

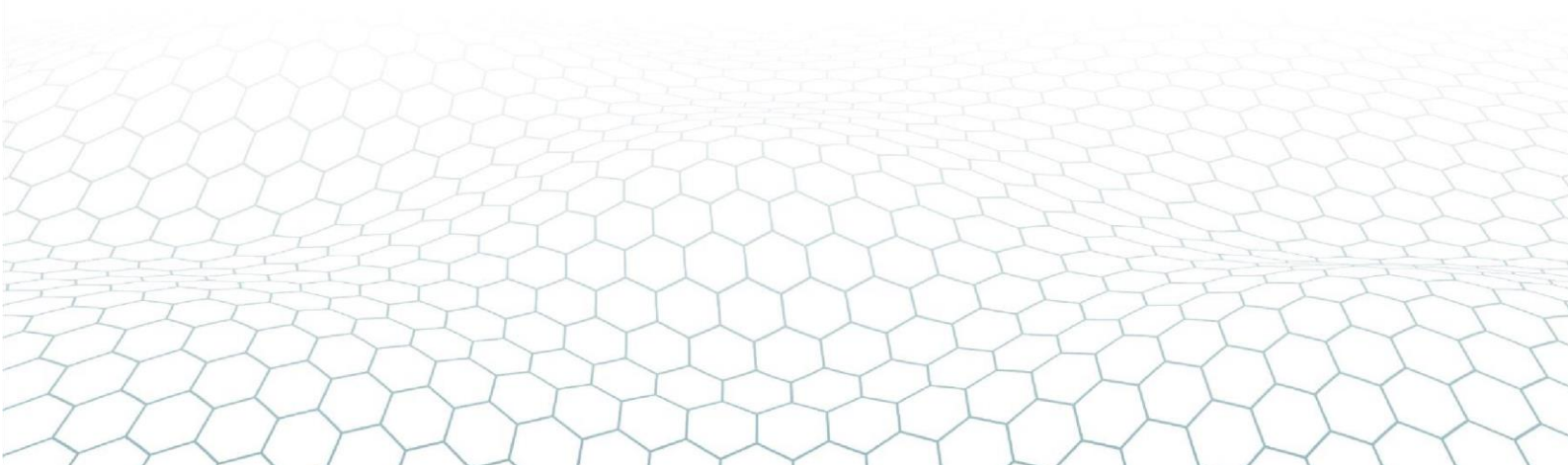


MALTA ENTERPRISE

INCENTIVE GUIDELINES

START-UP FINANCE 2020

(Version 2.0)



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<https://www.maltaenterprise.com/support>

Malta Enterprise provides support to 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. Applicants may contact the Corporation by calling 144 or by email on info@businessfirst.com.mt.

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1. Introduction

1.1 Overview

1.1.1 The aim of this measure is to support Small Start-up Undertakings that demonstrate a viable business concept and that exhibit commitment to expand and further develop their economic activity.

1.1.2 Through this scheme, Malta Enterprise may provide support not exceeding Four hundred thousand Euro (€400,000) which may be increased to up to Eight hundred thousand Euro (€800,000) if the Start-up is an Innovative Enterprise. The support, with the exception of a onetime Accelerator Grant, shall be awarded as a repayable advance in accordance with the rules provided in these Incentive Guidelines.

1.2 Duration of the Incentive

1.2.1 This incentive shall be available from 1st January 2020 until the 31st December 2022. The Corporation may periodically update and amend these Incentive Guidelines and may terminate the incentive at an earlier date. Any request for assistance shall be considered by applying the conditions established in the Incentive Guidelines active when the request for assistance is received.

1.3 Budget

1.3.1 This Corporation shall establish an annual budget for the measure which shall not exceed six million euro per annum (€6,000,000). The overall budget shall for the scheme shall not exceed eighteen million euro per annum (€18,000,000).

1.4 Legal Basis

1.4.1 Malta Enterprise Corporation may issue and publish Incentive Guidelines in terms of Article 8 (3)(a) of the Malta Enterprise Act, Chapter 463 of the Laws of Malta. The Start-up Finance Regulations as subsidiary legislation 463.32 to the Malta Enterprise Act (as amended) form the specific legal basis for these Incentive Guidelines.

1.4.2 The terms and conditions covering this aid scheme shall be in line with Commission Regulation (EU) No 651/2014 of 17th June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, (OJ L 187/1, 26.6.2014) as amended by Commission Regulation (EU) 2017/1084 of 14 June 2017 amending Regulation (EU) No 651/2014 as regards aid for port and airport infrastructure, notification thresholds for aid for culture and heritage conservation and for aid for sport and multifunctional recreational infrastructures, and regional operating aid schemes for outermost regions and amending Regulation (EU) No 702/2014 as regards the calculation of eligible costs, and as may be subsequently amended.

