



Key points

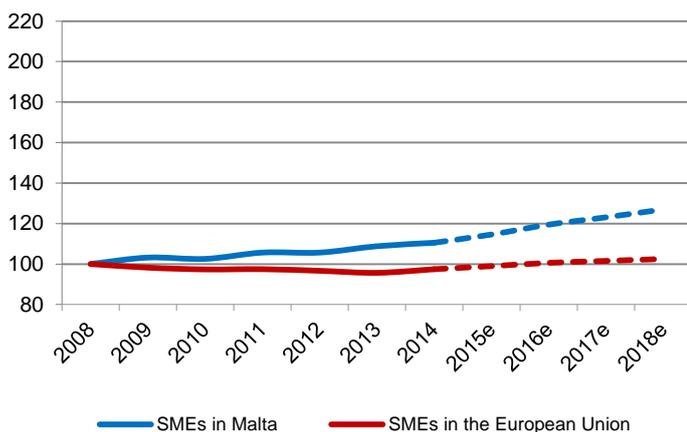
Past & future SME performance¹: Malta's SME sector has thrived in recent years. In 2015-2016, SME value added and employment rose by 7.0 % and 4.2 % respectively. Maltese SMEs have demonstrated their ability to prosper. This dynamism is also reflected in the large number of high-growth firms. In 2014, 13.7 % of all Maltese firms with 10 or more employees were high-growth firms, the highest share in the EU. This upward trend is expected to continue in 2016-2018. SME value added is projected to grow by 15.4 %, along with an increase of 6.3 % in SME employment, corresponding to around 6 700 new jobs.

Implementing the Small Business Act for Europe (SBA): Malta's SBA profile continues to be relatively balanced. Malta scores in line with the EU average in most SBA areas. Its performance under 'second chance' is particularly weak, while single market and internationalisation stand out with a score well above the EU average. Recently, policy progress has mostly been made in the areas of 'Think Small First' and 'responsive administration,' but there is still room for further improvement.

SME policy priorities: Despite Maltese SMEs performing well in recent years and the efforts made to improve the business environment, more needs to be done. The growing shortage of skilled labour also needs to be addressed. As regards regulatory burden, and in conjunction with the previous point, procedures for recruiting non-domestic staff, including those from non-EU countries, need to be streamlined. Following recent improvements to the insolvency framework, the improved legal framework also has to be applied in practice. More strategically, Malta needs to build on its natural advantage as a compact state and adopt a more ambitious regulatory agenda. It should aim to go beyond its current average performance and aspire to establish itself as an EU centre of excellence for the regulatory business environment.

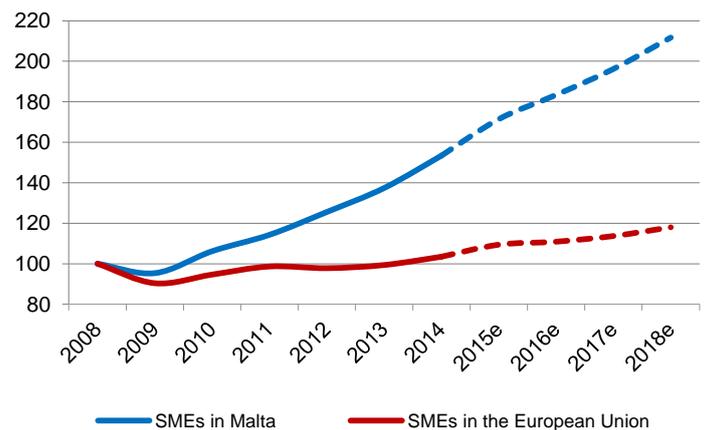
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2015 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2015 onwards)



About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

Table of contents

Key points	1
1. SMEs — basic figures.....	2
2. SBA profile	4
3. SBA principles.....	6
3.0 'Think Small First'	6
3.1 Entrepreneurship.....	6
3.2 'Second chance'.....	7
3.3 'Responsive administration'.....	8
3.4 State aid & public procurement.....	9
3.5 Access to finance.....	10
3.6 Single market.....	11
3.7 Skills & innovation.....	12
3.8 Environment.....	13
3.9 Internationalisation.....	14
4. Interesting initiative.....	15

1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Malta		EU-28	Malta		EU-28	Malta		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	26 808	93.4 %	93.0 %	42 497	31.5 %	29.8 %	1.7	35.9 %	20.9 %
Small	1 497	5.2 %	5.8 %	31 384	23.3 %	20.0 %	1.2	25.5 %	17.8 %
Medium-sized	331	1.2 %	0.9 %	33 152	24.6 %	16.7 %	1.0	20.7 %	18.2 %
SMEs	28 636	99.8 %	99.8 %	107 033	79.3 %	66.6 %	3.9	82.0 %	56.8 %
Large	60	0.2 %	0.2 %	27 866	20.7 %	33.4 %	0.8	18.0 %	43.2 %
Total	28 696	100.0 %	100.0 %	134 899	100.0 %	100.0 %	4.7	100.0 %	100.0 %

These are estimates for 2016 produced by DIW Econ, based on 2008-2014 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy,' which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs play a central role in the Maltese non-financial business economy. They account for 82.0 % of total value added, which is 25 percentage points higher than the EU average. In terms of employment, the contribution is 79.3 %, exceeding the EU average by 12.7 percentage points. Although the productivity of Maltese SMEs, calculated as value added per person employed, is almost 20 % lower than the EU average for SMEs, the productivity of Maltese micro firms is around 10 % higher than the EU average for micro firms. The average number of persons employed in Malta is 3.7, which is about the same as the EU average.

In 2012-2016, SMEs in the Maltese non-financial business economy generated strong growth of 46.1 % in value added. Micro firms performed particularly strongly, with a value added increase of 61.8 %. In the same period, SME employment increased by 13.1 %. In 2015 and 2016, SME value added and employment rose by 7.0 % and 4.2 % respectively.

The transportation and storage sector experienced a marked increase in SME value added. In 2012-2016, SME value added grew by 66.2 %, whereas employment growth was lower, at 10.5 %. The logistics industry plays an extremely important role in the Maltese economy due to Malta's geographical location in the heart of the Mediterranean². The increase in international

trade following the worldwide economic recovery has partly contributed to sector growth, particularly in inbound logistics³. In addition, major investments in cargo transport infrastructure and port facilities, along with a recent review of national port policies, have helped Malta become a leading international logistics hub, connected to over 165 ports across all continents^{4 5}. Malta Freeport is the third largest logistics centre in the Mediterranean region, creating trading opportunities for a variety of ancillary service providers⁶. As a result, storage and transshipping is a key subsector for Maltese SMEs, accounting for 46.0 % of total SME value added for the entire sector in 2016.

SMEs in *information and communication* also performed well. In 2012-2016, SME value added grew by 47.0 %, while employment rose by 30.8 %. Demand for ICT services has risen as a result of greater use of ICT across many Maltese business sectors. For example, the Maltese transportation and logistics sectors now use advanced ICT systems to manage the entire supply chain process⁷. *Information and communication* has been one of the government's priority sectors for a number of years, ensuring that ICT remains pivotal to economic growth in Malta^{8 9}. Recent growth in the sector has also been actively promoted by Malta Enterprise, the government's investment and development agency, which has provided incentives such as subsidised loans, investment aid tax credits and R&D schemes¹⁰. In addition, the sector's development has been helped by public and private training providers promoting ICT training courses¹¹.

The wholesale and retail trade sector — which consists entirely of SMEs — also generated growth, albeit at a slower pace than SMEs in the wider non-financial business economy. In 2012-2016, value added rose by 34.9 % and employment by 11.0 %. This was largely due to a strong domestic economy and high employment levels creating higher levels of disposable income¹². The resulting expansion of consumer demand in 2014-2015 contributed 7.0 percentage points to real GDP growth¹³. Growth was also extremely strong in the wholesale and retail trade of motor vehicles and motorcycles, with an increase of 51.4 % in

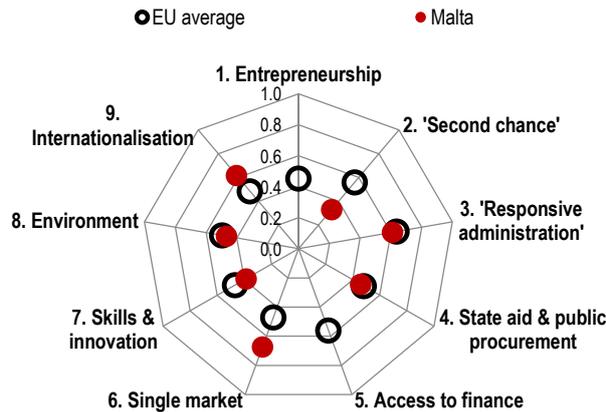
SME value added in 2012-2016. However, despite being a star performer in growth terms, as a relatively small subsector it accounted for only 7.6 % of total SME value added in wholesale and retail trade in 2016. The main boost to sector growth was a rise of 18.3 % in the number of newly licensed vehicles in 2014-2016¹⁴. Most new licences were issued to passenger cars, reflecting a lack of transport alternatives in Malta¹⁵.

