



Key points

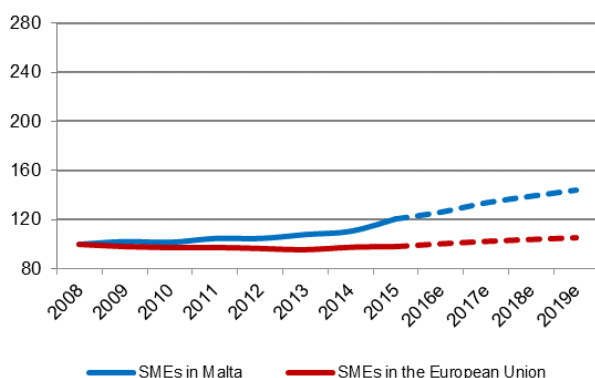
Past & future SME performance¹: Maltese SMEs generate 81.0 % of value added in the country and 80.9 % of employment, significantly higher shares than the respective EU averages of 56.8 % and 66.4 %. The annual productivity per worker in SMEs is lower than the EU average. SME value added increased by 62.7 % in 2013-2017. SME employment rose more slowly, increasing 24.0 % in the same period. This SME employment growth was similar to the employment growth of 24.2 % in the overall non-financial business economy. Most recently, in 2016-2017, SME employment increased by 6.2 % and value added grew by 9.8 %. SME value added growth is predicted to remain strong, increasing by an average of 9.0 % annually in 2017-2019, and outpacing the annual growth rate of value added in large firms. SME employment is likely to slow down from an average annual increase of 5.4 % in 2015-2017 to an annual increase of 3.9 % in 2017-2019.

Implementing the Small Business Act for Europe (SBA): Malta's SBA profile is mixed. The country performs in line with the EU average for most of the SBA principles. Although it performs poorly in 'second chance' and scores below the EU average in state aid & public procurement, Malta surpasses the EU average in single market and in internationalisation. In addition, Malta has made positive progress since 2008 in 'responsive administration', single market, and skills & innovation.

SME policy priorities: Malta has made great efforts in improving the business environment for SMEs. However, some very important measures falling under 'second chance' have not yet been fully implemented, such as public information campaigns to combat the stigma of business failure. Moreover, it still takes a long time to recover from insolvency and complete all legal procedures to wind up a business. Reducing the time this takes should be a priority. There is still room for improvement to encourage SMEs to participate more in public tenders. The government should also give more incentives to support eco-efficient businesses under the environment principle.

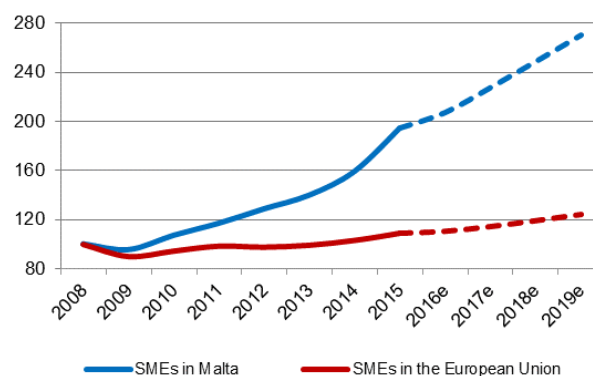
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2016 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2016 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	7
3.2 'Second chance'	8
3.3 'Responsive administration'	9
3.4 State aid & public procurement	10
3.5 Access to finance.....	11
3.6 Single market	12
3.7 Skills & innovation	13
3.8 Environment.....	14
3.9 Internationalisation	15
4. Interesting initiative.....	16

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	26 722	92.4 %	93.1 %	49 835	33.3 %	29.4 %	2.2	37.0 %	20.7 %
Small	1 812	6.3 %	5.8 %	37 329	25.0 %	20.0 %	1.5	25.5 %	17.8 %
Medium-sized	329	1.1 %	0.9 %	33 781	22.6 %	17.0 %	1.1	18.5 %	18.3 %
SMEs	28 863	99.8 %	99.8 %	120 945	80.9 %	66.4 %	4.8	81.0 %	56.8 %
Large	59	0.2 %	0.2 %	28 524	19.1 %	33.6 %	1.1	19.0 %	43.2 %
Total	28 922	100.0 %	100.0 %	149 469	100.0 %	100.0 %	5.9	100.0 %	100.0 %

These are estimates for 2017 produced by DIW Econ, based on 2008-2015 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.

Maltese SMEs generate 81.0 % of value added and 80.9 % of employment in the country's 'non-financial business economy', significantly higher shares than the respective EU averages of 56.8 % and 66.4 %. The average Maltese SME employs 4.2 people, which is higher than the EU average of 3.9 people. The annual productivity of SMEs is a little over EUR 39 500 per person, 9.8 % lower than the EU average of EUR 43 900. The majority of SMEs are in *wholesale and retail trade and professional, scientific and technical activities*. These two sectors together account for 41.9 % of total SME value added and 40.3 % of total SME employment.

SMEs have continued to lead the growth of the non-financial business economy. SME value added increased by 62.7 % in

2013-2017, with small firms generating even greater growth of 77.0 %. Both these growth rates were greater than the growth of 27.6 % achieved by large firms. SME employment rose more slowly, increasing by 24.0 % in the same period, and following a similar pattern to the overall non-financial business economy, where employment growth was 24.2 %. Most recently, in 2016-2017, SME employment increased by 6.2 % and value added increased by 9.8 %.

In 2013-2017, the *real estate activities* sector — comprised entirely of SMEs — was the fastest growing sector in the non-financial business economy of Malta. In terms of SME value added, this sector grew by 85.3 % in this period, with micro-enterprises reporting even more vigorous growth of 126.6 %.

SME employment also rose very strongly, increasing by 75.8 % in 2013-2017, with almost 700 new SMEs registered in the same period. This solid growth resulted from major surges in both the real estate sales market and the real estate rental market. In 2015 and 2016, house prices increased by 8.2 % and 5.4 % respectively². The rise in house prices encouraged housing investment, leading to an increase of 50 % in the property volume index in 2013-2016³. The rental market has been growing very strongly, driven mainly by a large increase in the number of foreigners settling in Malta^{4,5}. This growing demand for rental properties has encouraged speculative investment: it is estimated that up to 80 % of properties sold in certain areas are sold as rental investments⁶. Other factors contributing to the growth of *real estate activities* include a major increase in disposable income, the introduction of the Individual Investor Programme (IIP⁷), low interest rates and a resulting significant growth in credit⁸. The government also introduced a number of measures specifically aimed at reviving the property market, such as stamp-duty exemption for first-time buyers⁹ and a reform of rental income-tax legislation¹⁰. Both of these measures came into force in 2014, and there was a reform of capital gains tax in 2015^{11,12}.

