



MINISTRY FOR EUROPEAN AFFAIRS AND EQUALITY  
PARLIAMENTARY SECRETARIAT  
FOR EUROPEAN FUNDS AND SOCIAL DIALOGUE

# SME Diversification and Innovation Grant Scheme Guidance Notes

Version: 9.0<sup>1</sup>

Issue date: 1 April 2019

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<sup>1</sup> Update to Version 8 Issue Date: 31 August 2018

## Definitions

**Aid Intensity** means the gross aid amount expressed as a percentage of the eligible costs, before any deducted tax or other charge.

**Date of granting of the aid** means the date when the legal right to receive the aid is conferred to the Beneficiary, being the date of the signing of the Grant Agreement.

**Start of works** means the earlier of either the start of works or services in relation to the activities being assisted, or the first legally binding commitment to order the service or works or any other commitment that makes the expenditure irreversible.

**Economic activity** – means an activity consisting of any one or more of the following:

- any trade, business, profession or vocation and the provision of any personal services;
- the exploitation of tangible or intangible property for the purpose of obtaining income there from on a continuing basis;
- the provision by a club, association or organisation of the facilities or advantages available to its members for a subscription or other consideration;
- the admission of persons to any premises for a consideration.

**External source** means a source that is autonomous and unrelated to the Beneficiary Undertaking.

**Unrelated to the Beneficiary** - the fact that the buyer does not control the seller, is not sufficient for fulfilling this criteria. The parties have to be unrelated. For that, there should be no influence (decisive or not) on the composition, voting or decisions of the organs of an Undertaking.

**Undertaking** means a **Micro, Small and Medium-sized Enterprise (SME)** as defined in Annex I of Commission Regulation (EU)No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application to Articles 107 and 108 of the Treaty.

<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1404295693570&uri=CELEX:32014R0651>

The main factors determining whether an enterprise is an SME are:

1. **staff headcount** and
2. either **turnover** or **balance sheet total**.

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

For more details:

[http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm)

**Single Undertaking** includes, all enterprises having at least one of the following relationships with each other:

- (a) one enterprise has a majority of the shareholders' or members' voting rights in another enterprise;
- (b) one enterprise has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another enterprise;
- (c) one enterprise has the right to exercise a dominant influence over another enterprise pursuant to a contract entered into with that enterprise or to a provision in its memorandum or articles of association;
- (d) one enterprise, which is a shareholder in or member of another enterprise, controls alone, pursuant to an agreement with other shareholders in or members of that enterprise, a majority of shareholders' or members' voting rights in that enterprise.

Enterprises having any of the relationships referred to in points (a) to (d) through one or more other enterprises shall also be considered to be a single Undertaking.

**An enterprise** is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships regularly engaged in an economic activity.

Enterprises which have one or other of such relationships through a natural person or group of natural persons acting jointly are also considered linked enterprises if they engage in their activity or in part of their activity in the same relevant market or in adjacent markets.

An '**adjacent market**' is considered to be the market for a product or service situated directly upstream or downstream of the relevant market.

**Crafts** means an art, skill, or trade, practised by a person or persons in the manufacture of artefacts and other products and generally requiring in its manufacturing a greater input of human skill than of machinery.

**Investment in tangible or intangible assets related to the diversification of the output of an establishment means** that the output of the Undertaking resulting from the diversification investments results in products not previously produced in the establishment. The important condition for qualifying a "diversification" project is that the products were not produced in that establishment before the implementation of the assisted project. The "product" is not defined by reference to NACE codes. It is pertinent to note that in some cases the activities resulting into the new product/s would still fall under the same NACE class i.e. four digit numerical NACE code.

**Investment in favour of a new economic activity** means investment in tangible or intangible assets relating to the diversification of the activity of establishment, under the condition that the new activity is not the same or a similar activity to the activity previously performed in the establishment.

**The same or a similar activity** means an activity falling under the same class (four-digit numerical code) of the NACE Rev. 2 statistical classification of economic activities as laid down in Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains<sup>2</sup>.

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006R1893&from=en>

**Investment in the form of a fundamental change** in the overall production process of an existing establishment means the implementation of a fundamental (as opposed to routine) process innovation. The simple replacement of individual assets without fundamentally changing the overall production process constitutes a replacement investment and does not qualify as a fundamental change of an overall production process.

**Significantly improved product/service** are products that have significant improvements in their technical specifications, when compared to those already offered by the Undertaking which was brought about through the use of improved components and/or materials, the adoption and integration of more advanced technology, or have improved functional characteristics.

**Tangible assets** means assets consisting of land, buildings and plant, machinery and equipment.

**Intangible assets** means assets that do not have a physical or financial embodiment such as patents, licences, know-how or other intellectual property.

**Steel sector** means all activities related to the production of one or more of the following products:

(a) pig iron and ferro-alloys: pig iron for steelmaking, foundry and other pig iron, spiegeleisen and high-carbon ferro-manganese, not including other ferro-alloys;

(b) crude and semi-finished products of iron, ordinary steel or special steel: liquid steel whether or not cast into ingots, including ingots for forging semi-finished products: blooms, billets and slabs; sheet bars and tinplate bars; hot-rolled wide coils, with the exception of production of liquid steel for castings from micro, small and medium-sized foundries;

(c) hot finished products of iron, ordinary steel or special steel: rails, sleepers, fishplates, soleplates, joists, heavy sections of 80 mm and over, sheet piling, bars and sections of less than 80 mm and flats of less than 150 mm, wire rod, tube rounds and squares, hot-rolled hoop and strip (including tube strip), hot-rolled sheet (coated or uncoated), plates and sheets of 3 mm thickness and over, universal plates of 150 mm and over, with the exception of wire and wire products, bright bars and iron castings;

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<sup>2</sup> OJ L 393, 30.12.2006, p. 1.