2. Definitions

2.0.1 For the purpose of these Incentive Guidelines, the following definitions shall apply:

2.1 Start-up Undertaking

2.1.1 A Start-up Undertaking shall be any unlisted small enterprise up to five years following its registration, which fulfils the following conditions:

- a) it has not taken over the activity of another enterprise;
- b) it has not yet distributed profits;
- c) it has not been formed through a merger.

2.1.2 For eligible undertakings that are not subject to registration, the five-year eligibility period shall be considered to start from the moment when the enterprise either starts its economic activity or is liable to tax for its economic activity.

2.1.3 By way of derogation from point (c) of the first subparagraph, enterprises formed through a merger between undertakings eligible for aid under this measure shall also be considered eligible undertakings up to five years from the date of registration of the oldest enterprise participating in the merger.

2.1.4 Undertakings controlled by owners of previously closed down businesses cannot be considered as a start-up undertaking under this incentive if the new undertaking is operative in the same or related sectors as that of the closed down firm. This restriction applies for a period of twelve (12) months following such closure.

2.1.5 At the time of application, the start-up undertaking must employ less than fifty (50) Full Time Equivalent FTE employees and have a turnover or balance sheet total which does not exceed €10 million.

2.1.6 When an undertaking has a parent/subsidiary relationship with another undertaking all entities in such a relation must meet the above criteria for the undertaking to be considered a start-up undertaking.

2.2 Unlisted small enterprise

2.2.1 An unlisted small enterprise means a small enterprise which is not listed on the official list of a stock exchange, except for alternative trading platforms.

2.3 Innovative Enterprise

2.3.1 An Innovative Enterprise shall be an undertaking that:

- a) can demonstrate, by means of an evaluation carried out by an external expert that it will in the foreseeable future develop products, services or processes which are new or substantially improved compared to the state of the art in its industry, and which carry a risk of technological or industrial failure;
or
- b) the research and development costs of which represent at least 10 % of its total operating costs in at least one of the three years preceding the granting of the aid or, in the case of a start-up enterprise without any financial history, in the audit of its current fiscal period, as certified by an external auditor.

2.4 Start-up Accelerator programme.

2.4.1 Is a fixed-term program that provides Start-up Undertakings selected through a competitive process, with connections, mentorship, training and other support that culminate in a pitch event through which the Start-up Undertaking may receive equity from private or institutional investors.

2.5 Undertaking in difficulty

2.5.1 An 'undertaking in difficulty' means an undertaking in respect of which at least one of the following circumstances occurs:

(a) In the case of a limited liability company (other than an SME that has been in existence for less than three years or, for the purposes of eligibility for risk finance aid, an SME within 7 years from its first commercial sale that qualifies for risk finance investments following due diligence by the selected financial intermediary), where more than half of its subscribed share capital has disappeared as a result of accumulated losses. This is the case when deduction of accumulated losses from reserves (and all other elements generally considered as part of the own funds of the company) leads to a negative cumulative amount that exceeds half of the subscribed share capital. For the purposes of this provision, "limited liability company" refers in particular to the types of company mentioned in Annex I of Directive 2013/34/EU and "share capital" includes, where relevant, any share premium.

(b) In the case of a company where at least some members have unlimited liability for the debt of the company (other than an SME that has been in existence for less than three years or, for the purposes of eligibility for risk finance aid, an SME within 7 years from its first commercial sale that qualifies for risk finance investments following due diligence by the selected financial intermediary), where more than half of its capital as shown in the company accounts has disappeared as a result of accumulated losses. For the purposes of this provision, "a company where at least some members have unlimited liability for the debt of the company" refers in particular to the types of company mentioned in Annex II of Directive 2013/34/EU.

(c) Where the undertaking is subject to collective insolvency proceedings or fulfils the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors.

(d) Where the undertaking has received rescue aid and has not yet reimbursed the loan or terminated the guarantee, or has received restructuring aid and is still subject to a restructuring plan.

(e) In the case of an undertaking that is not an SME, where, for the past two years:

- i. the undertaking's book debt to equity ratio has been greater than 7.5 and
- ii. the undertaking's EBITDA interest coverage ratio has been below 1.0.

3. Eligibility

3.0.1 In order to be eligible for assistance under this incentive, the applicants must fulfil the following criteria:

3.1 Legal Form

3.1.1 The beneficiary must be a limited liability Company (or similar organisation having limited liability) established within the European Union and with an operating base in Malta.