The *information and communication* sector also generated major growth, with a rise of 78.7 % in overall value added and 47.8 % in overall employment in 2013-2017. SMEs in this sector performed particularly well, with 80.4 % growth in value added and 62.0 % in employment in the same period. However, this growth has slowed down in recent years. The annual increase in SME value added in this sector was only 5.1 % in 2016-2017 against average annual growth of 15.4 % between 2014 and 2016. Stable double-digit growth in the sector started in 2010 (except for a relatively modest decline in 2013) as a direct consequence of government initiatives introduced in 2008. These government initiatives identified the *information and communication* sector, together with *manufacturing* and *financial services*, as priority sectors for government support^{13,14}. The *information and communication* sector has been the beneficiary of many government initiatives targeted at education, business and the general population¹⁵. More recently, this sector has been identified as a horizontal enabler¹⁶ in

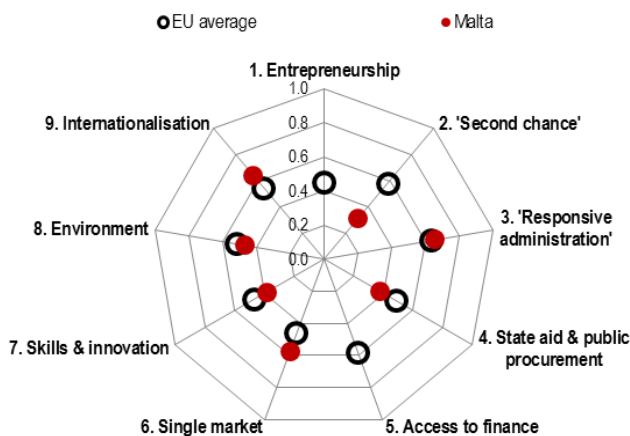
Malta's smart specialisation strategy¹⁷. The sector is also strongly promoted by Malta Enterprise, the government's investment and development agency¹⁸. Another growth driver has been the increasing use of ICT across domestic business sectors.

In the past 5 years, there has been overall growth in registrations of new businesses. New business registrations increased by 80.7 % in 2012-2015 before levelling off in 2016 and 2017¹⁹. In total, 11 621 new firms were registered in 2017. The number of deregistrations has fluctuated annually, with 3 989 deregistrations in 2017. Annual deregistrations fell by 3.7 % over the five-year period 2013-2017. As the total number of deregistrations has been consistently lower than the total number of registrations, the net result was an increase of 7 632 new firms in 2016-2017²⁰.

In 2015, 251 firms — 12.5 % of all firms in the 'business economy'²¹ with at least 10 employees — were high-growth firms²². This is substantially higher than the EU average of 9.9 %. The number of high-growth firms fell slightly in 2014-2015 after an increase of 48 % in 2012-2014. With the exception of manufacturing, every sector reported an increase in the number of firms with high-growth attributes in 2012-2015. The greatest increase in high-growth firms in 2012-2015 was in *wholesale and retail trade; repair of motor vehicles and motorcycles*, a sector where 11.5 % of firms were high-growth in 2015. This sector includes a quarter of all high-growth firms in the economy of Malta.

SME value added growth is predicted to remain strong, increasing by an average of 9.0 % annually in 2017-2019, and outpacing the annual growth rate of large firms. Growth in SME employment is likely to slow down from an annual average of 5.4 % in 2015-2017 to 3.9 % in 2017-2019. Nonetheless, this will still be a better performance than the forecast employment growth in large firms. The overall outlook for SMEs is that they will play an increasingly significant role in the economy of Malta, and to a greater extent than is average for SMEs in the EU.

2. SBA profile²³



Malta has a mixed SBA profile. The country performs above the EU average in single market and internationalisation. However, it lagged behind the other EU Member States in addressing the 'second chance' and state aid & public procurement principles. Malta performs in line with the EU average in the other areas. Since 2008, the country has progressed significantly in single market and 'responsive administration'. However, the lack of information on indicators for entrepreneurship and access to finance does not allow for a consistent evaluation of Malta's SBA profile.

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. Specific points that still need substantial improvement include the 'Lead Market Initiative' under skills & innovation, and the use of derogations and exemptions for small enterprises under 'Think Small First'. Malta's intention to increase the threshold for VAT registration from the current value of EUR 14 000 to EUR 20 000 is a step forward, although this is still some way off the European Commission's proposed threshold of EUR 100 000.

Malta has made moderate progress in the other three areas. For the 'second chance' principle, the Companies Act was amended to improve the chances of a company avoiding bankruptcy by

restructuring and refinancing. However, promoting a more positive attitude towards failed entrepreneurs has still not been addressed.

On the single market, the main improvements have been in the registration of trademarks and patents. It appears that several of the measures proposed in the European Commission's Small Business Act initiative are of marginal importance to SMEs and are not usually highlighted as issues by stakeholders.

On the environment, Malta's main shortcoming is the lack of policy action to encourage local industry to take advantage of opportunities to develop eco-friendly products.

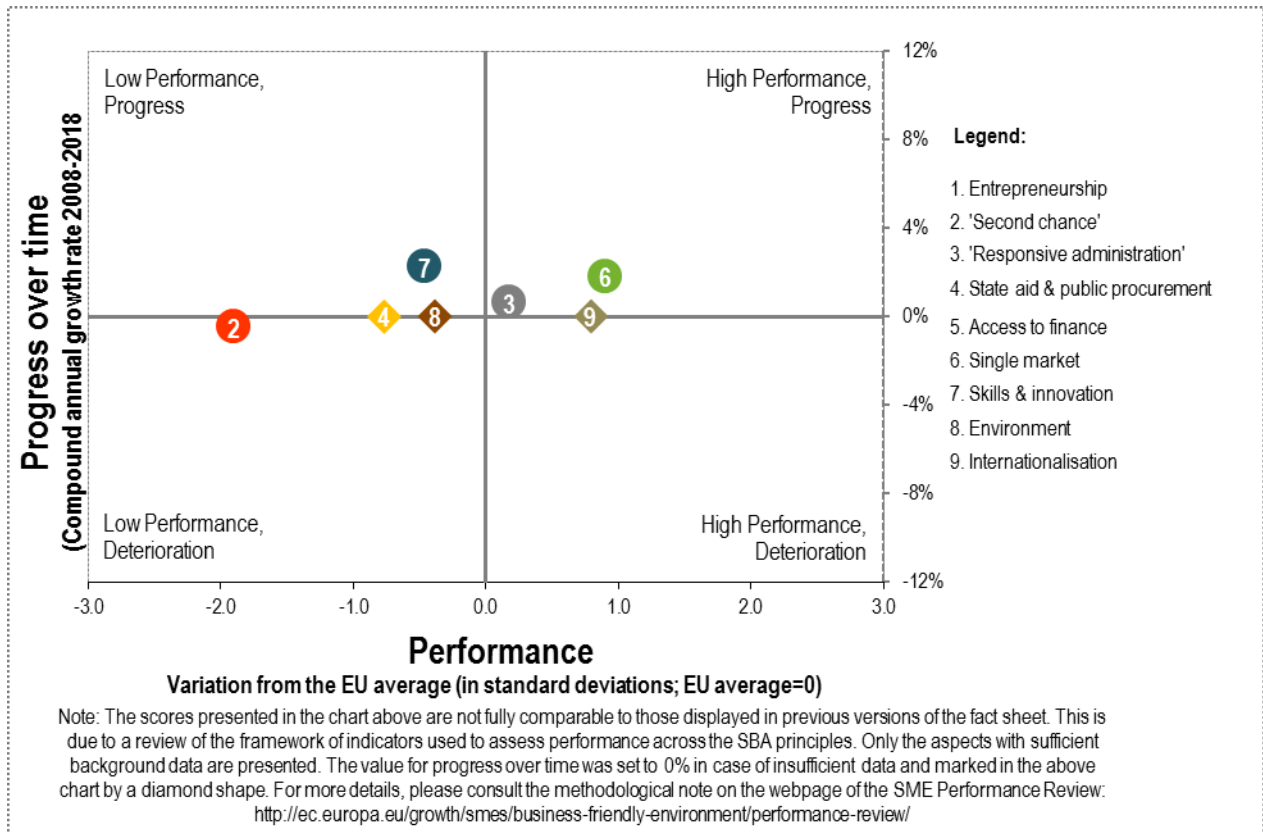
On the EU's SME action programme, there are many opportunities for Malta to take measures to follow the relevant recommendations. In particular, measures focusing on cross-border initiatives could be very beneficial.