(d) cold finished products: tinsplate, terneplate, blackplate, galvanised sheets, other coated sheets, cold-rolled sheets, electrical sheets and strip for tinsplate, cold-rolled plate, in coil and in strip;

(e) tubes: all seamless steel tubes, welded steel tubes with a diameter of over 406.4 mm.

**Synthetic fibres sector** means:

(a) extrusion/texturisation of all generic types of fibre and yarn based on polyester, polyamide, acrylic or polypropylene, irrespective of their end-uses; or

(b) polymerisation (including polycondensation) where it is integrated with extrusion in terms of the machinery used; or

(c) any ancillary process linked to the contemporaneous installation of extrusion/texturisation capacity by the prospective Beneficiary or by another company in the group to which it belongs and which, in the specific business activity concerned, is normally integrated with such capacity in terms of the machinery used.

**Transport sector** means the transport of passengers by aircraft, maritime transport, road, rail, or by inland waterway or freight transport services for hire or reward; more specifically, the 'transport sector' means the following activities in terms of NACE Rev. 2:

(a) NACE 49: Land transport and transport via pipelines, excluding NACE 49.32 Taxi operation, 49.42 Removal services, 49.5 Transport via pipeline;

(b) NACE 50: Water transport;

(c) NACE 51: Air transport, excluding NACE 51.22 Space transport.

**Tourism** means the following activities in terms of NACE Rev. 2:

a) NACE 55: Accommodation;

b) NACE 56: Food and beverage service activities;

c) NACE 79: Travel agency, tour operator reservation service and related activities;

d) NACE 90: Creative, arts and entertainment activities;

e) NACE 91: Libraries, archives, museums and other cultural activities;

f) NACE 93: Sports activities and amusement and recreation activities.

**Coal** means high-grade, medium-grade and low-grade category A and B coal within the meaning of the international codification system for coal established by the United Nations Economic Commission for Europe and clarified in the Council decision of 10 December 2010 on State aid to facilitate the closure of uncompetitive coal mines.

**Shipbuilding** means the building in the Union, of self-propelled commercial vessel.

**Self-propelled commercial vessel** means a vessel that, by means of its permanent propulsion and steering, has all the characteristics of self-navigability on the high seas or on inland waterways and belongs to one of the following categories:

- (i) seagoing vessels of not less than 100 gt and inland waterway vessels of equivalent size used for the transportation of passengers and/or goods;
- (ii) seagoing vessels of not less than 100 gt and inland waterway vessels of equivalent size used for the performance of a specialised service (for example, dredgers and ice breakers);
- (iii) tugs of not less than 365 kW;
- (iv) unfinished shells of the vessels referred to in points (i), (ii) and (iii) that are afloat and mobile.

**Marketing of agricultural products** means holding or display with a view to sale, offering for sale, delivery or any other manner of placing on the market, except the first sale by a primary producer to resellers or processors and any activity preparing a product for such first sale; a sale by a primary producer to final consumers shall be considered to be marketing if it takes place in separate premises reserved for that purpose.

**Primary agricultural production** means production of products of the soil and of stock farming, listed in Annex I to the Treaty, without performing any further operation changing the nature of such products.

**Processing of Agricultural products** means any operation on an agricultural product resulting in a product which is also an agricultural product, except on-farm activities necessary for preparing an animal or plant product for the first sale.

**Agricultural product** means the products listed in Annex I to the Treaty, except fishery and aquaculture products listed in Annex I to Regulation (EU) No 1379/2013 of the European Parliament and of the Council of 11 December 2013.

**Fishery and Aquaculture sector**, are defined as per provisions of Regulation (EU) No 1379/2013 of the European Parliament and of the Council of 11 December 2013 on the common organisation of the markets in fishery and aquaculture products, amending Council Regulations (EC) No 1184/2006 and (EC) No 1224/2009 and repealing Council Regulation (EC) No 104/2000.

## 1. Introduction

This document provides information on the SME Diversification and Innovation Grant Scheme and should be read in conjunction with the following documents:

- Notes to Applicants
- Guidelines for Implementation

These Guidance Notes together with the Guidelines for Implementation are binding. Failure to comply with the provisions of these documents may result in financial corrections and recovery of funds.

These Guidance Notes may be reviewed, updated and amended from time to time by the Intermediate Body throughout the lifetime of the Measure.

### 1.1 Delegation of Authority

The Measures and Support Division within the Ministry for European Affairs and Equality has been designated by the Managing Authority (MA) as an Intermediate Body (IB) responsible for administering European Regional Development Fund (ERDF) Grant Schemes through the implementation of Support Measures under the 2014 – 2020 programming period.

### 1.2 Scope

The capability of an enterprise to undertake timely intervention to diversify, and innovate is crucial for survival and future business growth.

This incentive seeks to assist SMEs through non-repayable Grants to part-finance investment to develop focused strategies and implement an investment in favour of diversification; a fundamental change, or towards investment to bring to the market significantly improved and advanced products/services to those already offered by the Undertaking.

### 1.3 Investment Priorities and Specific Objectives

This Measure falls under Priority Axis 3 'Enhancing Malta's competitiveness through investment in SMEs' of Operational Programme 1 2014 – 2020 'Fostering a competitive and sustainable economy to meet our challenges', and addresses the following Investment Priority and Specific Objective:

3a: Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators.

SO1: Creation of employment opportunities through the provision of infrastructure, financial incentives as well as support services.

### 1.4 Duration of the measure

SME Diversification and Innovation Grant Scheme will remain operational until 31<sup>st</sup> December 2020, subject to availability of funds.

## 1.5 Budget

The allocated budget for this Measure is set at €8,000,000 with indicative annual thresholds of €1,600,000.

## 1.6 Open (rolling) Call

The scheme shall be managed on a demand driven basis. The IB shall issue a public open call (rolling-call) for interested eligible Undertakings to submit their applications. Applications will be assessed and evaluated and eligible applications scoring at least 50% of the selection criteria shall be awarded the grant. Grants shall be awarded on a first-come-first served basis subject to budget availability.