Recent business demography data reflect the strong growth of the Maltese economy and — lately — the success of the new Companies Act 2015¹⁶, with a steady increase in new business registrations over the past five years and an upsurge in the last two years¹⁷. The 11 700 new companies that were registered in 2015 represented an increase of 35.6 % against the previous year.¹⁸ The number of liquidations has fluctuated in recent years, but has remained consistently lower than the total of new companies, resulting in an increase in the balance of business births over deaths of 42.6 % in businesses in 2014-2015.¹⁹

According to the latest available data for 2016, self-employment accounts for 12.9 % of all employment in Malta²⁰, 1.1 percentage points below the EU average. However, the self-employment rate of 26.3 % in *wholesale and retail trade* was 10.3 percentage points above the EU average in 2015. A distinctive feature of the Maltese business economy is its large share of high-growth firms²¹. In 2014, 13.7 % of the firms with 10 or more employees in Malta's business economy comprised high-growth firms, the highest share among all EU countries. In the same year, the highest shares of high-growth firms were in *mining and quarrying* (50.0 %) and *information and communication* (22.3 %). Since high-growth firms have a significant impact on employment, this pattern is in keeping with the strong employment growth in the *information and communication* sector.

Maltese SMEs have demonstrated their ability to prosper, which is expected to continue in 2016-2018. SME value added is projected to grow by 15.4 %, along with an increase of 6.3 % in SME employment, corresponding to around 6 700 new jobs.

2. SBA profile²²



Malta's profile highlights its mixed performance on implementing the SBA. While performing above the EU average in the areas of single market and internationalisation, the country only performs on a par with the EU average in most of the other policy areas. Special attention should be paid to the area 'second chance' in which Malta performs below the EU average. The unavailability of overall scores for the areas of entrepreneurship and access to finance does not allow for a comprehensive evaluation of Malta's SBA profile as is the case with other EU Member States. Since 2008, Malta's performance improved considerably in 'responsive administration' and single market and, to a lesser extent, in skills & innovation.

From a policy perspective, Malta has made good progress in implementing most of the SBA principles since 2008. In particular, significant progress has been made in seven areas — entrepreneurship, 'Think Small First,' 'responsive administration,' state aid & public procurement, access to finance, skills & innovation and internationalisation. Nevertheless, there has been a delay in integrating entrepreneurship education into school curricula. In the area of skills & innovation, little or no effort has been made on lead markets. In the area of 'Think Small First,' areas of improvement include the use of specific measures for small and micro-enterprises, and the increase in the threshold for VAT registration to EUR 100 000.

Moderate progress has been made in the areas of single market and environment. On the single market, several proposed measures appear to be of marginal importance to SMEs and are not generally highlighted as issues by SME stakeholders. On the environment, one shortcoming is the lack of policy action to encourage local industry to take advantage of opportunities to develop eco-friendly products.

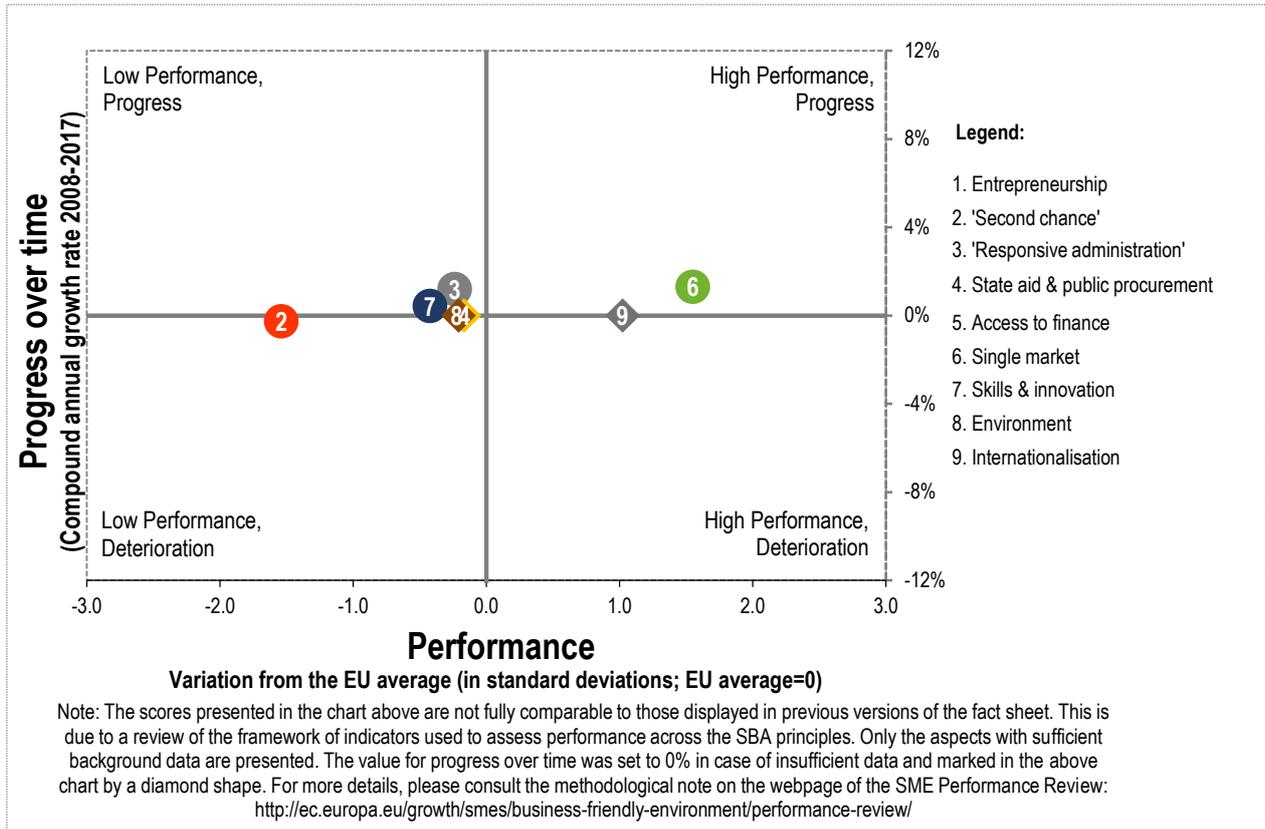
The SBA area where policy progress occurred at the slowest pace is 'second chance,' where a key initiative to review Malta's legislation on insolvency and bankruptcy was launched in 2014. However, the Companies Act was only reformed very recently, in March 2017. Public information campaigns to remove the stigma of failure are planned but have not yet been launched.

In 2016 and the first quarter of 2017, (the reference period for policy measures in this year's fact sheets), Malta implemented a substantial number of policy measures (15) addressing seven of the ten policy areas under the SBA. This represents an improvement over the previous reference period, both in terms of the number of initiatives as well as the breadth and variety of the measures implemented. Overall, stakeholders acknowledge that the progress in implementing the SBA has been substantial.

As in previous years, the area that saw the most significant progress in 2016 was access to finance, with four new initiatives. The launch of the 'Multilateral Trading Facility' by the Malta Stock Exchange opened up equity finance to a much broader range of businesses. This was coupled by three new grant schemes addressing start-ups, growth, innovation and diversification. The other policy area with significant improvement was entrepreneurship, with four new initiatives including the 'Family Business Act,' the 'Family Business Support Scheme' and the 'Family Business Transfer Scheme.' The fourth initiative was a change to the regulations of the 'MicroInvest scheme' to assist women in business.

The policy areas where policy progress has been particularly slow include 'Think Small First,' 'second chance' and the single market. In the first two categories, this was the result of delays in ongoing initiatives. In the case of 'second chance,' recent reform of the Companies Act has altered the situation somewhat.