In 2017 and the first quarter of 2018, (the reference period for policy measures in this year's fact sheets), Malta implemented 17 policy measures addressing 7 of the 10 policy areas under the SBA. This is a further improvement in the trend of previous years, which have seen a growing number of SBA policy implementation measures. Overall, stakeholders (such as SME representative bodies) acknowledge that the progress in implementing the SBA has been substantial.

Progress in the entrepreneurship and skills & innovation categories was strong, as it has been in previous years. However, the pace of progress in access to finance has not been as strong as in recent years. This is because access to finance has been the subject of numerous initiatives in recent years, making it difficult to match the rates of progress made in the past. The launch of the Malta Development Bank (end of 2017) introduces a new type of funding, making a broader range of funding options available.

Under state aid & public procurement, progress has been limited. This is because the many achievements made in previous years make it difficult to register further progress. Other policy areas where progress has been weak during the reference period include environment and the single market, although some initiatives in these two areas are scheduled to be completed in 2018.

SBA performance of Malta: state of play and development from 2008 to 2018²⁴



3. SBA principles²⁵

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.

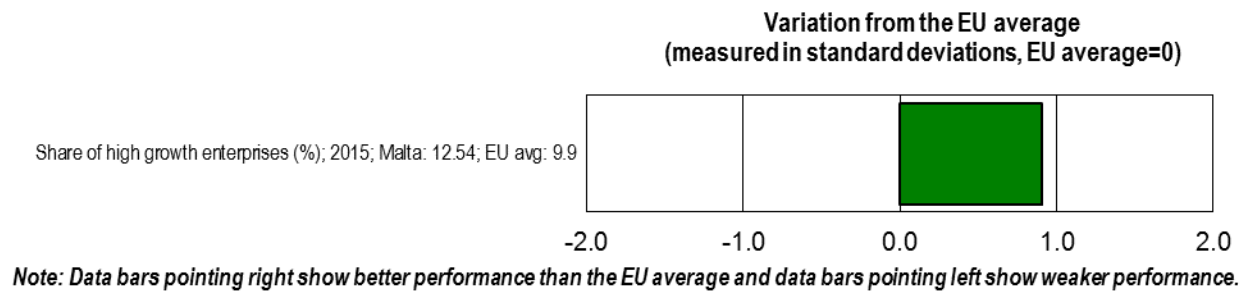
Malta enacted the Small Business Act in 2011. Since 2008, most of the recommendations falling under the ‘Think Small First’ principle have now been implemented. The ‘SME test’ came into force in early 2016 and is now applied to new legislation, including subsidiary legislation. Under the provisions of the SBA, Maltese authorities are also required to develop user guidelines and explanatory notes for any new legislation. The Enterprise Consultative Council is the main vehicle for consultation between government and businesses, and has now been operating for a number of years. In 2017, the Enterprise Consultative Council met on three occasions, and discussed topics such as trade licence reform, retail opening hours, the Family Business Act and various incentive schemes.

During the reference period, the most noteworthy development related to the ‘Think Small First’ principle was the establishment of the College of Regulators as laid down in Malta’s Small Business Act²⁶. This body brings together representatives from

various government authorities, and has a mandate to seek ways to reduce administrative barriers to private enterprises. The establishment of this body was delayed due to a perceived overlap in responsibilities with the Commission for Simplification. This problem was finally resolved with the appointment of the Commissioner for Simplification as chair of the College of Regulators. During the annual budget speech in October 2017, the Minister of Finance announced that the threshold for VAT registration would be increased from the previous value of EUR 14 000 to EUR 20 000²⁷.

A number of measures related to the ‘Think Small First’ principle have still not been implemented. The satisfaction survey proposed in Malta’s Small Business Act, which should be carried out every two years by public entities offering services to industry, has not yet been carried out. Common commencement dates for new legislation as proposed in the Small Business Act for Europe are not considered important by the private sector, and a two-month standstill period was introduced instead to give SMEs time to prepare for new administrative requirements. Another principle that has not yet been implemented is the use of specific measures for small businesses and micro-enterprises.

3.1 Entrepreneurship



There is no overall score for Malta in entrepreneurship due to the non-availability of most indicators. The only information available relates to the percentage share of high-growth enterprises with more than 10 employees, which surpasses the EU average. This percentage share has steadily increased since 2012, before decreasing slightly from 13.7 % in 2014 to 12.5 % in 2015. Still, Malta's performance on this indicator is the second strongest among all EU Member States.

Since 2008, many policy measures have been put in place to promote entrepreneurship. In the educational sphere, entrepreneurship is being integrated into the curriculum as a cross-cutting theme. In addition, the Prince's Trust International, a charity supporting development of young people, has set up its Achieve Programme in Malta. This programme features entrepreneurship as one of its modules. The 'Entrepreneurship in Education Scheme' launched in 2012 provides government funding to help schools organise entrepreneurship training and related activities for their students. At tertiary level, the University of Malta in 2013 set up the Centre for Entrepreneurship & Business Incubation, while the Malta College of Arts, Science and Technology introduced entrepreneurship as a core subject in many of its courses.

Other important initiatives have involved the establishment of incubation facilities for start-ups. In 2014, the University of Malta launched the TAKEOFF Business Incubator, together with the TAKEOFF Seed Fund Award, funded by the central government. A parallel initiative in the same year was undertaken by the Malta College of Arts, Science and Technology, which set up an entrepreneurship centre to provide incubation services to students interested in starting a business²⁸. The Malta Information Technology Agency also opened the ICT Innovation Hub at the SmartCity Malta technology park in 2014²⁹.

Significant progress was made during the reference period, with the launch of the Maritime Seed Fund Award, which is funded by the Malta Maritime Agency and administered by the TAKEOFF Business Incubator³⁰. This provides funding for proof-of-concept projects and for start-ups in the area of maritime products and services. Another policy measure in the reference period was the passing of the Audit Report Waiver legislation, which grants

exemption from financial audit requirements for two years for graduates starting their own business³¹.