## 1.7 Maximum Grant Value and Aid intensity

The maximum grant value under this scheme is set at €200,000 part-financing eligible costs up to 50%. The Grant amount that a single Undertaking may receive shall depend on the receipt of *de minimis* state aid by the Undertaking over any period of three fiscal years within the timeline of the project (including the application stage). In line with Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid, each single Undertaking may not receive more than €200,000 in *de minimis* aid from any public funding (EU Structural Funds or any other State Aid) for a rolling period of three fiscal years.

## 1.8 Implementation

Actions financed under this Grant Scheme are to be implemented within 24 months from the date of the Grant Agreement.<sup>3</sup>

## 1.9 Regulatory Framework

The Operational Programme I “Fostering a competitive and sustainable economy to meet our challenges” for support from the European Regional Development Fund and the Cohesion Fund under the Investment for growth and jobs goal for Malta approved by Commission Implementing Decision C (2014) 9966 Final dated 15 December 2014.

[https://eufunds.gov.mt/en/Operational%20Programmes/Programming%20Period%202014%20-%202020/Operational%20Programme%201/Documents/Adopted%20OPI\(ff\).pdf](https://eufunds.gov.mt/en/Operational%20Programmes/Programming%20Period%202014%20-%202020/Operational%20Programme%201/Documents/Adopted%20OPI(ff).pdf)

The National ERDF Eligibility Rules and the Partnership Agreement of Malta.

<https://eufunds.gov.mt/en/Information/Pages/Partnership-Agreement.aspx>

Aid may be awarded in accordance with the relevant terms and conditions of the Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid.

<http://eur-lex.europa.eu/search.html?qid=1437736276245&text=1407/2013&scope=EURLEX&type=quick&lang=en>

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<sup>3</sup> The Intermediate Body may consider, on a case-by-case basis and under exceptional circumstances, requests for an extended implementation timeline, which in any case may not exceed 36 months.



Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1303>

Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006.

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1301>

## 2. Description

### 2.1 Eligible Actions

This Grant Scheme seeks to support Undertakings to develop focused strategies through investment towards their diversification, the implementation of a fundamental change, or to bring to the market significantly improved and advanced products/services to those already offered by the Undertaking.

Eligible Undertakings having a business plan outlining a focused strategy through a proposed investment, may seek assistance to part-finance investment in tangible and intangible assets leading to:

- the diversification of the output of an existing establishment into products or services not previously produced by the establishment;
- the implementation of a fundamental change in the overall production process of an existing establishment;
- a new economic activity related to the diversification of the activity of the establishment, under the condition that the new activity performed is not the same or a similar activity to the activity previously performed in the establishment;
- the adoption of solutions that lead to the development of a significantly improved product or service;
- the acquisition and integration into the business operation of solutions that are new or significantly advanced than those currently in use by the Undertaking.

Actions related to the Diversification of the activity of the establishment should result in the beneficiaries engaging in one of the following activities:

- The production, manufacture, improvement, assembly, preservation, processing of goods, materials, commodities, equipment, plant machinery;
- Biotechnology, Pharmaceuticals and Life Sciences;
- Research and Technological Innovation;
- The repair, overhaul or maintenance of pleasure crafts, yachts having less than 100gt, aircraft, engines or equipment incorporated or used in such vessels or aircraft;
- Information and communication technology (ICT) development activities, software development;
- Eco-innovations, and environmental solutions;
- The creation of tourism products and/or services as a result of networks created between traditional tourism service providers and the crafts and artisan sector;
- The development and provision of tourism products and/or services related to emerging niche markets;

- The development and provision of tourism products and/or services related to the promotion of natural and cultural heritage;
- The development and provision of tourism products and/or services relating to social tourism with specific focus on senior tourists, accessible tourism and active ageing;
- The development of innovative concepts, products and/or services offered by Boutique Hotels and Palazzini;
- The development, and/or provision of E-health solutions;
- The development and provision of services and products promoting healthy living;
- The development and provision of services and products promoting active ageing;
- The development and provision of services and products related to child-day care;
- The development and creation of crafts and artisan products;
- Retail activities by self-employed and family businesses engaged in craft;
- The introduction of products/services that can be marketed and distributed internationally and which are typically more advanced than those prevailing in their respective industry in terms of technology, know-how and skills.

## 2.2 Eligible Cost

**Costs for leasing/rental of privately owned operational premises** required for the operations of the Undertaking for the extent and duration of the project, procured from external sources. The lease or rental agreement must be continued for at least 3 years following the completion of the investment project. **Costs are not to exceed 10% of the total eligible expenditure of the project.**

**Construction/Up-grading costs** required to render the premises operational for the purpose and the extent of the project, procured from external sources. **Costs are not to exceed 10% of the total eligible expenditure of the project.**

**Costs for purchasing of equipment, machinery, and/or plant**, required by the Undertaking for the project, procured from external sources. Equipment, machinery/plant must be maintained by the Undertaking and remain operational for at least 3 years following the completion of the investment project.

Additionally, used, re-furnished or re-manufactured equipment/machinery may be considered eligible provided that:

1. The original manufacturing date of such equipment does not exceed 5 years from the date of the quotation.
2. The acquired equipment is covered by a warranty.
3. It is in line with the relevant National and EU Regulatory Requirements.
4. The cost of such equipment is less than that for similar new equipment.

**Costs related to patents/licences** bought or licensed for the extent and the duration of the project and that are essential to the effective implementation of the project, procured from external sources. These patents/licences must remain associated with the project for at least 3 years following completion of the investment project. **Costs are not to exceed 10% of the total eligible expenditure of the project.**

**Wage costs related to the wages of a Change Manager** to drive the necessary change within the enterprise through the diversification or a fundamental change initiative, working full-time exclusively on the project and for the duration of the same, i.e. not exceeding 24 months. The Change Manager needs to be a new employee, filling a newly created position within the Undertaking who is not a director or holds a shareholding in the Undertaking or has been in the employ of the Applicant Enterprise within a period of 12 months prior to submission of the application. The employment should be covered by an employment contract outlining the duties to be performed and that these are exclusively in relation to the action. **This support is capped at a maximum of €30,000 over a 24 month period.** The maximum eligible expenditure over a period of 24 months is capped at €60,000. In those cases where the implementation of the project is less than 24 months this capping is to be calculated pro-rata.