SBA performance of Malta: state of play and development from 2008 to 2017²³



3. SBA principles²⁴

3.0 ‘Think Small First’

The ‘Think Small First’ principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Most of the elements of the ‘Think Small First’ principle are now in place. The Enterprise Consultative Council has been operating for a number of years, and the College of Regulators was finally established in February 2017. The SME test was implemented in early 2016 and is now applied to new legislation including subsidiary legislation. However, the Small Business Act (Malta) provides an exemption for fiscal legislation (often introduced in the annual budget speeches), and the SME test therefore does not apply in these cases. The satisfaction survey, which should be carried out by public entities offering services to industry every two years, is still pending.

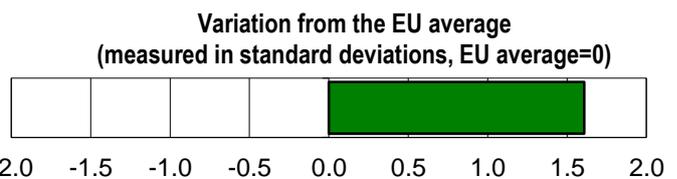
A number of measures related to the TSF principle have also not been implemented. Common commencement dates for new

legislation are not considered important by the private sector, and a two-month standstill period was introduced instead. Other principles not implemented include the use of specific measures for small and micro-enterprises (derogations, transition periods, exemptions from information or reporting requirements) and the increase in the VAT registration threshold to EUR 100 000.

In 2016 and the first quarter of 2017, the main development in relation to the ‘Think Small First’ principle was the establishment of the ‘College of Regulators’ as laid down in Malta’s Small Business Act. This body incorporates representatives from government authorities who are responsible for smoothing administrative hurdles and other barriers to private enterprises. The establishment of this body was delayed due to a perceived overlap in responsibilities with the Commission for Simplification, which has similar objectives but a much broader scope. The matter was finally resolved and the Commissioner for Simplification was appointed Chairman of the College of Regulators. However, it should be noted that this body has not yet become fully functional.

3.1 Entrepreneurship

Share of high growth enterprises (%); 2014; Malta: 13.67; EU avg: 9.19



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

There is no overall score for Malta for this area due to the non-availability of most indicators. The only information available relates to the share of high-growth enterprises with more than 10 employees in Malta, which scores above the EU average. This share has increased gradually from 9.8 % in 2012 to 13.7 % in 2014 — the highest share in the EU.

From a policy perspective, a comprehensive set of measures to promote entrepreneurship has been developed and implemented since 2008. A number of measures have been taken to introduce entrepreneurship studies at all levels of education. In compulsory education, entrepreneurship is being integrated into the curriculum as a cross-cutting theme, while the ‘Entrepreneurship in Education Scheme’ helps schools organise entrepreneurship training and related activities for their students since 2012. In 2013, the University of Malta set up the ‘Centre for Entrepreneurship & Business Incubation’, while the Malta College of Arts, Science and Technology (the public vocational college)

introduced entrepreneurship as a core subject in many of its courses. There have also been major advances in the provision of incubation facilities for start-ups. In 2014, the University of Malta launched the TAKEOFF Business Incubator, while in the same year the Malta College of Arts, Science and Technology set up an Entrepreneurship Centre to provide incubation services to students interested in starting up a business. At the same time, the Malta Information Technology Agency opened the ICT Innovation Hub at Smart City Malta.

The start-up environment has improved significantly in recent years. Many government-backed schemes offer grants and credit guarantees to help start-ups secure bank loans. Crowdfunding facilities are still in their infancy and require a proper legal framework before they gain traction. In November 2016, the Malta Financial Services Authority launched a discussion paper on investment-based crowdfunding to initiate a public exchange on a potential legal framework.

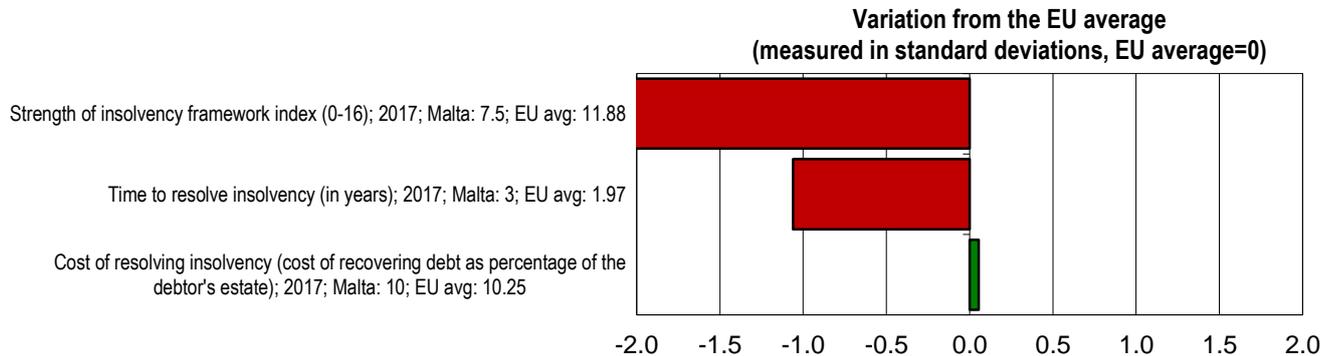
The concept of scale-ups has not been specifically addressed. As a result, any particular requirements on this SME category may not be adequately catered for. However, the Multilateral Trading Facility recently launched by the Malta Stock Exchange provides equity with less rigid requirements than was previously the case, and may offer some support here.

Significant progress has been made during the reference period, with four new measures implemented. In January 2017, the Family Business Act — an enabling legislation that had been underway since 2013 — passed into law²⁵. This was accompanied by amendments to other Acts of Parliament and subsidiary legislation as well as the establishment of a Family Business Support Service. This development is important since family businesses represent around 70 % of Maltese businesses and many of these do not successfully make the transition from one generation to the next. The Act creates a legal framework for family business members to receive legal guidance and assistance to adequately plan the successful transfer of their business when the time comes. This legislation was

accompanied by a number of fiscal and governance schemes run through the Family Business Office and operated by Malta Enterprise and the Inland Revenue Department, which were launched in early 2017. An example of one of the incentives is the ‘Family Business Support Scheme’ provides a grant to partly finance legal, notary and advisory costs involved in the transfer of a family business from one family member to another, and has an annual budget of EUR 250 000²⁶. The Family Business Transfer of Ownership Scheme reduces the duty due when transferring immovable property and shares in a business from one family member to another²⁷. The last initiative implemented was the change to the MicroInvest scheme regulations, under which the maximum tax credit was increased from EUR 30 000 to EUR 50 000 for self-employed women and businesses owned in their majority by women^{28, 29}.

Despite these achievements, a number of areas have yet to be addressed, including support services for business transfers as well as advisory, mentoring and support services for both female entrepreneurs and for migrants.

3.2 ‘Second chance’



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

‘Second chance’ ensures that honest entrepreneurs who have gone bankrupt get a second chance quickly. Malta’s performance in this area is among the three weakest among all EU Member States. Its performance therefore remains stable in this area. The state’s insolvency system continues to be slower and less effective than in other EU Member States and requires significant improvements.

Policy-wise, progress on ‘second chance’ was slow. Since 2008, the key initiative implemented focuses on reviewing Malta’s legislation on insolvency and bankruptcy, which got underway in 2014 but did not yield any concrete outcomes for the following three years.