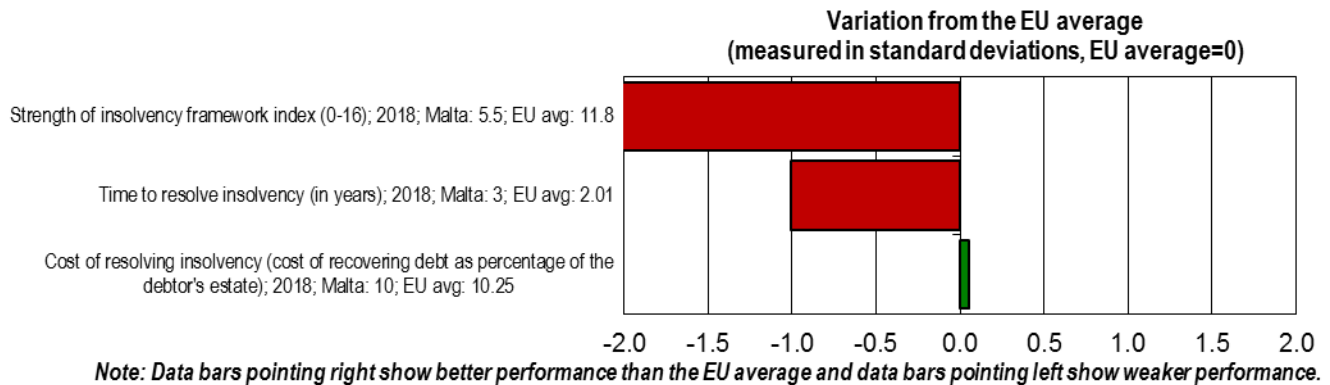
Also in 2017, the Family Business Act was enacted through specific legislation³². The Act had been under preparation for several years and creates a legal framework whereby owners of family businesses can apply for registration on the Family Business Register. It also entitles them to legal guidance and help to transfer their business from one family member to another. This legislation is consistent with the Family Business Support Scheme and the Family Business Transfer of Ownership Scheme administered by Malta Enterprise^{33,34}. The Family Business Support Scheme provides a grant to partly finance the legal, notary and advisory costs involved in the transfer of a family business from one family member to another. The Family Business Transfer of Ownership Scheme allows for a reduction in duties payable when transferring immovable property and shares in a business from one family member to another.

Malta has addressed the most important principles in the entrepreneurship policy category. However, the country has not yet tackled measures such as the creation of databases for matching businesses with support services, or the provision of mentoring and support services for female entrepreneurs and migrants.

There has been a significant improvement in the environment for start-ups in recent years. Recent developments include the creation of incubation facilities, targeted grant schemes and government-backed schemes offering credit guarantees to help start-ups secure bank loans. Crowdfunding is also available with certain limitations. However, crowdfunding still requires the creation of a proper legal framework before it can become widespread.

The concept of scale-ups (businesses that were set up several years ago and now wish to expand) has not been specifically addressed in the reference period. However, some government initiatives cater for this category of business. In particular, the multilateral trading facility provided by the Malta Stock Exchange provides equity with less rigid requirements than was previously the case. It appears to be a suitable financing instrument for scale-ups³⁵.

3.2 ‘Second chance’



‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Malta performs well below the EU average on ‘second chance’, with the lowest score among the Member States. Malta’s overall performance in this area has declined slightly since 2008. The cost to resolve insolvency in Malta is in line with the EU average. However, creditors take 3 years to recover their credit, which is a long time compared to the EU average. The most critical indicator to improve is the strength of the insolvency framework index, where Malta is currently ranked among the three poorest performers among EU Member States.

‘Second chance’ is one of the policy categories where progress since 2008 has been limited compared to other areas. From a legislative perspective, Malta’s insolvency system continues to be slower and less effective than in other EU Member States and requires significant improvements. The government is well aware of this issue, and in 2014 an initiative was launched to investigate ways of addressing the problem.

During the reference period, this initiative finally came to fruition when Act XI of 2017 was adopted by Parliament³⁶.

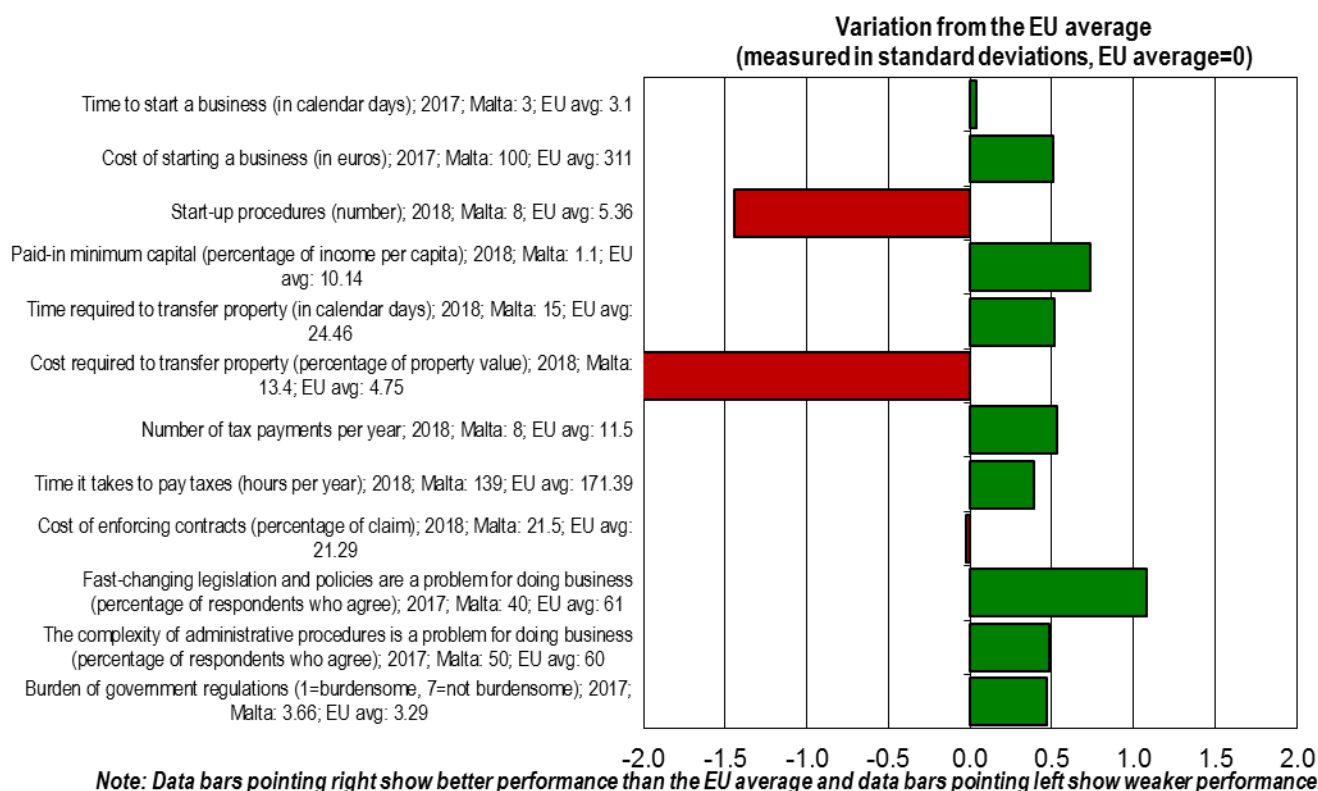
Many of the measures adopted in this Act follow earlier EU recommendations on handling business failures and insolvencies. The changes introduced by the Act improve the chances of a company avoiding bankruptcy through restructuring and refinancing. They also improve the efficiency of insolvency procedures. Changes introduced by the Act include:

- the appointment of a special controller;
- the use of mediation between creditors and the company;
- the introduction of the concept of creditor classes;
- provisions to facilitate new financing and improve liquidity.

Mediation has been used more frequently in recent years, and the University of Malta now offers a Masters-level course to aspiring mediators.

One measure falling under this policy category which has not been adequately addressed is public information campaigns to combat the stigma of business failure.

3.3 'Responsive administration'



'Responsive administration' refers to public administration being responsive to the needs of SMEs. In this SBA area, Malta performs in line with the EU average, with continuous progress since 2008. Fast-changing legislation was less of an issue for SMEs in 2017 against 2015. However, complex administrative procedures were considered a problem by half of the respondents in 2017, an increase from 46 % in 2015. The number of procedures required to register a business also fell from 9 to 8 between 2017 and 2018. However, Malta scores worse than the EU average for this indicator (the EU average only requires 5.36 procedures), which leaves room for Malta to further ease the administrative burden in the future. In addition, the cost required to transfer property in Malta remains the highest in the EU at 13.4 % of the property value.