The reimbursement shall be calculated based on the latest documented gross annual employment costs. In establishing the hourly rate the latest documented annual gross employment costs shall be divided by the 'annual productive hours' being: 1720<sup>4</sup> hours per employee working full time (or corresponding pro-rata for persons not working full time). Reimbursement shall be calculated on the FS3 issued in respect of the employee for the previous 12 months. Recruitment of this Manager can only be effected following the signing of the Grant Agreement.

**Expenditure shall only be considered eligible if the cost item is approved in the Grant Agreement, no modifications were made without the prior approval of the IB, and that the expenditure is evidenced by supporting documentation and the procurement was undertaken in line with the Guidelines for Implementation issued by the IB together with these Guidance Notes.**

### 2.3 Ineligible Costs

- a) Costs related to shipping of equipment, plant, machinery etc.
- b) Costs related to the repair and maintenance of equipment, plant, machinery and buildings, including costs for maintenance agreements.
- c) Tax including Value Added Tax and other duties.
- d) Insurance costs.
- e) Training costs.
- f) Contingencies and/or losses made by the Applicant.

<sup>4</sup> As defined by Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006. <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1303>

- g) Payment of dividends, royalty and interest changes.
- h) In kind contributions.
- i) Service charges arising on finance leases, hire purchase and credit arrangements.
- j) Cost resulting from deferral of payments to creditors.
- k) Cost related to litigation including resulting claims for damages and fines.
- l) Statutory fines and penalties.
- m) Payments for gifts and donations.
- n) Entertainment (including catering, receptions, etc.)
- o) Depreciation.
- p) Foreign exchange costs and related losses.
- q) Bank charges.
- r) Commissions.
- s) Overheads.
- t) Any remuneration to individuals that have the status of self-employed with the enterprise.
- u) Salaries and remuneration related to individuals holding Directorship Positions or Shareholding in the Undertaking.

### 3. Eligibility

#### 3.1 Eligible Undertakings

**Micro, Small and Medium**-sized Enterprises engaged in an economic activity, irrespective of their legal form, referred to as the ‘Undertaking’ subject to the exclusions enlisted below.

Undertakings which are not vested with a legal personality acquired through the law applicable to their establishment, need to be registered under the Second Schedule of the Civil Code (Chap. 16 Laws of Malta).

#### 3.2 Exclusions

- i. Undertakings subject to collective insolvency proceedings or fulfilling the criteria under their domestic law for being placed in collective insolvency proceedings at the request of their creditors.
- ii. Undertakings that have not honoured their obligations further to a Decision by the competent Court in favour of a recovery order issued by the competent authorities responsible for the administration and management of aid schemes co-funded under the European Regional Development Fund - Cohesion Policy Operational Programme I 2007 – 2013.
- iii. Undertakings that have not honoured their obligations further to a recovery order issued by the competent authorities responsible for the administration of aid schemes co-funded under Cohesion Policy 2014 – 2020.
- iv. Exclusions as per provisions of Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid.
- v. Undertakings whose principal activities fall under Section A ‘Agriculture, Forestry and Fishing of the NACE Rev. 2.
- vi. Actions addressing the processing and marketing of agricultural products in so far as such actions can be considered eligible for funding under the EARDF.
- vii. Undertakings whose principal activities include the manufacturing, processing and marketing of tobacco and tobacco products.
- viii. Public entities: Ministries, Departments, Entities, Authorities, Public Commissions, Public Sector Foundations and similar organisations carrying 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. With the exception of commercial Undertakings carrying out exclusively economic activity in direct competition with third parties and in which Government has a controlling interest.
- ix. Energy Generation, distribution and infrastructure.
- x. The Steel Sector.
- xi. The Coal Sector.
- xii. The Shipbuilding Sector.
- xiii. The Transport Sector.
- xiv. The Synthetic Fibres Sector.

- xv. Undertakings whose principal activities fall under Section K 'Financial and insurance activities' of the NACE Rev. 2.
- xvi. Undertakings whose principal activities fall under Section L 'Real Estate activities' of the NACE Rev. 2.
- xvii. Gambling and Betting Activities.
- xviii. Investment to achieve the reduction of greenhouse gas emissions from activities listed in Annex I to Directive 2003/87/EC.
- xix. Actions resulting in training and mentoring activities.
- xx. Actions resulting in investment in the decommissioning or the construction of nuclear power stations.
- xxi. Actions resulting in investment in airport infrastructure unless related to environmental protection or accompanied by investment necessary to mitigate or reduce its negative environmental impact.
- xxii. Undertakings engaged in an illegal economic activity.

### 3.3 Additional Provisions

- i. The Grant amount will depend on the receipt of *de minimis* aid by the Undertaking over any period of three fiscal years within the timeline of the project (including application stage). In line with Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid, each single Undertaking may not receive more than €200,000 in *de minimis* aid from any public funding (EU Structural Funds or any other State Aid) for a rolling period of three fiscal years.
- ii. Undertakings are to submit an updated *de minimis* declaration on the *de minimis* aid in line with Reg. 1407/2013.
- iii. Undertakings that have not honoured their obligations, further to a recovery order issued by the competent authorities responsible for the administration and management of aid schemes co-funded under the European Regional Development Fund – Cohesion Policy Operational Programme I 2007 -2013 and in respect of which legal action has been instituted and proceedings are pending or under way before the competent Court, are eligible to apply without prejudice to the assessment and evaluation of their application. However, in the event that the proposed project is selected the Grant Agreement will only be entered into if within 6 months from the date of the notification by the Intermediate Body to the Undertaking that the Project has been selected such obligations are no longer due either pursuant to a Court Decision or the effective payment of dues.
- iv. The applicant enterprise is in compliance with applicable EU and national legislation and administrative requirements, including fulfilment of fiscal obligations, social security contributions.
- v. Start of works on actions in relation to the activities for which assistance is being requested may only be initiated after the date of the granting of the aid.