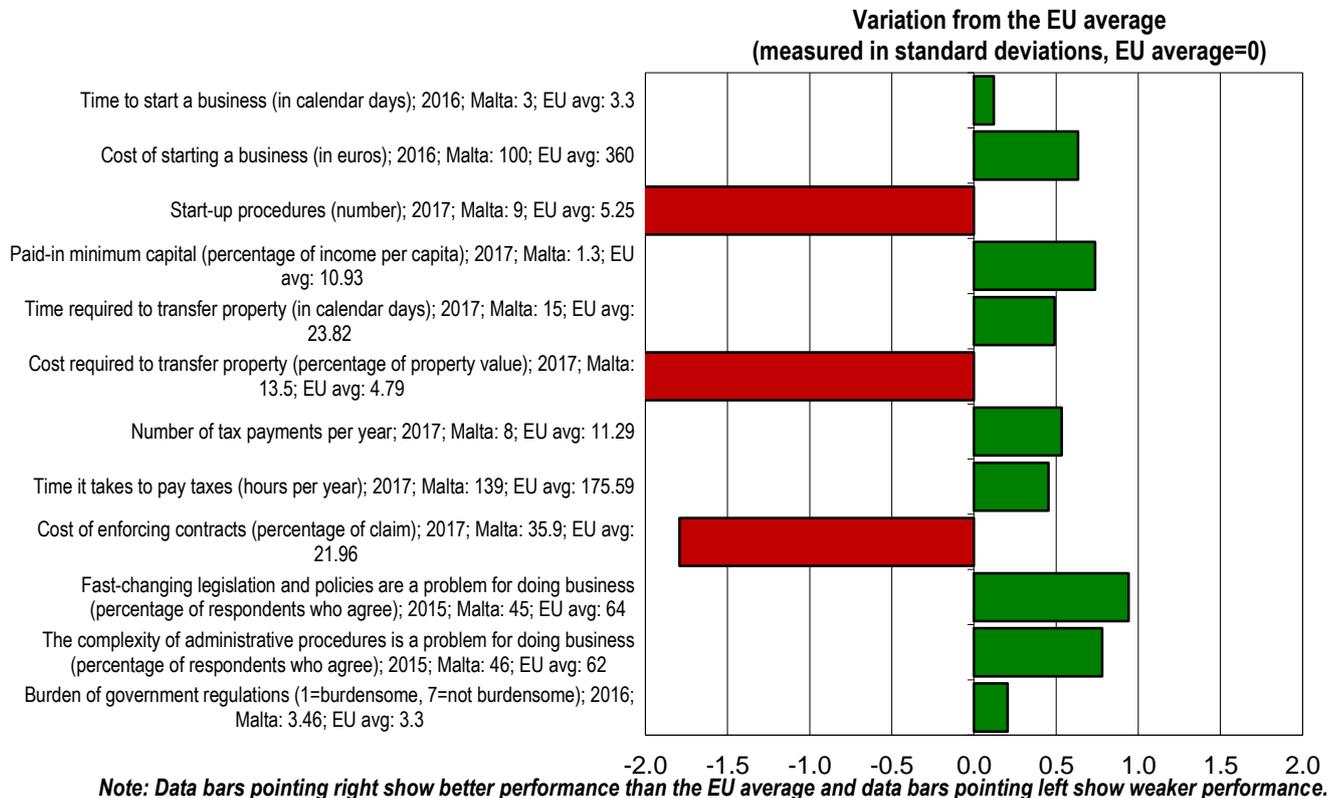
However, some relevant developments were initiated during the reference period. In January 2016 during a seminar on the ongoing justice reform, the Minister for Justice reported that work on reviewing insolvency legislation was at an advanced stage and would be completed in the coming months³⁰. In

November 2016, speaking at the Annual Company Law Conference, the Minister for Finance explained that the government intended to revise Article 329B of the Companies Act on the company recovery procedure in order to introduce innovative measures to help enterprises recover from insolvency and give honest entrepreneurs affected by insolvency a second chance³¹.

Finally, on 21 March 2017, the measures were introduced by way of Act XI of 2017, adopted by Parliament. Many of the measures adopted in this Act follow earlier EU recommendations on handling business failures and insolvencies. It is still too early to draw conclusions about the effectiveness of these changes.

There have not been any efforts to raise awareness about the issue or to combat the stigma of business failure.

3.3 'Responsive administration'



'Responsive administration' refers to public administration being responsive to the needs of SMEs. Malta's performance in this policy area falls within the EU average and has improved since 2008. The main driver for this was the general improvement in start-up conditions. As a result, the time to start a business dropped from 6.5 days in 2015 to 3 days in 2016. The costs associated with starting a business declined in the same period from EUR 210 to EUR 100, or less than a quarter of the EUR 450 charged in 2007. On both indicators, Malta now performs above the EU average. This is no reason for complacency, however, as the two indicators tell only part of the story. SMEs, including start-up firms, are still confronted with a relatively large number of bureaucratic procedures. There is still substantial room for further easing of the administrative burden, as other administrative costs related to business transactions remain much less competitive. Despite the 2015 withholding tax reform, transfer property costs increased during the 2016-2017 period from 5.5 % to 13.5 % of the property's value. The costs to enforce contracts also remained extremely high. On both indicators, Malta is the most expensive environment for SMEs in the EU.

Policy efforts undertaken since 2008 included the creation of 'Business First' by Malta Enterprise in January 2012. This one-stop shop provides information, guidance and assistance on all procedures for setting up a business in Malta. It handled 800 enquiries in 2016³². In 2014, the Malta Environment and

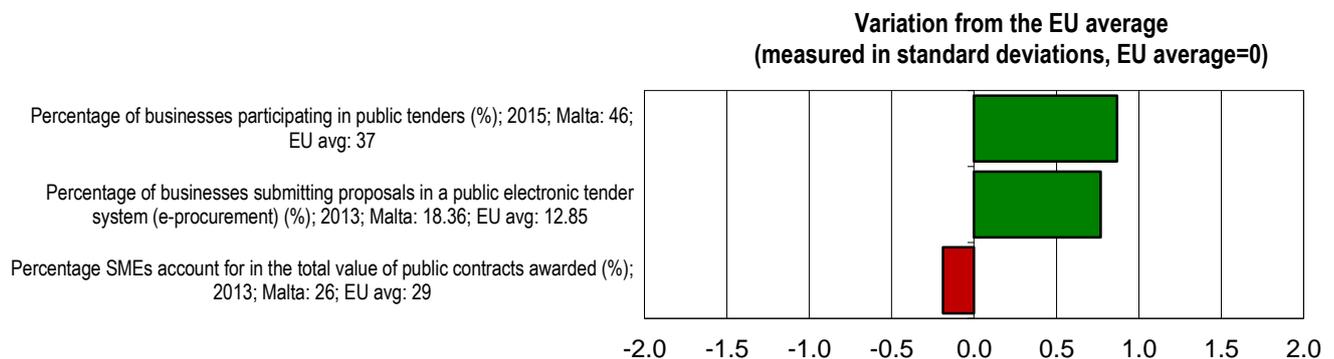
Planning Authority (MEPA) launched the 'Businesssense initiative,' a one-stop shop for permit applications providing clear and timely advice to applicants. In 2015, MEPA published a new Development Control Design Policy, Guidance and Standards, providing comprehensive documentation and guidance for all types of development, including commercial and industrial outlets. Also in that year, the work of the Commissioner for Simplification started. The Training Aid Framework managed by the Employment and Training Corporation was given access to data from the Malta Financial Services Authority, leading to a reduction of 65 % in processing time and a reduction of 50 % in costs. The registration period for a VAT number was reduced to 1 day, while the processes involved in applying for a VAT number and employer number were merged and an electronic application procedure was implemented.

During 2016 and the first quarter of 2017, two significant new policy measures were adopted or implemented in this area. In 2017, trading licences regulations were updated, removing the requirement for trade licences for many categories of business enterprise³³. The other measure taken by Malta Enterprise Business First was the introduction of electronic forms, which can be used during the start-up phase of a business for companies and self-employed individuals³⁴. These e-forms provide a single channel for individuals and companies to register and start operations by gathering all the necessary forms needed by the various local authorities / agencies in one

submission. In addition, the new planning authority was launched in April 2016 following the split of MEPA into two separate entities, with one focusing on the environment and the other dedicated to all other planning issues. The objective of the reorganisation is to increase efficiency. Another initiative which came into effect in early 2017 in response to requests by the business sector was the introduction of flexibility in regulations on retail outlet opening hours.

In general, while Malta’s recent progress in selected areas has ensured that it offers an administrative environment similar to the EU average, it could be more ambitious. As a compact state, it has the potential to follow the example of similarly sized Member States such as Estonia and go beyond its current average performance and establish itself as an EU centre of excellence for the regulatory business environment.

3.4 State aid & public procurement



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Malta continues to perform on a par with the EU average on state aid & public procurement. However, progress has been slowing in this area since 2008. The participation rate of SMEs in public tenders increased from 2013 to 2015. This may be — at least partially — a result of the policy measures taken in recent years.