3.2 Eligible Activities

3.2.1 Start-up undertakings shall be considered as eligible if they are, or shall be engaged in one (1) or more of the following activities:

- a) Manufacturing;
- b) Software development;
- c) Industrial services analogous to manufacturing;
- d) Health, Biotechnology, Pharmaceuticals and Life Sciences;
- e) Other innovative economic activities which are enabled through knowledge and technology providing services or products which are currently not readily available in the relevant market or which shall be provided through a process which is novel.

3.2.2 The Corporation shall only consider as eligible projects that meet at least two of the following criteria:

- a) propose products and/or services that have the potential to generate income from various geographical markets;
- b) produce products and/or services which are new or substantially improved compared to complementary products on the market;
- c) utilise processes which are new or substantially improved compared to those adopted in current complementary activities.

3.2.3 In addition to the above, Start-up undertakings must not be engaged in activities excluded from receiving this aid in terms of the applicable State Aid regulations (see Section 6 State Aid Rules and Obligations) and must be engaged solely in activities which fall under the following NACE codes:

- B Mining and Quarrying
- C Manufacturing
- D Electricity, gas, steam and air conditioning supply
- E Water supply, sewerage, waste management and remediation activities
- G Wholesale and retail trade; repair of motor vehicles and motorcycles
- H Transportation and storage
- I Accommodation and food service activities
- J Information and communication
- K Financial and Insurance Activities
- M Professional, scientific and technical activities
- N Administrative and support service activities

- P Education
- Q Human health and social work activities
- R.90 Creative, arts and entertainment activities
- R.91 Libraries, archives, museums and other cultural activities
- R.93 Sports activities and amusement and recreation activities
- S Other Service Activities

3.3 Disqualifying criteria

3.3.1 The incentive does not apply to the following:¹

Undertakings that are subject to an outstanding recovery order following a previous Commission decision declaring an aid granted by Malta illegal or incompatible with the internal market.²

3.3.2 Undertakings that are also engaged in any of the following activities shall also be disqualified:

- a) Real estate (NACE L);
- b) Gambling (NACE R.92);
- c) Wholesale or retail trade of goods or services to which the eligible undertaking has not added value in the carrying out of his economic activity.

¹ Vide par. 7.1 of Section 7 State Aid Rules and Obligations for further information regarding the exclusion of sectors from benefitting from assistance under this incentive.

² These conditions apply at group level. Hence, any group company or company linked to the undertaking that should have reimbursed the aid shall be considered as ineligible.

4. The Incentive

4.0.1 Malta Enterprise shall support Small Start-up Undertakings at various stages in their development process based on the milestones achieved and their vision for growth. Start-ups receiving support should demonstrate innovative approaches to doing business and a vision to expand beyond the Maltese market.

4.0.2 Malta Enterprise may provide support not exceeding Four hundred thousand Euro (€400,000) which may be increased to up to Eight hundred thousand Euro (€800,000) if the Start-up is an Innovative Enterprise. The support with the exception of a onetime Accelerator Grant (see section 4.1 below) shall be awarded as a repayable advance in accordance with the rules provided in these guidelines.

4.1 Accelerator Grant

4.1.1 Small Start-ups may be supported to participate in a Start-up Accelerator Programme. Through this one time grant the Corporation may provide funding as subsistence to the core group of persons engaged in the development of the start-up business following enrolment in the Start-up Accelerator Programme. This support shall be available for the duration of the Accelerator Programme and may not cover preparation costs or any other costs incurred prior to the commencement of the Programme.

4.1.2 Participants in a Start-up Accelerator Program recognised by the Corporation may be approved One hundred Euro (€100) per week per team member who is not resident in the country where the programme is taking place, as a subsistence grant for duration of the programme. This funding will be limited to five (5) team members who must be registered as full time employees of the Start-up with Jobsplus. The supported period shall not exceed Twenty four (24) weeks in total and should the start-up be also benefiting from a seed grant any disbursement due during this period shall be forfeited.

4.2 Support as co-investment in payroll costs

4.2.1 The Corporation may provide a repayable advance which shall be disbursed to finance up to 75% of the wage costs of persons employed on a full time contract with the Start-up Undertaking.

4.3 Support as co-investment linked to private equity

4.3.1 The Corporation may provide a repayable advance equivalent to 50% of the increase in share capital paid up to the Small Start-up Undertakings by unrelated parties. The increase in share capital must occur after the approval of the Corporation and within a twelve (12) month period thereon (The Corporation will consider any increases effected within the twelve (12) month period in tranches and by different investors).