- vi. Applicants must submit a business plan showing that the investment is deemed as economically viable. Any modification to the approved business plan should be notified to the Intermediate Body.
- vii. Applicants must submit evidence as to the capability for private match financing the project.
- viii. Eligible Funding is on costs incurred by the Applicant after the date of the granting of the aid.
- ix. All funding is based on reimbursement of eligible costs.
- x. The Investment must be maintained by the Undertaking and remain operational for a period of 3 years following the completion of the investment project.
- xi. For aid granted for a fundamental change in the production process, the eligible costs must exceed the depreciation of the assets linked to the activity to be modernised in the course of the preceding three fiscal years.
- xii. Intangible assets are eligible for the calculation of investment costs if they fulfil the following conditions:
  - a. they must be used exclusively in the establishment receiving the aid;
  - b. they must be amortisable;
  - c. they must be purchased under market conditions from third parties unrelated to the buyer; and
  - d. they must be included in the assets of the Undertaking receiving the aid and must remain associated with the project for which the aid is granted for at least three years following the completion of the investment project.
- xiii. All assets including 'Intangible assets' must be included in the Capital Assets Register.
- xiv. All supplies and services may only be procured from external sources.
- xv. For the lease of operational premises the lease/rent must be continued for at least 3 years following the completion of the project.
- xvi. The Applicant has in hand all the necessary permits.
- xvii. Approved projects shall be based and operational in Malta.
- xviii. Undertakings are to seek in advance approval from the Intermediate Body should modifications to the approved activities and/or actions be necessary. The Intermediate Body will not be able to approve reimbursement for costs incurred on actions and/or activities that are not strictly in line with the Grant Agreement.
- xix. The Undertaking has not been approved or granted any public funding, and will not seek public funding through other National and/or European Union funded initiatives in relation to the activities for which assistance is being requested through this measure. This includes schemes under Cohesion Policy and any other European Union instruments or through any other form of Public Funding including schemes administered through National Funds.



## 4.0 Applications

### 4.1 Application Process

The IB shall publicise the calls through various media and will collaborate with stakeholders particularly representatives of the target group and other Government Entities to publicise the Grant Scheme to ensure the widest visibility possible.

### 4.2 Submission of Applications

Undertakings must submit an online application as outlined in the call for applications.

The application shall include the Undertaking's name and size, a description of the project, including its start and end dates, the location of the project and a list of project costs and the amount of public funding needed for the project, amongst other requirements.

It is strongly advisable that prior to embarking on the development and submission of the application prospective applicants read these Guidance Notes together with the Notes to Applicants document and the Guidelines for Implementation.

### 4.3 Documents to be submitted with the Application

The following documents need to be submitted as part of the application.

1. **Declaration** – a scanned copy of the signed Declaration Form.
2. **Business Plan** – a detailed and robust business plan showing that the investment for the proposed project and the actions for which assistance is being requested is deemed as economically viable. Business plans need to clearly substantiate claims for activities, and/or products/services which are typically more advanced than those prevailing in their respective industry in terms of technology, know-how and skills. The business plan should as a minimum include the following sections:

Executive Summary
Business History, Background and Objectives
Business Environment
Business Products and/or Services
Present Market
Competition
Management and Organization
Business Resources
Business Project Proposal
Expected Outcome and impacts
Financial Plan/Data
Supporting Information

3. **De Minimis Declaration Form** – a declaration by the Undertaking outlining a breakdown of the *de minimis* aid granted to the Undertaking over a period of the three fiscal years from the date of application.
4. **VAT Compliance Certificate** – a certificate issued not earlier than three months from the date of the application, by the VAT Department.
5. **Income Tax Compliance Certificate** – a certificate issued not earlier than three months from the date of the application, by the Inland Revenue Department confirming that the Applicant has no liabilities in respect of Income Tax or is otherwise honouring an agreement for settling any outstanding amounts.
6. **Final Settlement and of Social Security Contributions Compliance Certificate** – a certificate issued by the Inland Revenue Department confirming that the Applicant has no liabilities in respect of the Final Settlement System (FSS) and of Social Security Contributions (SSC) or is honouring an agreement for settling any outstanding amounts. The compliance certificate should not be dated earlier than three months from the date of the application.
7. **Audited Financial Statements and/or the Management Accounts** dated within the two financial years prior to the year of submission of the application in relation to the applicant and the linked and partner enterprises. No documents would need to be submitted if a copy of these documents as outlined hereunder is already deposited with the Registry of Companies.

With the respect to the last financial year, the applicant enterprise is to submit a copy of the detailed (not abridged version) of the Audited Financial Statements or the Management Accounts (Profit & Loss Statements/Income Statement and Balance Sheet/Statement of Assets and Liabilities) certified by a Certified Public Accountant. The abridged version may be submitted with respect to the previous year.

In the case of linked and partner enterprises with an obligation to present Audited Accounts/Annual Accounts at the Registry of Companies in terms of the Companies Act (Chapter 386 of the Laws of Malta) no documentation need to be presented subject to the condition that the last Audited Accounts/Annual Accounts declared are not earlier than for the two financial years prior to the year of submission of the application.

In the case of linked and partner enterprises without a legal obligation to prepare financial statements the Management Accounts (Profit & Loss Statements/Income Statement and Balance Sheet/Statement of Assets and Liabilities) certified by a Certified Public Accountant.

In the case of a Start-up established not over 2 years from the date of application not having the above documentation, a Profit & Loss Account/Income Statement, Cash Flow Projections and a Balance Sheet/Statement of Assets and Liabilities certified by a Certified Public Accountant.