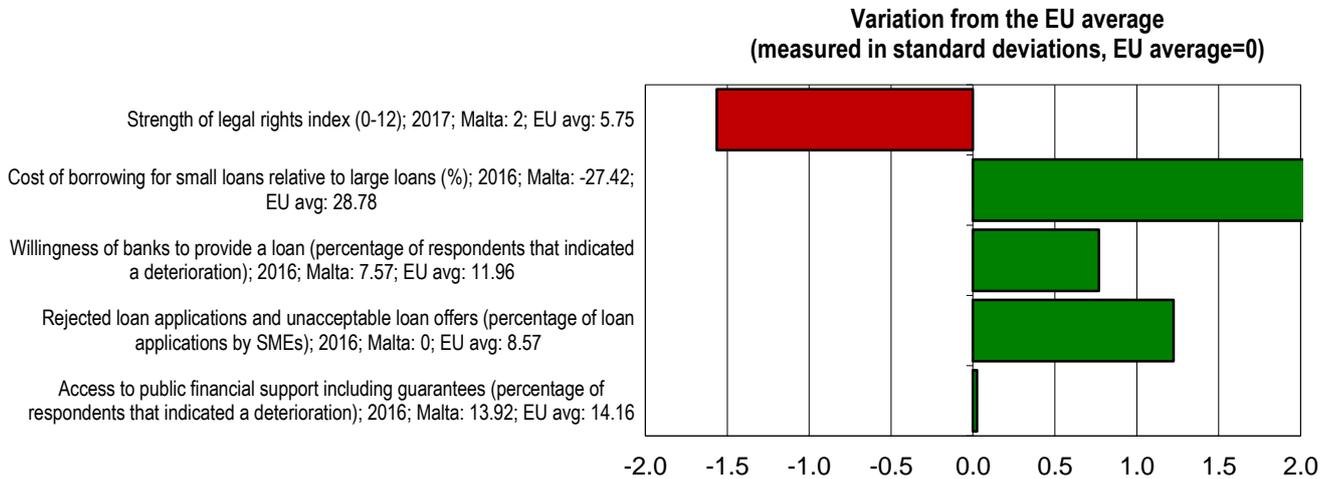
if a proper explanation is given. Bid bonds are only requested for tenders over EUR 500 000, and documentation on the financial and economic standing of bidders may be requested for large tenders only. Bidder experience requirements have also been lowered.

Significant progress has been made in this area since 2008, most notably by introducing numerous measures to make it easier for SMEs to participate in public procurement. An e-procurement system was implemented in 2011 covering the full tender cycle. The Contracts Department conducts annual information sessions with suppliers and economic operators, and holds weekly training sessions on the e-procurement system. Numerous amendments were made to reduce barriers to participation by SMEs, including the splitting of tenders into lots, rigorously applying the concept of proportionality, facilitating the process for economic operators to form joint ventures / consortia, encouraging contracting authorities to introduce ‘single bonds’ rather than standard performance guarantees and reducing the requirements for performance guarantees. Tenders generally allow subcontracting and this may only be disallowed

During 2016 and the first quarter of 2017, a number of initiatives were undertaken to make it easier for SMEs to participate in public procurement. The measures implemented include the creation of a threshold (EUR 5 000) for procurement to go through the electronic system; the introduction of the European Single Procurement Document for tenders; and the simplified process for economic operator registration in the ‘Electronic Public Procurement System’ ePPS — which does away with the electronic ID requirement.

In addition, in October 2016 Malta adopted a number of transposition measures of the EU’s 2014 Public Procurement Package. These include the concession contracts regulation, the public contracts regulation and the Public Procurement of Entities operation in Water, Energy, Transport and Postal Services’ Sector regulation.

3.5 Access to finance



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

There is no overall performance score available for Malta in this area. This is due to the unavailability of a number of indicators. Nevertheless, Malta performed way above the EU average on the cost of borrowing for small loans relative to large loans in 2016. At the same time, the percentage of loan applications rejected in 2016 was zero. Malta therefore performs well on SME access to loan financing, although certain sectors — including those where standard risk assessments are more difficult to apply — are subject to stricter loan policies by financial institutions. The share of SMEs that reported increased difficulties in obtaining public financial support — including loan guarantees — also rose sharply from 4 % to almost 14 % over the last year. As the reasons for this sudden change are not immediately apparent, this needs further monitoring.

On the policy side, access to finance has been a high-priority area for the Maltese government, with a large number of initiatives in recent years. Since 2010, a number of financial instruments were launched, including the 'JEREMIE,' 'MicroInvest,' 'MicroCredit,' 'MicroGuarantee' and 'ERDF Start-up Grant' schemes, which provide tax credits, grants or financial guarantees to SMEs. Another measure was the Seed Capital Fund, launched at the same time as the TAKEOFF Business Incubator and managed by the University of Malta thanks to an annual government allocation of EUR 100 000. More innovative approaches include Venture Capital Malta, which was launched in 2015 and takes the form of a joint initiative between the government and private financial service providers to create a platform to help start-ups in Malta. Another important development was the 'JAIME' (Joint Assistance Initiative for Maltese Enterprise) scheme launched by the Bank of Valletta and co-funded by the European Structural and Investment Funds and the Maltese government. Finally there is the 'Business Start'

(B.Start) scheme, which provides a cash grant of up to EUR 25 000 for a one-year period.

During 2016 and the first quarter of 2017, a number of additional key measures have been implemented to address this area. The Multilateral Trading Facility ('Prospects') was launched by the Malta Stock Exchange in 2016. This trading facility makes equity finance available to a broad range of SMEs for the first time³⁵. In July 2016, the 'Business Enhance' umbrella initiative was launched with funding from the European Structural and Investment Funds'. In subsequent months, three grant schemes were launched under this umbrella, which are managed by the Measures and Support Division within the Ministry for European Affairs and the implementation of the electoral manifesto³⁶.

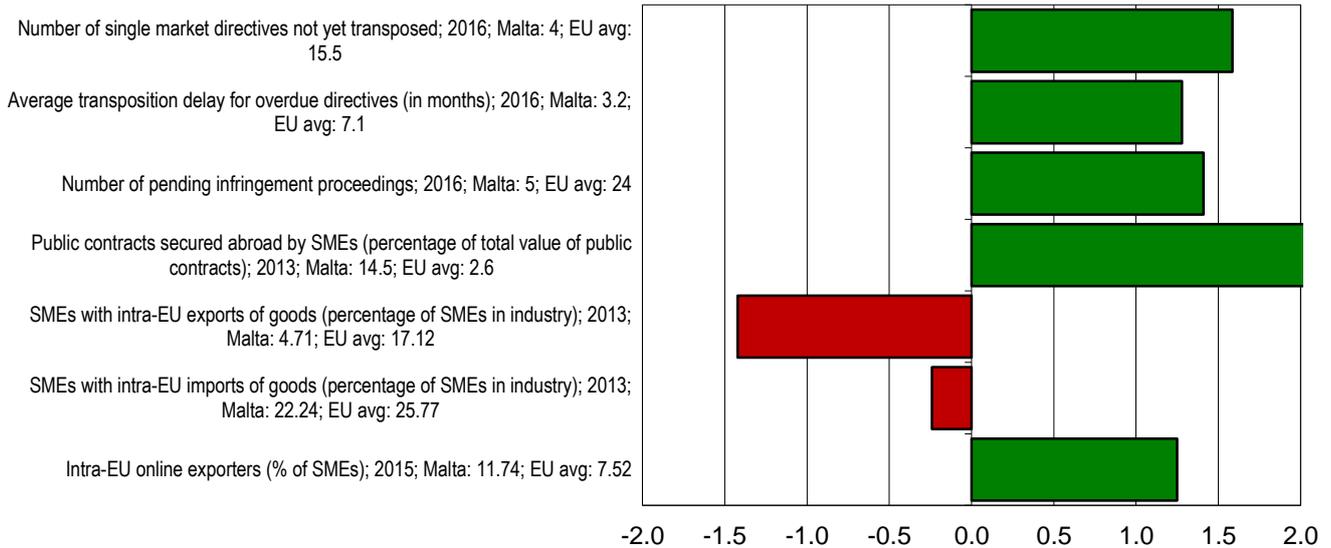
Additional measures include the 'Start-up Investments Grant' scheme with an annual budget of EUR 1.4 million, the 'SME Growth Grant' scheme and the 'SME Innovation and Diversification Grant' scheme, both with an annual budget of EUR 1.6 million. These grant schemes are expected to run until 2020.

The necessary legislation was also passed in May 2017 to allow the Malta Development Bank (MDB) to be set up. Its objective is, among other things, to make it easier for start-ups to access equity financing. However, little is known at this stage about the scale of the bank's future activities in this field.

Given the recent expansion of financial support measures, one challenge is to ensure full transparency for interested SMEs of the entire range of support programmes. This is also of immediate relevance to the MDB and its new set of support instruments.