Since 2008, Malta has taken a number of policy measures to reduce bureaucracy and reduce the cost of running a business. In 2012, Malta Enterprise launched 'Business First', a one-stop shop providing information, guidance and assistance on all procedures related to setting up a business in Malta. 'Businesssense' was a similar initiative launched by the Malta Environment and Planning Authority in 2014. This is a one-stop shop for permit applications providing clear and timely advice to applicants. It was followed in 2015 by the publication of a new guidance document on building and infrastructure development.³⁷ The document gave comprehensive guidance for

all types of development, including commercial and industrial outlets.

In 2013, the government appointed a Commissioner for Simplification and Reduction of Bureaucracy. The Commissioner was given a mandate to reduce bureaucracy by 25 %. One notable achievement by the Commissioner in 2015 was when he encouraged data sharing across different government departments. Data were shared when the Training Aid Framework process was granted access to data from the Malta Financial Services Authority. This led to a 65 % reduction in processing time and a 50 % reduction in costs. In another initiative led by the Commissioner, two distinct processes (applying for a VAT number and applying for an employer number) were merged into a single electronic application, reducing the registration period for a VAT number to just one day.

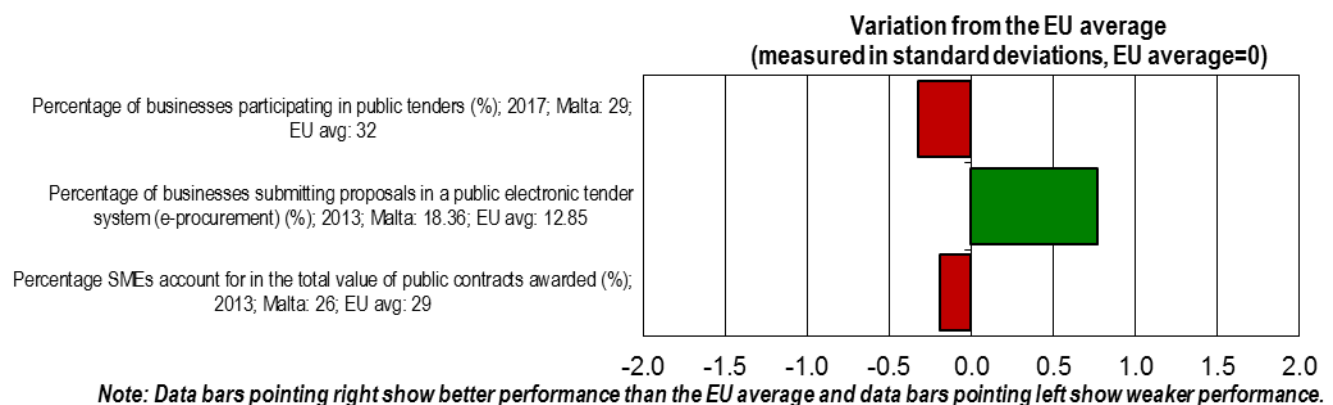
During the reference period, two improvements in the regulatory environment were announced or adopted/implemented. The first improvement was that trading licence regulations were updated, withdrawing the requirement for trade licences for many categories of business enterprise³⁸. The second improvement was that Business First introduced electronic forms to start a business, providing a single channel combining all the forms required by the local authorities and agencies into one single submission.

In October 2017, Business First was relaunched as Business First Ltd, a collaborative undertaking between the government and the Malta Chamber of SMEs. This relaunch was accompanied by the establishment of a number of one-stop-shop centres called 'servizz.gov'³⁹. In response to requests by the retail sector, restrictions on retail outlet opening hours were relaxed during the reference period. The Coordination of Government Inspections Act also came into force in the reference period,

reducing the burden of multiple regulatory inspections on businesses⁴⁰.

One area that could benefit from further improvement is data sharing and coordination between various departments to further streamline administrative processes. It is still common practice to require SMEs to supply the same information repeatedly when dealing with different government departments.

3.4 State aid & public procurement



In state aid & public procurement, Malta falls below the EU average. The proportion of SMEs participating in public tenders dramatically fell from 46 % in 2015 to 29 % in 2017. However, Malta is still not the worst performing country in the EU in the number of SMEs participating in public tenders. No data have been available for the other indicators since 2013.

This policy area has seen significant progress since 2008 through the introduction of many policy initiatives. Most of these policy initiatives have been aimed at making it easier for SMEs to participate in public procurement. A key initiative was the launch of the e-procurement system in 2011, which covers the full tender cycle.

In recent years, many legislative and procedural changes have been made to reduce barriers to SME participation in public tenders. These include:

- the requirement to split tenders into lots, rigorously applying the concept of proportionality;
- facilitating the process for SMEs to form joint ventures and consortia;
- encouraging contracting authorities to introduce 'single bonds' instead of standard performance guarantees;
- reducing the requirements for performance guarantees.

Public tenders in Malta generally allow subcontracting, and the contracting authority must provide proper justification if

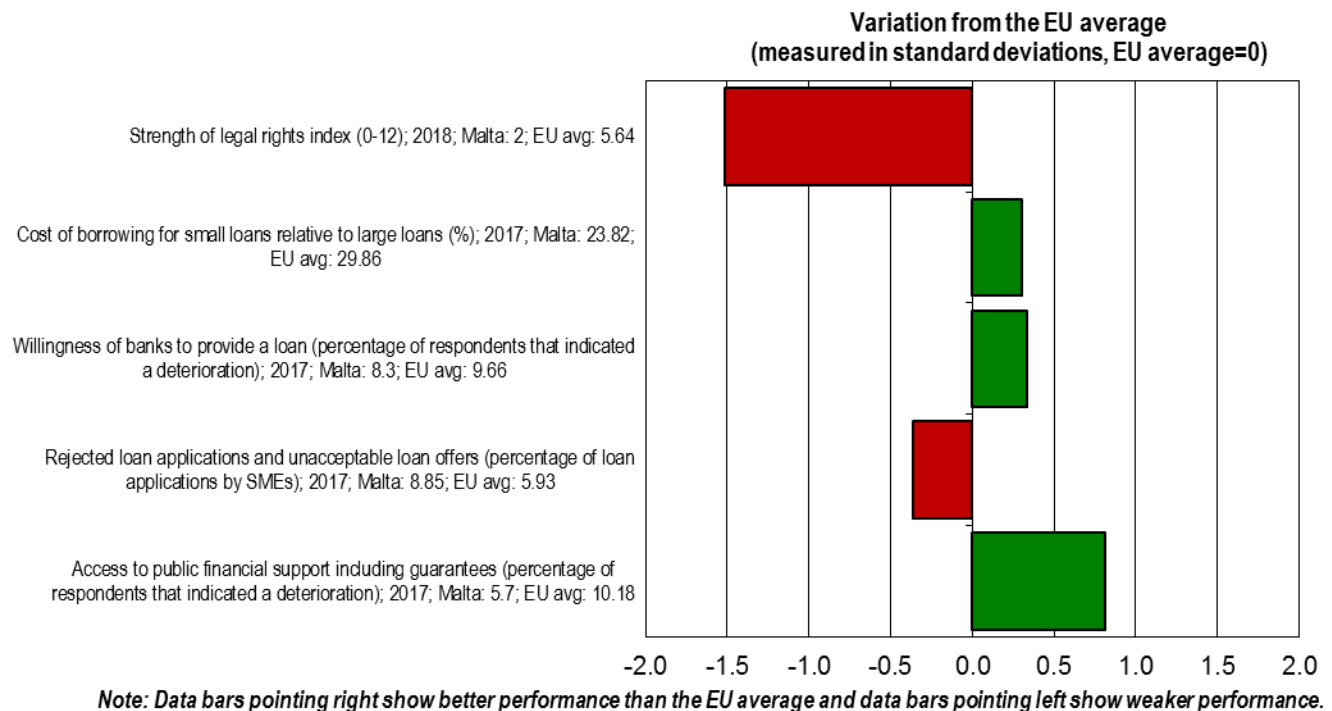
subcontracting is not allowed. Bid bonds are only requested for tenders over EUR 500 000, and documentation on the financial and economic standing of bidders may be requested for large tenders only.