In the case of a Sole Trader/self-employed a copy of the Income Tax Return for the last two years together with a Profit & Loss Statement certified by a Certified Public Accountant.

8. **Copies of any necessary Permits** such as Planning Permits issued in relation to activities for which support is being requested<sup>5</sup>.
9. **Supporting Documentation including evidence of Private Match Financing for the project** (mandatory). Any other supporting documentation (such as preparatory work and correspondence) that the Applicant deems that would add value to the application.

The IB may request any additional documentation for verification purposes.

In those cases where not all the documentation enlisted under points 3, 4, 5, 6 and 7 is not submitted with the application, applicants shall be given the opportunity to rectify the application by submitting the required documentation to be considered for evaluation and selection with the next cut-off date. In the event that applicants fail to rectify an application by the indicated deadline the application shall be considered as an incomplete application and rejected.

#### 4.4 Acknowledgement

Once an application is submitted and confirmed, the system generates a unique reference number for the project and an acknowledgement e-mail together with the application reference number will be sent to the Applicant.

Applications will be assessed and selected as outlined in Section 6 'Assessment and Selection'. The issuance of the acknowledgement letter does not confer any obligation on the IB to issue the Grant towards the financing of the project. Actions may only be initiated further to the signing of the Grant Agreement.

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<sup>5</sup> In those instances where at the time of submitting the application the necessary Planning Permits have not as yet been issued, an application for support under the scheme may still be submitted. In such cases in the event that an application makes it through the Selection Process, the granting of aid shall be conditional on the submission of evidence, within six months from the date of the Acceptance Letter, that the relevant Planning Permits have been issued.

## 5. Compliance with Community Policy

### 5.1 General Principles

It is the responsibility of the Undertaking to ensure compliance with Community Policy, namely:

- Public Procurement
- State Aid requirements
- Equal Opportunities
- Sustainable development

### 5.2 Public Procurement

Undertakings should note that Grants awarded for actions under the SME Diversification and Innovation Grant Scheme are public funds. In this regard all Beneficiary Undertakings should ensure that any procurement undertaken for cost items to be co-funded through the SME Diversification and Innovation Grant Scheme is carried out in line with the principles of **sound financial management, good governance, transparency, and equality** together with the provisions of the Guidelines for Implementation issued by the IB together with these Guidance Notes.

### 5.3 State Aid requirements

The terms and conditions of this Grant Scheme are set out in line with Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid.

**The Undertaking shall ensure compliance with the rules on cumulation of aid in line with the Commission Regulation (EU) No 1407/2013 of 18 December 2013 and shall ensure that the total amount of *de minimis* aid granted to the single Undertaking shall not exceed EUR 200,000 over any period of three fiscal years.**

**Applicants must submit a duly filled in *de minimis* declaration form regarding any other *de minimis* aid received during the current fiscal year and the previous two fiscal years with their application.**

**It is the responsibility of the Applicant Undertakings to seek advice and to ensure compliance with State Aid rules and requirements.**

### 5.4 Equal Opportunities and non-discrimination

Beneficiary Undertakings are required to take a pro-active approach to Equal Opportunities and must ensure that at all stages of the implementation of the action/s consideration is given to Equal Opportunities.

Equal Opportunities and non-discrimination are not meant to just address gender discrimination but have a wider scope and include race, ethnicity, religion or belief, disability, age and sexual orientation.

### 5.5 Sustainable Development

Undertakings should include Sustainable Development in the action/s and must ensure that the operation is structured in such a manner that concrete positive actions towards better

sustainability and mainstreaming feature throughout. It is important that Environmental matters should also be taken into consideration at all stages of the design, development and implementation of the action and the action should be structured to avoid any related environmental damage.

## 6. Assessment and Selection

The Assessment and Selection of projects shall be undertaken by a Project Selection Committee.

Applications will be assessed against the Gateway (eligibility) and Selection Criteria by the Project Selection Committee.

Applications will proceed to be assessed against the Selection Criteria only if the application meets all the requirements of the Gateway (eligibility) Criteria.

Applications attaining at least 50% of the total score or higher under the Selection Criteria shall be approved for funding subject to the budget availability.

### 6.1 Gateway Criteria

The Gateway Criteria are the minimum requirements which must be met in order that any application may be considered for assessment and appraisal for selection for funding support. These will be used at the first stage once an application is submitted. This stage will involve an assessment and a Due Diligence process to establish that these minimum requirements are met, namely:

1. **Complete application form:** an Undertaking must present a fully compiled application form together with all the requested supporting documentation, by the indicated deadline.
2. **Eligible Undertaking:** the Undertaking is an eligible Undertaking in line with these Guidance Notes.
3. **Eligible action:** the action for which the Applicant is asking for support is eligible and at least includes an eligible activity.
4. **Match Financing:** the Applicant has submitted evidence as to its capacity to match finance the project from private sources.

### 6.2 Selection Criteria

Only applications that meet all the requirements of the Gateway (eligibility) Criteria shall proceed for assessment under the Selection Criteria. The Project Selection Committee may at this stage request clarifications from the Applicant. As part of the assessment and appraisal process a score is awarded for each Selection Criteria. Applications scoring at least 50% of the Selection criteria shall be awarded the Grant. Grants shall be awarded on a first-come-first served basis subject to budget availability.

The total maximum score under the Selection Criteria is 120. Applications will be assessed and evaluated against the Selection Criteria outlined hereunder.