3.6 Single market

Variation from the EU average
(measured in standard deviations, EU average=0)



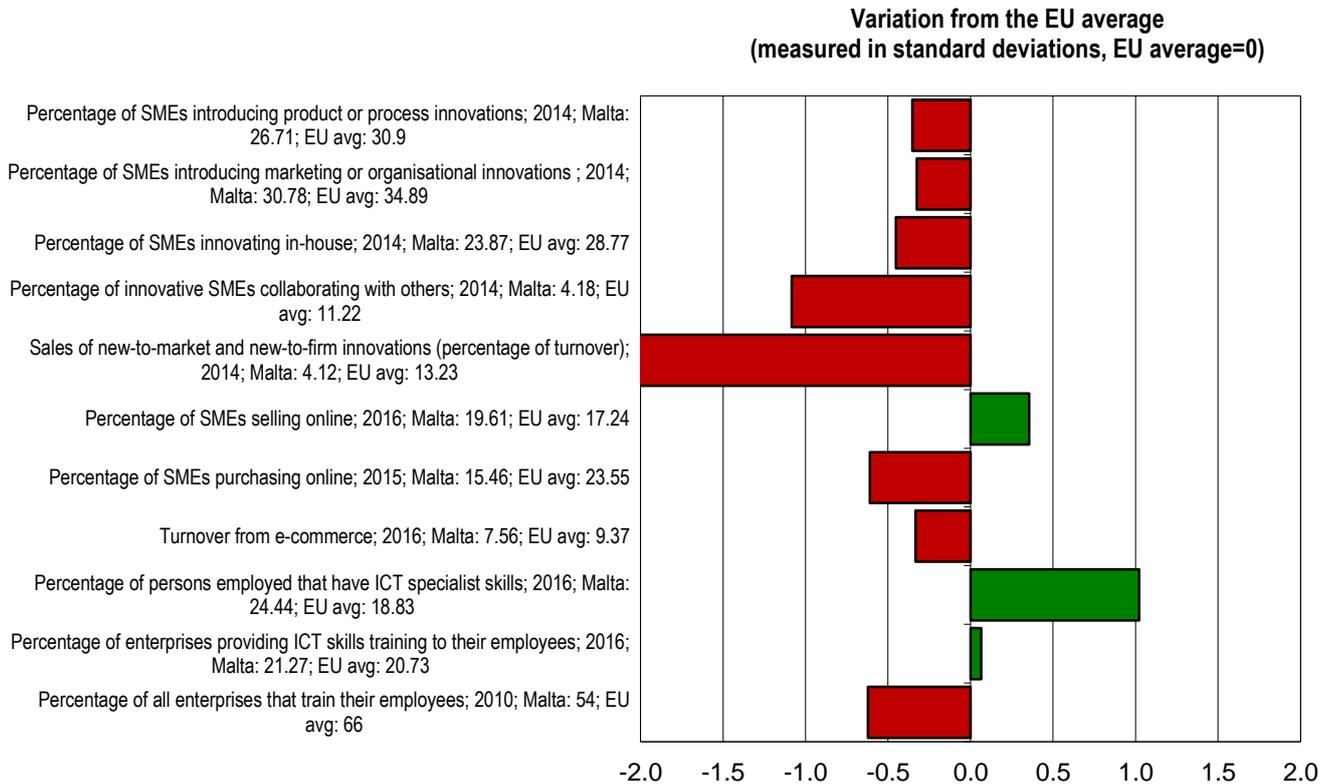
Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Malta continues to perform above the EU average in this policy area. Malta's performance even improved compared to last year, scoring among the top three. Its performance in this domain has gradually improved since 2008, mainly due to its ongoing efforts in transposing EU legislation. Progress continued over the reference period. For instance, the number of pending infringement proceedings dropped from 8 to 5. The number of single market directives not yet transposed increased slightly from 2 to 4. However, this needs to be put into perspective as the total number of directives to be implemented increased from 47 in 2015 to 66 in 2016.³⁷ Export performance in relation to the single market is mixed. The share of SMEs exporting online is substantially higher than the EU average. Since 2012, this figure, which comprises businesses from manufacturing and services, has been stable at around 12 % of all Maltese SMEs. However, this performance is rooted in the services sector. The figures for regular exports, which are available only for the goods sector, see Malta trailing the EU average by a considerable margin.

Policy progress made since 2008 in this domain includes the establishment in 2015 of a consortium that incorporates industry bodies and public sector entities and acts as the local arm of the Enterprise Europe Network. In 2015, the Commerce Department launched online filing facilities for trademarks and designs under which interested parties can file a new application for a trademark or design remotely. A complementary measure allows online applications for trademark and design renewal, changes of trademark ownership and changes of name and address of a trademark. In addition, changes to the Patent and Design Act came into force in 2015. These changes included the setting up of a tribunal to enable hearings on the revocation of patents and patent priority claims before the tribunal or the comptroller depending on the complexity of a case.

During 2016 and the first quarter of 2017, there was a substantial level of activity related to the transposition of EU single market legislation. Outside the implementation of EU law, no further measures of significance were implemented in this area.

3.7 Skills & innovation



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

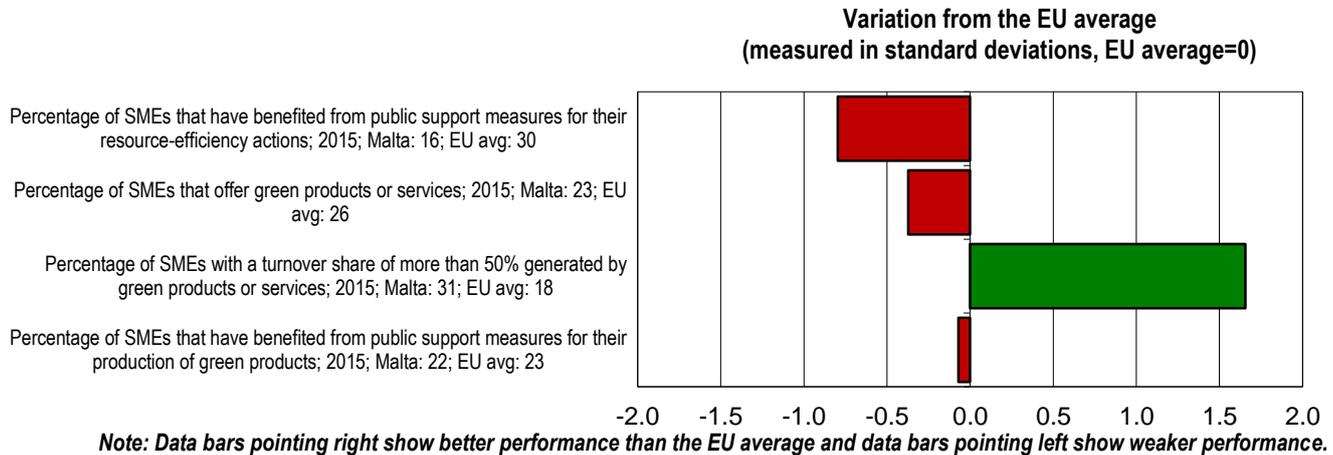
As in the previous reference period, Malta continues to perform in line with the EU average in this area. Since 2008, Malta's performance has gradually improved, while most other EU countries saw their performance deteriorate over the same period. Malta's improvement was driven by the growing number of SMEs that deploy IT strategically to improve their business operations. As a result, the share of SMEs selling online increased from 15.7 % in 2015 to 19.6 % in 2016, while the share of SMEs with turnover from e-commerce grew from 4.2 % to 7.6 %.

Many measures have been taken since 2008. However, they may not have exploited the full potential of administrative burden reduction. At a strategic level, an updated National Research and Innovation Strategy was published in 2014. This was supplemented by numerous policy measures promoting research and innovation among SMEs, including the 'Innovative Actions Grant' scheme, 'R&D Grant' scheme, the 'Commercialisation Programme,' the 'Loan of Highly-Qualified Experts' scheme and

the 'e-Business Grant' scheme. However, most of these have now ended. On skills development, a very successful measure was the 'Training Aid Framework,' which provided grants to enterprises for staff training and was used extensively by SMEs.³⁸ Once it ended, a similar scheme was launched in 2015.

Policy-wise, significant progress was made during 2016 and the first quarter of 2017, with two key measures launched. The 'Knowledge Transfer Tax Credit' scheme was launched by Malta Enterprise, with a total budget of EUR 10 million until 2020. This scheme focuses on developing and implementing customised training programmes, with a maximum benefit value of EUR 1 million per undertaking³⁹. In August 2016, the legislation establishing the 'National Skills Council' was passed, followed by the formal launch of the Council in November 2016⁴⁰. The governing board of the Council consists of between 11 and 13 members representing the key public higher educational institutions, the public employment agency, private enterprise and civil society.