In 2016, a legal notice was published making it mandatory for all public tenders with a value exceeding EUR 5 000 to go through Malta's e-procurement system. Additional measures taken in 2016 include the introduction of the European Single Procurement Document for tenders and the simplified process for economic operator registration in the e-procurement system. In 2016, Malta adopted a number of transposition measures of the EU's 2014 Public Procurement Package. These included the Concession Contracts Regulation; the Public Contracts Regulation; and the Public Procurement of Entities operation in Water, Energy, Transport and Postal Services Sector Regulation.

The Maltese government's Contracts Department holds annual information sessions with suppliers and economic operators. It also holds regular training sessions on the e-procurement system.

During the reference period, Malta updated its General Block Exemption Regulation, extending the scope for the country to provide state aid to airports and ports. The amended regulations also allow the use of simplified cost options for operations that are partly financed through an EU fund. Certain notification thresholds have been increased, for example in the sector of culture and heritage conservation.

3.5 Access to finance



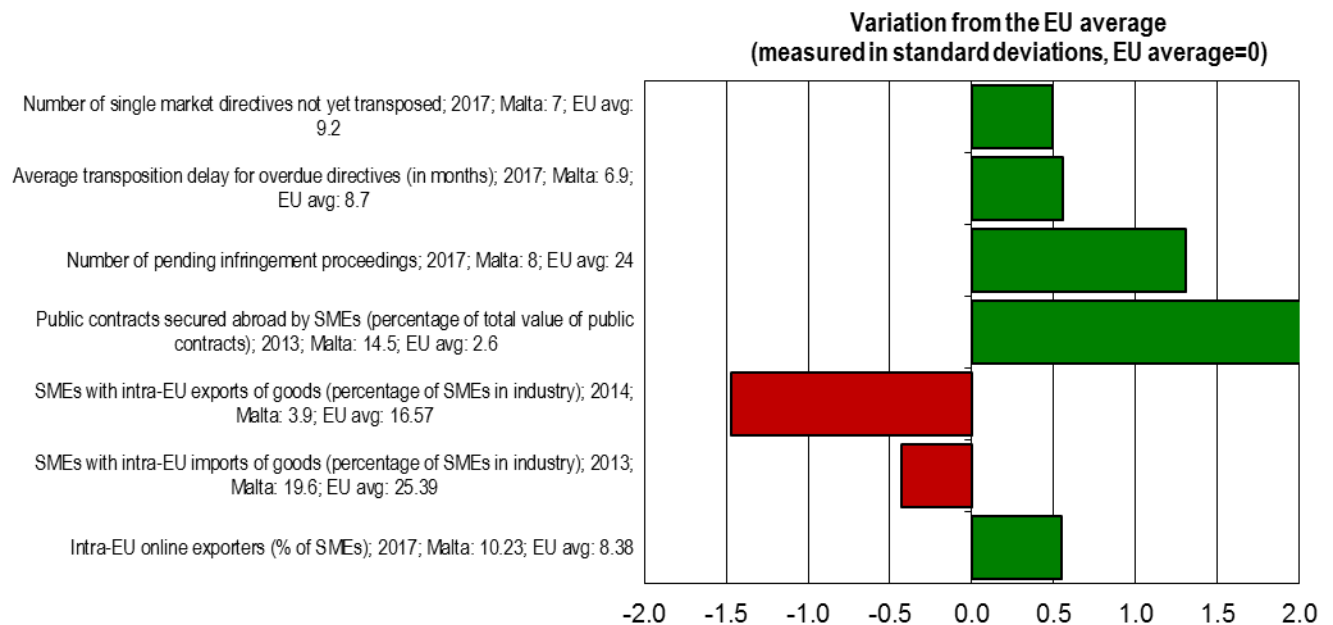
In access to finance, there is no overall performance score available for Malta because a number of the indicators are unavailable. Nevertheless, Malta's results on the five available indicators on access to finance are mixed. The strength of legal rights was unchanged compared to the previous report, and Malta is the weakest of the EU Member States in this indicator. The percentage of rejected loans has increased compared to last year's fact sheet, but is still within the EU average. In addition, the annual average interest rate for small loans increased by less than two percentage points from 2.5 % in 2016 to 4.2 % in 2017. The cost of borrowing for small loans relative to large ones continued to increase. Slightly more SMEs than the previous report perceived that there had been a deterioration in the willingness of banks to provide them with loans. These perceptions are in line with indicator data against previous years. On a positive note, fewer SMEs indicated a deterioration in access to public financial support in 2017 than in 2016.

Making finance more available to Maltese businesses has been a high priority for the Maltese government. A large number of initiatives in this policy area have been implemented in recent years. Since 2008, a number of financial instruments were launched, including the 'JEREMIE,' 'MicroInvest,' 'MicroCredit,' 'MicroGuarantee' and 'ERDF Start-up Grant' schemes. These schemes use various instruments such as tax credits, grants and financial guarantees to improve financing options for SMEs. The 'Business Start' scheme provides a cash grant of up to EUR 25 000 for a one-year period.

A key development was the 'JAIME' (Joint Assistance Initiative for Maltese Enterprise) scheme, launched in February 2016 by the Bank of Valletta and co-funded by the European Structural and Investment Funds and the Maltese government. Venture Capital Malta was launched in 2015 as a joint initiative between the government and private financial service providers with the aim of making venture capital available to local start-ups. In 2016, the multilateral trading facility 'Prospects' was launched by the Malta Stock Exchange. This facility is available to SMEs including start-ups. Such SMEs will be able to use the facility to raise capital by issuing bonds or new shares or by selling existing shares to the public. In 2016, another major initiative got underway with the launch of the 'Business Enhance' umbrella initiative. This initiative is funded primarily through the European Structural and Investment Funds and boasts a total financial allocation of EUR 51 million. In subsequent months, three grant schemes were launched under this umbrella initiative — the 'Start-up Investments Grant' scheme, the 'SME Growth Grant' scheme and the 'SME Innovation and Diversification Grant' scheme. Industry-specific incentives include the Malta Film Fund, the Malta Co-Production Fund and financial incentives for the audio-visual industry.

During the reference period, one major initiative was launched: the government-backed Malta Development Bank. The Malta Development Bank is a second-tier financial institution that can provide financing when normal private institutions fail to do so⁴¹. The Bank will provide finance to SMEs, whose financing gap is estimated at between EUR 330 million and EUR 600 million.