- Risk Assessment
- Excellence
- Impact and Sustainability
- Quality and Efficiency of Implementation

Criteria	Definition	Score
<p><b>Risk Assessment</b></p>	<p><b>Ratio of Project value to net assets of Undertaking – 5</b> Applications will be risk assessed in terms of the ratio of the project’s value to the financial resources of the Undertaking.</p> <p><b>Qualitative assessment of the Undertaking – 5</b> Applications will be risk assessed in relation to the age of the Undertaking, business experience, track record of the management and controlling shareholders.</p> <p><b>Duration of the Project – 5</b> Applications will be risk assessed in relation to the risks in relation to the proposed duration of the project. The proposed duration of the project will be assessed in relation to the implementation timelines in the respective Guidance Notes, taking into account potential delays in implementation and that may stretch the implementation timeline with a potential impact on absorption of funds.</p> <p><b>Implementation Risks – max 0 (-5 lowest)</b> This section will carry negative marking to reflect project implementation risks linked to the complexity of the proposed activities. The more complex the activities the lower (more –ve) the score.</p>	<p><b>15</b></p>
<p><b>Excellence</b></p>	<p><b>Action is holistic in nature – 10</b> Actions need to be holistic in nature through the integration of the different activities to be undertaken through the project and other complimentary activities.</p> <p><b>Action is proposing products and/or services that are more advanced than those present in the market – 10</b> The action will be assessed on the basis of the novelty and technology level of the proposed products and/or services. Products/services that are more advanced than those present in the market, and presenting a novel concept to the respective sector will score higher marks.</p> <p><b>Action is ambitious and is addressing an identified gap in the market for the specific sector – 10</b> The application will be assessed in terms of the extent of identified market gaps it addresses. The evaluation will focus on the novelty of the concepts and new approaches introduced by the project. The evaluation will also focus on how ambitious the proposed activities are in relation to tangible objectives.</p>	<p><b>30</b></p>

<p><b>Impact and Sustainability</b></p>	<p><b>Impact in relation to the Applicant’s future growth and sustainable economic viability leading to long term market resilience – 10</b> The application will be evaluated in terms of the project’s impact vis-à-vis the future potential business growth of the Applicant, the potential to increase the degree of networking undertaken by the Applicant, presence in global market and increase in turnover.</p> <p><b>Impact on employment – 10</b> The application will be evaluated in relation to the project’s potential to ensure job retention and potential new employment.</p> <p><b>Impact on improvements in the Undertaking’s business model - 10</b> The application will be evaluated in terms of the project’s impact on the potential sustainability of the business model.</p> <p><b>Impact in relation to National Policies and Strategies linked to the Operational Programme – 10</b> The application will be assessed in relation to potential impact on National Policies and Strategies linked to the operational programme.</p> <p><b>Effective integration of the Operational Programme’s horizontal priorities: Environmental Sustainability, Equal Opportunities – 10</b> The application will be assessed in relation to the effective integration of the OP’s horizontal priorities being Environmental Sustainability and Equal Opportunities.</p>	<p><b>50</b></p>
<p><b>Quality and efficiency of implementation</b></p>	<p><b>Level of Management and Control Systems in place – 5</b> The evaluation will be assessing the project’s quality and efficiency of implementation, the level of Management and Control Systems in place, and the extent of quality standards adopted by the Undertaking.</p> <p><b>Level of private match financing and additional investment addressing complementary actions – 5</b> The proposed action will be assessed against the Undertaking’s level of additional match financing and the potential to inject further investment to address complementary actions.</p> <p><b>Level of capacity and allocation of resources towards the project – 5</b> The evaluation will be assessing the allocation of resources towards the project.</p> <p><b>Coherence and Clarity of work plan – 10</b> The evaluation will be assessing the project’s work plan and strategy. High scores will be given to those actions that show high levels of quality and efficiency of implementation.</p>	<p><b>25</b></p>



### 6.3 Unsuccessful Applications

Unsuccessful applicants will be informed in writing by the IB.

### 6.4 Appeals

An independent Appeals Board shall be appointed to assess representations submitted by unselected applicants. Applicants whose application was not selected may submit motivated representations within 10 working days from the date of notification by the IB.

The Appeals Board shall review and re-assess the application and shall notify the Applicant of its decision. The decision of the Appeals Board shall be final.

### 6.5 Acceptance Letter

The IB shall issue a funding acceptance letter to selected applicants. The funding acceptance letter shall include any conditions as outlined by the Project Selection Committee. It should be noted that a positive decision at this stage is not a guarantee of funding. All the conditions set-out in the funding acceptance letter would need to be discharged before the Grant Agreement can be signed.

### 6.6 Grant Agreement

The Intermediate Body shall appoint a contact person from within it, to liaise with the Beneficiary with a view to conclude the Grant Agreement. The Grant Agreement (GA) is the formal agreement between the Intermediate Body and the Applicant. The GA is the legally binding document and sets out the terms of the grant. The IB will work through the terms and any conditions which must be discharged prior to entering into the GA with the Applicant. When the IB is satisfied that any conditions have been discharged, it will issue the GA and it will submit two unsigned copies to the Applicant. The Applicant will, by the indicated timeframe, sign and return both copies for counter-signature by the IB and one copy will be sent back to the Applicant.

### 6.7 Changes

Any changes to the actions approved in the GA are to be communicated to the IB with immediate effect for necessary approvals. Actions departing from the GA, initiated without the prior approval of the IB will render the actions ineligible. The IB may reject any request for change in the Project Activities if it is of the opinion that the proposed change will alter the nature of the Project as outlined in the submitted application.

## 7. Monitoring and Reporting

This section outlines in brief the reporting requirements and the reimbursement process, and should be read in conjunction with the Guidelines for Implementation issued by the IB together with this document.

### 7.1 Reporting

Following the completion of the assisted intervention, the Beneficiary Undertaking is to submit to the IB a Final Implementation Report together with the claim for reimbursement. Moreover, the Undertaking is to submit periodical implementation progress reports 'Interim Implementation Report', on a six monthly basis on the template provided by the IB, according to the indicated schedule:

<b>Period Covered</b>	<b>Submission Deadline</b>
1 January – 30 June	31 July
1 July - 31 December	31 January

In this regard, beneficiaries may present an interim claim for reimbursement, together with the Interim Implementation Report, once the project registers at least 50% of the eligible expenditure as outlined in the Grant Agreement. A Final Implementation Report will need to be submitted together with the final claim for reimbursement, following the completion of all the assisted activities as outlined in the Grant Agreement. In such cases, the final claim should either cover the full amount disbursed or, in case an interim claim would have been submitted, the final claim would cover the remainder of the expenditure disbursed.

