, or delivered by hand.

Beneficiaries whose project was approved under the National Subsidy Scheme for Accommodation Facilities and Restaurants previously administered by the Malta Tourism Authority or under prior versions of these incentive guidelines will continue to be supported in line with the conditions set in their letters of approval. These beneficiaries may submit new projects for evaluation under the terms and conditions set in these Incentive Guidelines.

⁶ Malta Enterprise provides advisory services and support to help enterprises develop their business.. These are support services and do not guarantee that the applicant will be successful when an application for aid is evaluated.

5. Evaluation and Assignment of Aid

5.1 Eligibility Check

Malta Enterprise will review the applications submitted for eligibility so as to confirm that:

- a. the applicant is eligible for this scheme in terms of these guidelines;
- b. the project is in line with the scope of this incentive;

5.2 Evaluation

The application will be evaluated on the following parameters:

- a. The applicant's ability to implement.

Evaluators will consider:

- i. an analysis of the applicants performance in recent years,
- ii. the sources of finance being utilised for the proposed project;
- iii. the applicant's resources and previous experience in similar projects.

- b. The projects forecasted results.

Evaluators will consider:

- i. the expected increase in turnover;
- ii. any envisaged increase in staff or staff competencies;
- iii. the applicant's knowledge and the ability to link to any existing process and value chains.

- c. The project's alignment to national strategies and priorities.

5.3 Approval

All applicants will be notified in writing of the outcome of their application. If a project is approved a Letter of Intent will be issued. The Letter of Approval will specify details of the aid approved and may impose additional terms and conditions in relation to the Interest Rate Subsidy awarded.

5.4 Monitoring and revocation of aid

Malta Enterprise and/or other government agencies/authorities may at any time investigate and request further information so as to check:

- a. whether the project is being (or has been) implemented in line with the parameters set in these guidelines and in the letter of approval;
- b. that any documentation submitted is consistent with the actual project;
- c. that the applicant has not breached any of the regulations on State Aid and cumulation (vide section 6);

If an applicant is found to have breached the terms and conditions set in this guideline or in the Letter of Approval, Malta Enterprise reserves the right to revoke the Letter of Approval and recover any subsidy received.

6. State Aid Rules and Obligations

6.1 Applicable State Aid

This Incentive Guideline is in line with Commission Regulation (EC) No. 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation).

[\[http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:214:0003:0047:EN:PDF\]](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:214:0003:0047:EN:PDF)

6.2 Firms in Difficulty

Firms in difficulty defined in terms of Community Guidelines on State aid for rescuing and restructuring firms in difficulty, Official Journal C244, 01.10.2004. Such firms are excluded from benefiting from assistance under this incentive.⁷

6.3 Cumulation

Any aid granted through this Incentive shall not be cumulated with any other aid exempted under this Regulation or de minimis aid fulfilling the conditions laid down in Commission Regulation (EC) No. 1998/2006⁸ or with other Community funding in relation to the same - partly or fully overlapping - eligible costs if such cumulation would result in exceeding the highest aid intensity or aid amount applicable to this aid under Commission Regulation (EC) No. 800/2008 of 6 August 2008 (General Block Exemption Regulation).

⁷ [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52004XC1001\(01\):EN:HTML](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52004XC1001(01):EN:HTML)

⁸ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:379:0005:0010:EN:PDF>

7. Contact Details

Further information on the incentive, as well as information and guidance on the filling in of the application may be obtained by contacting Malta Enterprise during office hours.

Postal Address: Malta Enterprise
Gwardamangia Hill,
Pieta`, MEC 0001
Malta.

Tel: +356 144

Websites: <http://www.maltaenterprise.com>
The official Incentive Guidelines are published at
<http://support.maltaenterprise.com/>

Email: info@maltaenterprise.com



Appendix A

The official rate established as the applicable 'reference rate' for Malta as calculated by the EU Commission can be found at:

http://ec.europa.eu/comm/competition/state_aid/legislation/reference_rates.html .

The reference rate is calculated in accordance with Article 10 of Commission Regulation (EC) No 794/2004 of 21 April 2004 (OJ L 140, 30.4.2004, p. 1).