3.6 Single market



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

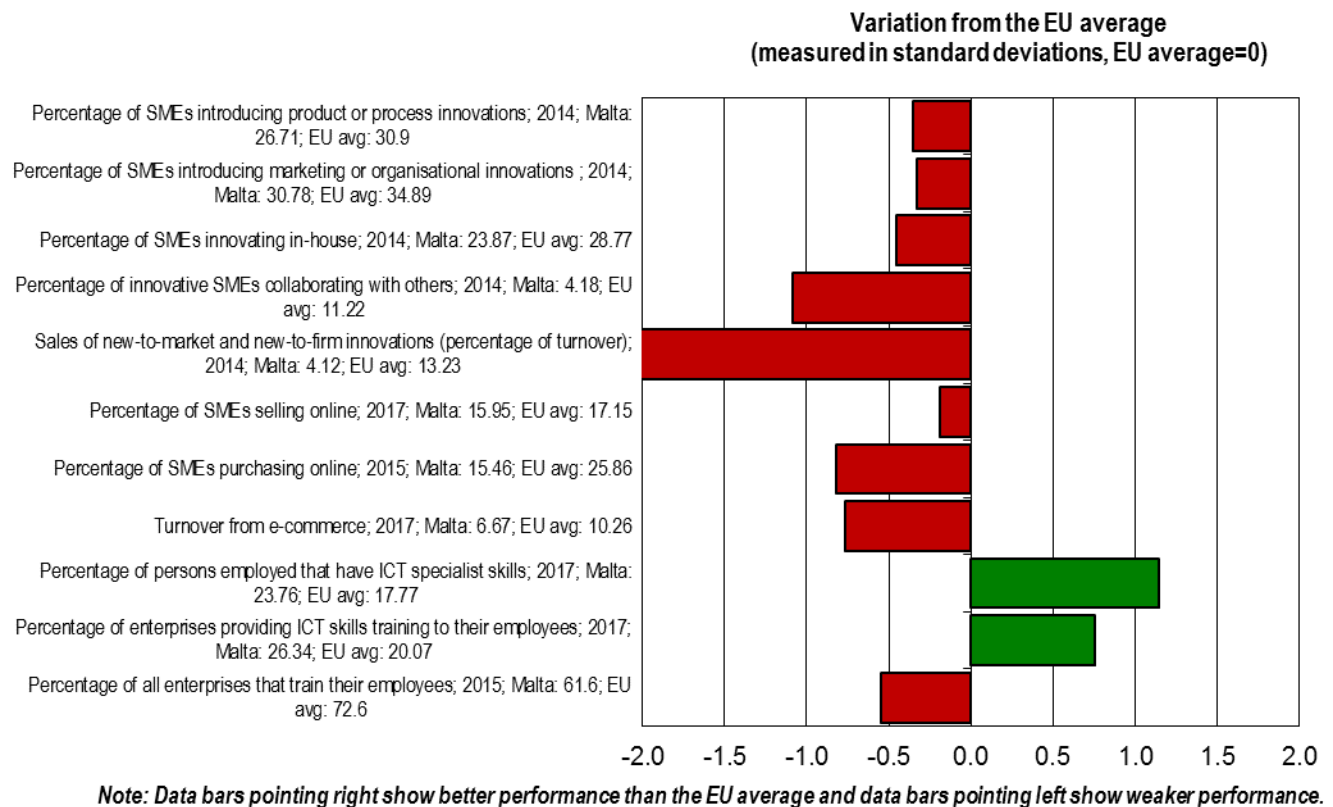
Malta continues to perform above the EU average on the single market principle, both in 2017 and since 2008. However, a slight deterioration can be noted: 7 single market directives were not yet transposed in 2017 against 4 in the previous year. There has also been an increase in the number of pending infringement cases (8 cases in 2017, against 5 cases in the previous period). Moreover, the transposition delay for overdue directives more than doubled from 2016 to 2017, increasing from 3.2 months to 6.9 months. Malta still performs above the EU average for all indicators mentioned, and its main concern is the proportion of SMEs exporting goods within the EU, which is weak and below the EU average.

Since 2008, there have been a number of initiatives in this domain. The main initiative was the establishment in 2015 of the local branch of the Enterprise Europe Network (a consortium incorporating both industry and the public sector). In 2015, the Commerce Department took various measures in the area of

patents and trademarks. These measures included the launch of online filing facilities for trademarks and designs. These online filing facilities allow interested parties to file new applications for trademarks or designs remotely. This was complemented by the launch of facilities to allow (i) online applications for trademark and design renewal, (ii) online changes of trademark ownership, and (iii) online changes to the name and address of a trademark. Legislative changes to the Patent and Design Act came into force in 2015, which included the creation of a tribunal to enable hearings on the revocation of patents and patent priority claims.

During the reference period, there was substantial activity in the transposition of EU single market legislation. A system for online patent applications and renewals has been developed, and it is planned to be launched in 2018.

3.7 Skills & innovation



Malta performs in line with the EU average for skills & innovation. However, most of the underlying indicators that score below the EU average have not been updated since 2014. Since 2008, Malta's progress in this SBA area has been substantial. However, slow changes have occurred in the e-commerce area, with the proportion of SMEs selling online falling from 18 % to 16 % from 2016 to 2017. In terms of skills, the most progress has been made on training indicators. In 2017, 26.3 % of companies provided specialist ICT training to their employees against 21.3 % in 2016. Moreover, the number of 'training enterprises' (enterprises that provided continuing vocational training courses) as a percentage of all enterprises increased from 54 % to 61.6 % between 2010 and 2015. Despite a slight fall between 2016 and 2017, the percentage of the workforce with specialist ICT skills in Malta surpasses the EU average, and further training efforts should be focused on promoting innovation.

Since 2008, there have been many initiatives in this policy category. At a strategic level, the National Research and Innovation Strategy was published in 2014. This was supplemented by various policy measures promoting the development of research and innovation capabilities among SMEs. These policy measures include the 'Innovative Actions Grant' scheme, the 'R&D Grant' scheme, and the 'Fusion

Programme' (which incorporates both the 'Technology Development Programme' and the 'Commercialisation Programme').

On skills development, a very successful measure was introduced by Malta in 2008: the 'Training Aid Framework'. This framework provided grants to companies for staff training, and was used extensively by SMEs. The 'Loan of Qualified Experts' scheme — set up in 2009 — was specifically aimed at enabling SMEs to recruit highly-skilled individuals. In 2016, Malta Enterprise launched the 'Knowledge Transfer Tax Credit' with a total budget of EUR 10 million until 2020. This scheme focuses on developing and implementing customised training programmes.

In 2016, the legislation establishing the National Skills Council was passed, followed by the formal launch of the Council in November of that year.