The IB shall carry out on-the-spot checks during and after the project implementation timeframe.

Further information regarding the implementation of the project is available in the Guidelines for Implementation.

### 7.2 Reimbursement

The Beneficiary Undertaking must submit a claim for reimbursement, together with the Interim Implementation Report, once the project registers at least 50% of the eligible expenditure as outlined in the Grant Agreement. A Final Implementation Report will need to be submitted together with the final claim for reimbursement following the completion of all the assisted activities as outlined in the Grant Agreement. The final claim for reimbursement would cover either the full amount disbursed or, in case an interim claim would have been submitted, the final claim would cover the remainder of the expenditure disbursed.

The claim/s for reimbursement is to include an updated VAT Compliance Certificate, Income Tax Compliance Certificate and Final Settlement of Social Security Contributions Compliance Certificate issued not earlier than the date of completion of the supported action.

A Financial Identification Form<sup>6</sup> is to be submitted with the first claim submitted, be it interim or final. In those cases where the details in this Form are changed between the interim and final report, then an updated Financial Identification Form is to be submitted with the final claim.

The reimbursement request will only be processed when the IB is satisfied that the claimed cost items were implemented, in line with the GA and pertinent regulations, rules and guidelines, following rigorous monitoring and checks.

The claim for reimbursement will include the following documentation which must be signed and certified by a **Certified Public Accountant** as specified in the Guidelines for Implementation:

- A copy of the invoice and respective delivery note issued by the supplier/service provider;
- A copy of the respective receipt issued by the supplier/service provider;
- A copy of the bank statement confirming the transaction of payments to the service provider for the claimed cost (defrayment from bank account identified in the Financial Identification Form).

Furthermore, the claim will also be supported by a statement which must be signed and certified by a **Certified Auditor**, specifying that:

- i. The costs claimed were actually incurred by the Undertaking and were not reimbursed or may be recoverable through other sources;
- ii. The expenditure satisfies the conditions that are outlined in the Grant Agreement;
- iii. The expenditure was incurred during the approved project period;
- iv. A separate accounting system or a separate accounting code has been maintained for all project transactions and that all project transactions are accurately and properly recorded;
- v. The Beneficiary has ensured that any rules governing accumulation of aid have been respected; and
- vi. Aid has been calculated at the applicable intensity level as approved by the Intermediate Body.

Beneficiaries are to consult the Guidelines for Implementation which provides further detailed information in this regard.

### 7.3 Retention of Documentation

The Beneficiary has the obligation to retain all related documents for control and audit purposes, for 10 years following the completion of the project. The Beneficiary must also co-operate with the IB and other monitoring and audit bodies entrusted with such functions with respect to the granting of aid under this scheme, for the duration of 10 years in light of audits and other controls.

Further information related to the retention of documentation is available in the Guidelines for Implementation.

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<sup>6</sup> For more details refer to the Guidelines for Implementation issued by the IB.

## 8. Publicity

Beneficiary Undertakings are responsible for ensuring proper visibility of interventions assisted through this Grant Scheme, part-financed by the European Union through the European Regional Development Fund under Operational Programme I 2014 – 2020.

All communication and publicity measures must acknowledge support from the European Union and the respective Fund in line with Article 2.2 of Annex XII of Regulation (EU) No. 1303/2013, and Articles 3-5 of Commission Implementing Regulation (EU) No. 821/2014.

Visibility measures should be proportionate and reflect the scale of assistance and the nature of the project.

Beneficiaries are to seek the guidance of the IB prior to embarking on publicity and visibility actions. Failure to fully comply with the visibility and publicity requirements will result in financial corrections and loss of funds. The beneficiary is responsible to keep evidence of compliance such as copies of printed documentation, photographic evidence of participation at fairs, and of commemorative plaques and posters affixed throughout the implementation of the project.

Further information related to publicity is available in the Guidelines for Implementation.

## 9. Data Protection

Data and information collected and held by the IB in relation to the financed action will be transferred to the MA and may also be transferred to official third parties in order to fulfil the IB's functions, in line with Community obligations according to law and in line with the provisions of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) and any amendments thereof.

Information and any data provided by the potential beneficiaries and beneficiary will be used for the sole purpose for which they are intended, that is, (i) verification procedures; and (ii) evaluation and monitoring purposes in line with Regulation (EU) 1303/2013. The data will not be used for any other means or for any other purpose that is incompatible with that for which the data is being collected.

In applying for assistance under this scheme, applicants will be giving authorisation to the IB to make enquiries and to carry out the necessary checks with the competent Authorities and Organisations to verify any information submitted in relation to the application.

Beneficiary Undertakings should ensure that they disclose factual and accurate data to the IB. The Beneficiary Undertaking has the right to access all the data relating to the grant issued in its name and may request the rectification of any incorrect data.

## 10. Contact Details

For more information regarding the Business Enhance ERDF Grant Schemes, kindly contact the Measures and Support Division.

Address: Measures and Support Division  
Pjazza San Kalċidonju  
Floriana FRN1530

Telephone Number: 22001100 / 22957110

Email: [msd.meae@gov.mt](mailto:msd.meae@gov.mt)

Website: [www.businessenhance.gov.mt](http://www.businessenhance.gov.mt) or  
[www.eufunds.gov.mt](http://www.eufunds.gov.mt)

# BUSINESS ENHANCE



Operational Programme I - European Structural and Investment Funds 2014-2020  
"Fostering a competitive and sustainable economy to meet our challenges"  
Aid Scheme part-financed by the European Regional Development Fund  
Co-financing rate: 80% European Union; 20% National Funds