4.3.2 This repayable advance may, in accordance to the approval of the Corporation, be disbursed in tranches linked to milestones established in the Business Plan submitted by the Small Start-up Undertaking.

4.3 (a) Support as Working Capital

4.3a.1 The Corporation may provide a repayable advance of up to €200,000 to the Small Start-up Undertakings that propose a viable business which may be increased to up to €400,000 if the Start-up is an Innovative Enterprise.

- 4.3a.2 This repayable advance may, in accordance to the approval of the Corporation, be disbursed in tranches linked to milestones established in the Business Plan submitted by the Small Start-up Undertaking.

4.4 Support for the procurement of tangible and intangible assets

- 4.4.1 The Corporation may award a repayable advance to finance up to 75% of the cost required to procure machinery, equipment, and intangible assets to carry out the start-up project.
- 4.4.2 The machinery or equipment purchased must be new or used in Malta of the first time by the beneficiary.
- 4.4.3 Support on intangible Assets shall be limited to the procurement of patents, licences, know-how or other intellectual property from third parties unrelated to the buyer at market conditions. Such assets must be amortizable.
- 4.4.4 The eligible costs incurred on intangible assets shall be limited to 50% of the total investment.

4.5 Support linked to Crowdfunding

- 4.5.1 The Corporation may provide a repayable advance of up to 50% of the financing of a project (or equity increase) to be funded through a crowd-funding campaign.
- 4.5.2 The funding may not exceed the amount requested through the crowdfunding campaign. The beneficiary must indicate on the crowdfunding platform page that the project has received support by the Corporation.
- 4.5.3 Funds will only be made available if the crowdfunding campaign is successful. In approving this support the Corporation may specify that should the beneficiary succeed in raising a higher amount than what has been requested on the crowdfunding platform, the difference may be deducted from the repayable assistance.

4.6. Premium and Redemption

- 4.6.1 The Corporation shall impose an annual premium of two percent (2%) over the European Central Bank's (ECB) base rate as set on the beginning of the year in review. The premium shall be increased to three percent (3%) over the European Central Bank's (ECB) base rate in respect of any funds awarded under the provisions of section 4.3(A) (Support as Working Capital). If ECB rate is below negative one percent (-1%) the premium shall be fixed at one percent (1%). The premium shall be calculated at the end of each calendar year by taking in to consideration the amounts owed at the end of each month. If the premium is not paid within eight (8) weeks from being communicated to the Beneficiary, it shall be included to the principle amount advanced to the Beneficiary.
- 4.6.2 Beneficiary shall enter into an agreement to repay any funds advanced and shall be required to pay a minimum of 10% of pre-tax profits per annum until the disbursed funds are repaid. Yet, if the 10% of pre-tax profits exceeded 15% the total amount due to the Corporation, the minimum amount payable shall be reduced to 15% the total amount due to the Corporation.

4.7. Control

- 4.7.1 Prior to disbursing any funds the Corporation may request a review of the operations of the Start-up Undertaking so as to confirm adherence to the approved Business plan. In carrying out these reviews the Corporation may request:
- a) updated management accounts;
 - b) details of any additional investors;
 - c) verification of the investments carried out;
 - d) any other documentation which may be deemed necessary in order to ensure the correct use of public finances.

- 4.7.2 The beneficiary shall confer to the Corporation the right to receive notice of and to attend as an observer at any board or general meeting of the Undertaking.
- 4.7.3 Any changes to the Memorandum and Articles (M&A) and in shareholding must be notified and approved by the Corporation.
- 4.7.4 The beneficiary shall submit to the Corporation its annual management accounts within 2 months for the end of each financial period and audited financial statement within 2 months from their approval.
- 4.7.5 The Beneficiary shall commit not to carry out any additional activities beyond those approved by the Corporation and shall consent that at any time the Corporation may request a review of the operations and finances of the beneficiary.
- 4.7.6 Failure to abide to the above and to any other condition established in these Guidelines, or any condition imposed by the Corporation in its approval shall give right to the Corporation to request the repayment of the grant with immediate effect.