3.8 Environment



Malta continues to perform on a par with the EU average in this area. Its performance declined in 2015 compared to 2013, with the share of SMEs benefiting from public support for resource efficiency measures dropping considerably. This also resulted in a decline in the proportion of SMEs applying resource efficiency measures. Nevertheless, the country still has the highest share of SMEs in the EU that have undertaken resource efficiency measures.

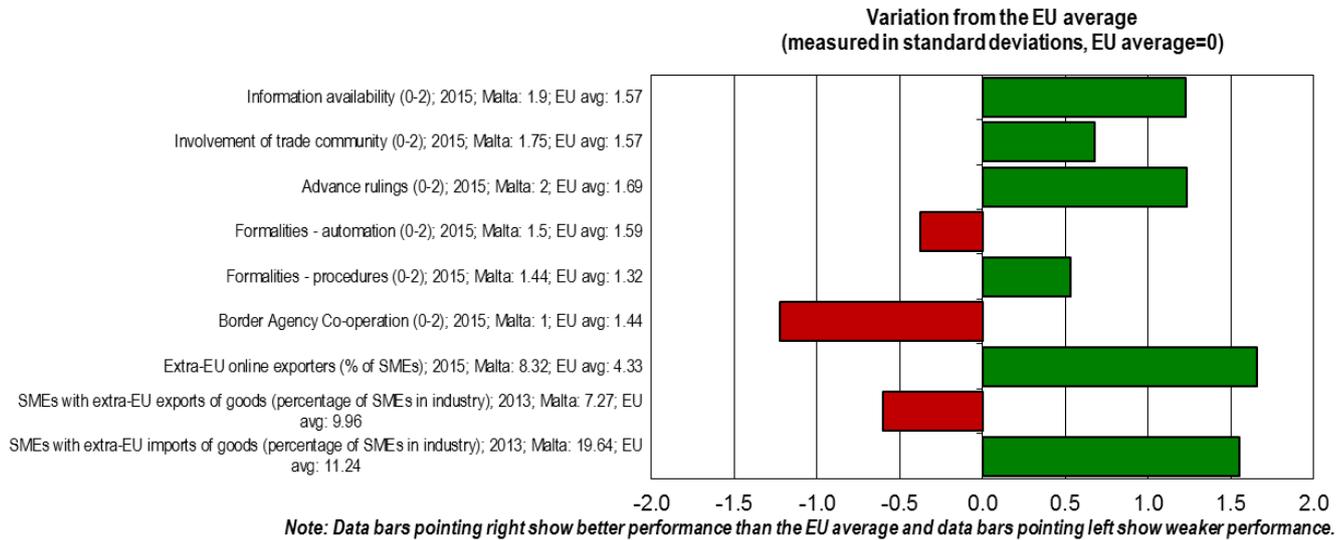
Policy-wise, since 2008 Malta has put in place measures to address most of the SBA recommendations in this area. Malta’s National Energy Efficiency Action Plan (2010) highlighted the importance of increasing energy efficiency in the private sector. Past fiscal measures include the ‘Quality+ scheme’ (tax credits offered to SMEs to finance quality and environmental certifications), the ‘ERDF Innovation Actions Grant’ scheme (investment in eco-innovation solutions) and the ‘ERDF Energy Grant’ scheme (initiatives focusing on energy efficiency or on investments in renewable energy solutions), although these have now ended.

During 2016 and the first quarter of 2017, moderate progress was made, with two new measures implemented. The ‘Aid for High-Efficiency Cogeneration’ scheme was launched by Malta Enterprise in 2016 with a budget of EUR 5 million for the period

2016–2019. The scheme provides tax credits to encourage companies to invest in high-efficiency generation equipment or to upgrade existing generators to improve energy efficiency, thereby reducing energy costs and improving competitiveness⁴¹. The ‘Energy Audit Voucher’ scheme was also launched by Malta Enterprise in 2016. The scheme provides vouchers to pay for a certified energy auditor to carry out an energy audit of the beneficiary’s operations in order to identify measures and investments that reduce energy consumption.

The Ministry for the Economy, Investment and Small Business also renewed its commitment to this principle. The second edition of the Sustainable Enterprise Award was well received, as evidenced by the number of entries for this year’s award, which tripled compared to previous years. The Ministry for the Economy, Investment and Small Business teamed up with the Cleaner Technology Centre to work on this year’s edition of the award. It rewarded Maltese enterprises, in particular micro, small and medium-sized enterprises (or foreign enterprises operating in Malta), for their efforts to change their practices in order to increase economic, social and environmental sustainability. This year, the application process was further simplified, with enterprises able to choose the pillar targeted by their activity.

3.9 Internationalisation



Malta performs above the EU average in this area. As most of the indicators in this year's version have been replaced, the overall performance cannot be compared to that of last year.⁴² On individual indicators, Malta's performance reveals a mixed picture. The framework conditions for trading SMEs are comparatively competitive. As a result, Malta scores above the EU average on trade community involvement, the availability of information and on advance rulings. This demonstrates the country's efforts to facilitate the internationalisation of SMEs. It also has the highest share of online exporters among its SMEs of all EU countries. It is likely that this performance is mainly due to its service industries as common export data, which are available only for manufactured goods, score below the EU average. The country also scores below the EU average on border agency cooperation, which suggests the need for further cross-border cooperation.

Since 2008, a number of measures have been implemented in this area that address most of the proposed SBA measures. Past measures include various funding schemes such as the 'ERDF

International Competitiveness Grant' scheme, the 'Business Advisory Services' scheme and the 'e-Business Grant' scheme. These have since come to an end, but similar schemes were launched in 2016. Trade Malta was launched as a joint venture between the government and the Chamber of Commerce in 2015. The organisation supports local companies in their internationalisation activities.

During 2016 and the first quarter of 2017, two significant measures were adopted. Two new schemes were launched under the Business Enhance umbrella by the Measures and Support Division within the Ministry for European Affairs and the implementation of the electoral manifesto. The 'SME Internationalisation Grant' scheme has an annual budget of EUR 400 000 and provides grants primarily for businesses to participate in international business promotion fairs⁴³. The 'SME e-Commerce Grant' scheme with an annual budget of EUR 1 million provides grants for designing, developing, implementing and delivering online sales/booking facilities, with both websites and mobile apps eligible⁴⁴.



4. Interesting initiative

Below is an example of an initiative from Malta to show what governments can do to support SMEs:

MITA Innovation Hub

The MITA Innovation Hub was set up in 2014 with a grant of EUR 30 000 to support young entrepreneurs working in ICT. During its first year, the organisation awarded two grants of EUR 15 000 each to support the development of mobile apps in development planning and cultural heritage. This was followed in 2015 by two grants to develop apps using geospatial data provided by the Copernicus Programme and by local public sector entities. The hub also offers office space, mentoring and logistical support to help entrepreneurs that may not have the necessary experience and resources.

Over the past two years, the hub has been working hard to improve and strengthen its methodology. The initiative has been successful, and the annual financial contribution from central government has been increased to EUR 110 000. It has developed an accelerator programme called youStartIT for pre-seed investments in the best digitally enabled business ideas. It has created an active collaboration network with both local and overseas institutions and regularly organises training events and seminars for budding entrepreneurs.

The first call for proposals was launched in July 2016, with 5 grants of EUR 22 000 available.

References:

<https://mitainnovationhub.gov.mt/en/Pages/Homepage-MITA%20Innovation%20Hub.aspx>

<https://mita.gov.mt/en/ict-features/Pages/2016/MITA-issuing-its-new-accelerator-programme-for-start-ups--.aspx>

Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

grow-spr@ec.europa.eu

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2015, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2014 figures from Eurostat's Structural Business Statistics Database. The data cover the non-financial business economy, which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

² Ministry of Finance, https://mf.gov.mt/en/Press_Releases/Pages/PR1_42175.aspx, last accessed 4.4.2017.

³ National Statistics Office Malta, Trends in Malta 2016, numbers refer to exports and imports, deducting the fuel component from the value, https://nso.gov.mt/en/publications/Publications_by_Unit/Documents/D2_Dissemination_Unit/Trends%20in%20Malta%202016.pdf, last accessed 10.4.2017.

⁴ The Malta Chamber of Commerce, Enterprise and Industry, <http://www.maltachamber.org.mt/en/new-logistics-business-section-within-the-malta-chamber-established> and Economic Vision for Malta 2014-2020 by the Malta Chamber of Commerce, Enterprise and Industry <https://iconfinancemalta.blob.core.windows.net/libx-128-public/Tags/General/Economic%20Vision%20for%20Malta%202014-2020%20-%20Full%20Report.pdf>, last accessed 4.4.2017 and <http://www.maltamarittima.org.mt/index.php/what-is-clustering/policy-areas/logistics>, last accessed 6.4.2017 and Ministry for Competitiveness and Digital, Maritime and Service Economy, <http://nouvconsulting.com/about-malta/industries-in-malta/financial-services/transport-and-logistics/>, last accessed 6.4.2017.

⁵ Malta enterprise, https://www.maltaenterprise.com/sites/default/files/publications/english_single_pages.pdf, last accessed 4.4.2017 and <http://www.maltaprofile.info/article/transport-logistics>, last accessed 4.4.2017.

⁶ Malta independent, Trading connections: Malta's thriving logistics industry, <http://www.independent.com.mt/articles/2014-07-31/news/trading-connections-maltas-thriving-logistics-industry-6033113095/>, last accessed 4.4.2017.

7

https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_C4/ Education_and_Information_Society_Statistics/Documents/2017/News2017_014.pdf, last accessed 6.4.2017.

⁸ The Smart Island, The National ICT Strategy for Malta 2008-2010, <https://www.mita.gov.mt/en/Documents/ICT%20Strategy/National%20ICT%20Strategy%202008-2010.pdf> and Angelou Economics, March 2010. Malta Vision 2015 and Beyond. A Path to a Knowledge-based Economy and Digital Malta, National Digital Strategy 2014-2020, <https://digitalmalta.org.mt>, last accessed 5.4.2017.

⁹ Ministry for Education and Employment. National Research and Innovation Strategy, <http://www.mcst.gov.mt/Media/Of3855ec-025c-48b5-8ade-2171b8749276.pdf>, last accessed 5.4.2017.

¹⁰ Malta Enterprise, 2016. Invest in Malta, The ICT Sector in Malta <https://www.maltaenterprise.com/sites/default/files/ICT%20Sector.pdf>, last accessed 5.4.2017.

¹¹ eSkills Malta Foundation, Annual Report 2015, https://eskills.org.mt/en/Documents/eSkills%20Malta%20Foundation%20Annual%20Report_2015.pdf, last accessed 6.4.2017 and https://shortcourses.mcast.edu.mt/EN/content/13/mcast_institutes, last accessed 5.4.2017 and Malta Enterprise, ICT and Shared Services, <https://www.maltaenterprise.com/industries/ict-and-shared-services>, last accessed 18.4.2017.

¹² Ministry for Finance, 17 October 2016. Economic Survey. https://mfina.gov.mt/en/The-Budget/Documents/The_Budget_2017/Economic_Survey_2016.pdf, last accessed 5.4.2017.

¹³ Central Bank of Malta, 2016. Forty-eighth Annual Report and Statement of Accounts 2015. <https://www.centralbankmalta.org/annual-reports>, p. 36, last accessed 5.4.2017.

¹⁴ NSO News Release 011/2017. https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_B3/ Environment_Energy_Transport_and_Agriculture_Statistics/Documents/2017/News2017_011.pdf, last accessed 5.4.2017.

¹⁵ The Malta Independent, 19 January 2016. Number of cars on Maltese roads continues to rise, <http://www.independent.com.mt/articles/2016-01-19/local-news/Number-of-cars-on-Maltese-roads-continues-to-rise-0-7-more-in-2015-6736151957>, last accessed 5.4.2017 and Malta Today, September 2014. Malta's car population hits worrying record, http://www.maltatoday.com.mt/news/national/44289/maltas_car_population_hits_worrying_record#.WNUvMjsrJBM, last accessed 5.4.2017.

¹⁶ Malta Today, May 2015. Number of companies in Malta soar to 70 000, http://www.maltatoday.com.mt/business/business_news/53305/number_of_companies_in_malta_soar_to_70000#.WNUYzTsrJBM, last accessed 18.4.2017.

¹⁷ NSO, 6.5.2016. News Release 073/2016. https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_B4/ Business_Registers/Documents/2016/News2016_073.pdf, last accessed 5.4.2017. However, there are ongoing discussions about the accounting of business registrations in Malta given that there is a large number of registered businesses acting as special purpose entities (SPEs) rather than conducting real business activities.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Persons employed and self-employed persons refer to persons aged 15-64. Source of the data is Eurostat. To calculate the 2016 value, quarterly data from the LFS series were averaged over all quarters for which information was available on 20.3.2017.

²¹ In line with Commission implementing regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees at the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum over a three-year period. The share of high-growth enterprises is the number of high growth enterprises divided by the number of active enterprises with at least 10 employees. Source of the data on high-growth enterprises is Eurostat (http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2), last accessed 10.4.2017. Due to data availability on Eurostat,

the data on high-growth firms refer to the 'business economy', which covers sections B-N including section K (financial activities, except activities of holding companies). The non-financial business economy excludes section K.

²² The 2017 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

²³ The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2017. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2017. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

²⁴ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2016 and the first quarter of 2017. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2017 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

²⁵ <http://justiceservices.gov.mt/DownloadDocument.aspx?app=lom&itemid=12569&l=1>

²⁶ <http://www.maltaenterprise.com/sites/default/files/Incentive%20Guidelines%20Version%201%2004.10.2016.pdf>

²⁷ <http://www.maltaenterprise.com/sites/default/files/Incentive%20Guidelines%20Family%20Business%20Transfer%20of%20Ownership%20%28Version%201%29.pdf>

²⁸ <http://www.maltaenterprise.com/sites/default/files/Micro%20Invest%20Incentive%20Guidelines%20%28for%20costs%20incurred%20in%202016%29%20%28Version%205.1%29.pdf>; a full synopsis of the benefits and incentives can be found at:

<https://economy.gov.mt/en/familybusinessact/Family%20Business/Pages/Introduction.aspx>

²⁹ A full synopsis of the benefits and incentives can be found at:

<https://economy.gov.mt/en/familybusinessact/Family%20Business/Pages/Introduction.aspx>

³⁰ http://www.maltatoday.com.mt/news/national/61406/insolvency_law_reform_expected_in_coming_months#.Vq8v_krKCo

³¹ <http://www.independent.com.mt/articles/2016-11-04/local-news/3-800-new-companies-registered-in-first-nine-months-of-this-year-6736166144>

³² Ministry for Finance, October 2016, Economic Survey 2016. https://mfin.gov.mt/en/The-Budget/Documents/The_Budget_2017/Economic_Survey_2016.pdf

³³ <http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lp&itemid=28211&l=1>

³⁴ <https://www.gov.mt/en/Services-And-Information/eforms/Pages/Landing%20Pages/BusinessStartup-Companies.aspx>

³⁵ www.smeprospects.com

³⁶ <https://businessenhance.gov.mt/en/schemes/Pages/General-Information-.aspx>

³⁷ The data for 2016 were compiled in December 2016, while the 2015 data were collected in May 2015.

³⁸ A list of the beneficiaries of the Training Aid Framework Scheme can be found here:

<https://eufunds.gov.mt/en/Operational%20Programmes/Operational%20Programme%20II%20Approved%20Projects%20and%20Beneficiaries/Documents/Approved%20Projects%202016/TAF%20Beneficiaries%20as%20at%2021%20January%202016.pdf>

³⁹ <http://www.maltaenterprise.com/support/knowledge-transfer>



⁴⁰ <http://www.independent.com.mt/articles/2016-11-29/local-news/Ministry-of-Education-and-Employment-officially-launches-the-National-Skills-Council-6736167288>

⁴¹ <http://www.maltaenterprise.com/sites/default/files/Investment%20Aid%20Cogeneration%20Incentive%20Guidelines%20%20Over%20%201%201%2013%2007%202016.pdf>

⁴² All World Bank indicators (time and cost to export and import) have been replaced by six OECD trade-facilitation indicators (following a scale where 0 is the worst and 2 is the best score). Please see Moisé, E., T. Orliac and P. Minor (2011), 'Trade Facilitation Indicators: The Impact on Trade Costs', OECD Trade Policy Papers, No 118, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5kg6nk654hmr-en> for more information on the methodology applied to construct the indicators; further information is available at: <http://www.oecd.org/trade/facilitation/indicators.htm>, last accessed 06/07/2017.

⁴³ <http://businessenhance.gov.mt/en/schemes/SMEInternationalisationGrantScheme/Pages/SME-Internationalisation-Grant-Scheme.aspx>

⁴⁴ <http://businessenhance.gov.mt/en/schemes/e-CommerceGrantScheme/Pages/e-Commerce-Grant-Scheme.aspx>