5. Application Process

5.1 Application

- 5.1.1 In order for a start-up undertaking to be considered for support, the applicant shall be required to submit the full application form within sixty (60) months from the start-up date. Beneficiary may reapply for additional support up to 3 times, provided that at the time of granting of each aid the beneficiary complies with the eligibility conditions in Articles 22 and 8 of the General Block Exemption Regulation (See Section 6 State Aid Rules and Obligations). The applicant will be required to provide a full business plan and may be required to deliver a presentation to the Corporation explaining the proposed operation and justifying the viability of the venture.
- 5.1.2 Applicant should consider submitting an independent review of the proposed technological and economic aspects related to the proposed start-up venture. The review should highlight that the project is based on sound technological principles and address a market need.
- 5.1.3 Application must be submitted through the Corporation's client portal which may be accessed from <https://clientportal.maltaenterprise.com/login>

5.2 Evaluation

- 5.2.1 Applications will be reviewed on the following parameters.
- a) **Financially Feasible** – The project is financially sound.
 - b) **Impact** - The expected impact that the project will have on the markets/industries in which the undertaking is active will be assessed. Consideration will be given to the potential future growth of the undertaking, potential cost efficiency and potential cost reductions which are expected as well as the degree of networking initiated through the project.
 - c) **Job Creation** - The start-up undertaking will be assessed on its potential to create new knowledge based employment. The nature and skills of this potential employment will also be taken into consideration.
 - d) **Innovation** – The innovative nature of the project with regards to the potential to develop new products, processes and services will be assessed.
 - e) **Knowledge** - The extent to which the proposed business is dependent on protected or unique knowledge available to the start-up undertaking.
 - f) **Market** - The applicant has identified the group of customers towards which their business has decided to aim its marketing efforts and ultimately its products/services. The channels utilised to target these customers need to also be identified and the applicant has already established contacts in the relevant market/s.

5.3 Adjudication

- 5.3.1 The Corporation shall not place deadlines for the submission of applications yet shall reserve the right to group the processing of application at specific cut-off date as may be published in the Corporation's website. All complete applications received before the established cut-off date will be processed and the best projects in terms of the evaluation criteria will be supported.
- 5.3.2 Incomplete applications will be rejected.
- 5.3.3 The Corporation shall have the right to reject any application received.
- 5.3.4 Once a project is approved, a letter of approval will be issued by the Corporation. This letter shall include any additional terms on the basis of which the Corporation approved the project.
- 5.3.5 The beneficiary will be required to grant the Corporation a general hypothec on all current and future asserts of the undertaking.

5.4 Monitoring

- 5.4.1 Beneficiaries will be subject to monitoring and on site verification which may be carried out by the Corporation or by third parties commissioned by the Corporation so as to ensure that the project is being or was implemented according the parameters established on the letter of approval issued by the Corporation.

6. State Aid Rules and Obligations

6.1 Applicable State Aid

6.1.1 The terms and conditions set out in these guidelines are in line with *the Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (GBER), as amended by Commission Regulation (EU) No 2017/1084 of 14 June 2017 amending Regulation (EU) No 651/2014 as regards aid for port and airport infrastructure, notification thresholds for aid for culture and heritage conservation and for aid for sport and multifunctional recreational infrastructures, and regional operating aid schemes for outermost regions and amending Regulation (EU) No 702/2014 as regards the calculation of eligible costs*, and as may be subsequently amended (hereafter referred to as the Commission Regulation).

6.1.2 The incentive is not applicable to the following:

- a) Activities listed down in Article 1 (2), (3), (4) and (5) of the Commission Regulation (where applicable).
- b) Undertakings in difficulty.

6.1.3 Furthermore assistance may not be granted if the aid is:

- a) related to export activities towards third countries or Member States, namely aid directly linked to quantities exported, to the establishment and operation of a distribution network or to the other current expenditure linked to export activity.
- b) contingent upon the use of domestic in preference to imported goods.
- c) in favour of a beneficiary which is subject to an outstanding recovery order following a previous Commission decision declaring an aid granted by Malta illegal and incompatible with the internal market.

6.2. Aid Intensity

6.2.1 The total maximum support that start-up undertakings may be assisted with per undertaking under any Start-up Scheme, must not exceed the amounts laid down in Article 22 of the Commission Regulation.

6.3 Rules on Cumulation of Aid

6.3.1 Rules on Cumulation of Aid shall be in line with Article 8 of the Commission Regulation.

6.4 Transparency Obligations

6.4.1 For any individual aid awarded in excess of EUR 500,000, the details of the beneficiary, the aid awarded, and the project details shall be published as provided for in Article 9 of the Commission Regulation.

7. Contact Details

Further information on the scheme, as well as information and guidance on the filling in of the application form may be obtained by contacting Business First during office hours.

Postal Address:	Malta Enterprise Gwardamangia Hill, Pieta`, MEC 0001 Malta.
Tel:	144
Email:	info@businessfirst.com.mt

The official Incentive Guidelines are published at:

<http://www.maltaenterprise.com/support/>