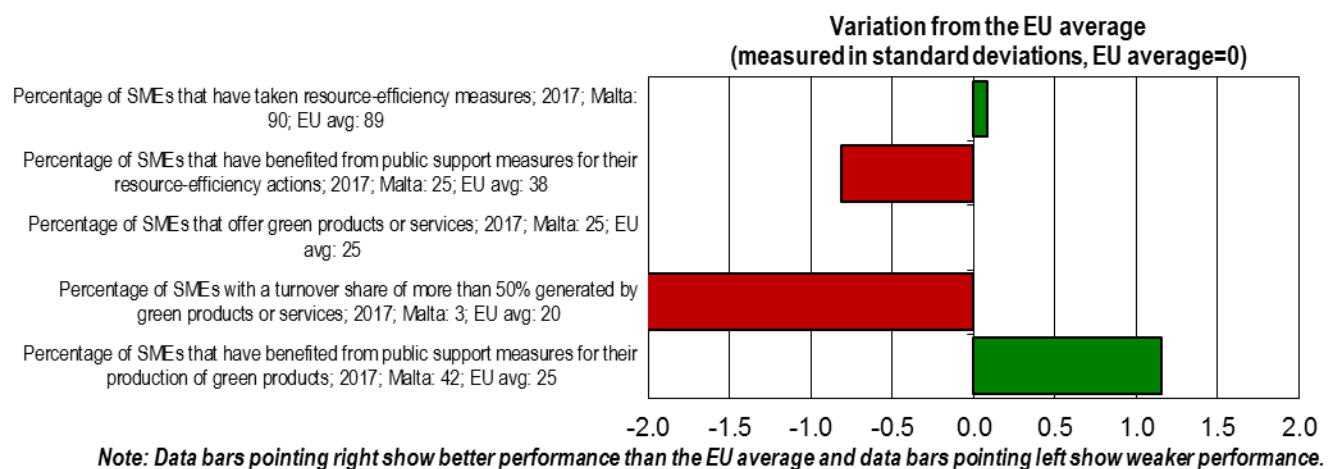
Significant progress was made during the reference period, with the launch of a variety of schemes and instruments promoting skills development and innovation. Malta Enterprise launched two measures. The first of these measures was the 'Aid for Research and Development' project⁴², which provides tax credits to companies undertaking R&D projects. The second measure was the 'Tax Credits for R&D'⁴³ scheme, which targeted

companies employing PhD students or PhD graduates. Funding from the European Regional Development Fund (ERDF) was also used to develop two major initiatives — the ‘Business Enhance R&D&I Grant’ scheme⁴⁴ and the ‘SME Consultancy Services Grant’ scheme⁴⁵. JobsPlus, the national agency addressing

employment and skills, launched the ‘Investing in Skills’ scheme, which gives grants to private businesses to improve their employees’ skills⁴⁶.

Malta’s main shortcoming in skills & innovation category is the failure to promote the Lead Market Initiative.

3.8 Environment



Malta continues to perform in line with the EU average in the environment area. Uptake of public support for environmental initiatives increased in 2017, with 25 % of SMEs benefiting from public support for their resource-efficiency actions (against 16 % in 2015) and 42 % benefiting from public support for their production of ‘green’ products (against 22 % in 2015). The proportion of SMEs offering green products grew by two percentage points between 2015-2017 and was in line with the EU average in 2017. However, green products represent more than half of annual turnover in only 3 % of Maltese SMEs. This is a significant drop from 2015, when it was 31 %. As a result, Malta’s performance on this indicator is the worst of all the EU Member States.

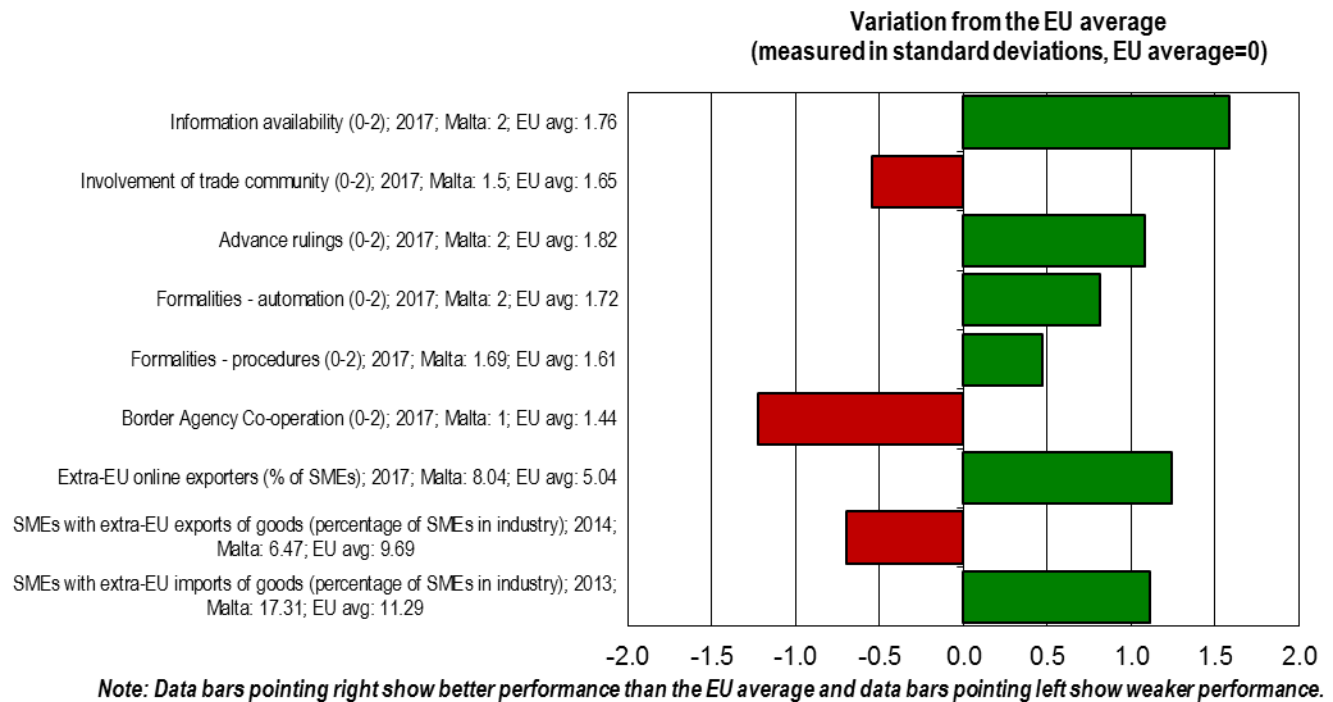
Since 2008, Malta has put in place measures to address most of the SBA recommendations in this area. In 2010, the national energy efficiency action plan highlighted the importance of increasing energy efficiency in the private sector. The ‘Quality+’ scheme, launched in 2012, provided tax credits to SMEs to finance quality and environmental certifications, and the ‘ERDF Innovation Actions Grant’ scheme provided funding for investment in eco-innovation solutions. Similarly, the ‘ERDF Energy Grant’ scheme, launched in 2009, financed initiatives focusing on energy efficiency or on investments in renewable energy solutions.

More recently, two new measures were adopted by Malta Enterprise in 2016 — the ‘Aid for High-Efficiency Cogeneration’ scheme and the ‘Energy Audit Voucher’ scheme. The ‘Aid for High-Efficiency Cogeneration’ scheme provides tax credits to encourage companies to invest in high-efficiency generation equipment or to upgrade existing generators to improve energy efficiency. This will reduce energy costs and improve competitiveness. The ‘Energy Audit Voucher’ scheme provides vouchers to pay a certified energy auditor to carry out an energy audit of the beneficiary’s operations to identify measures and investments that reduce energy consumption.

One ‘soft’ measure taken by the Ministry for the Economy, Investment and Small Business is the Sustainable Enterprise Award, first created in 2015. This initiative rewards businesses that change their practices to increase economic, social and environmental sustainability. The award is gaining popularity and the submissions in 2017 have tripled compared to previous years.

During the reference period, no significant new measures were introduced. One policy area which has not been adequately addressed is the issue of how to encourage local industry to develop eco-friendly products. Another policy area that should be focused on is more rigorous enforcement of the Energy Performance of Buildings Directive. This could encourage the construction industry to focus more on this area.

3.9 Internationalisation



Malta continues to perform above the EU average in internationalisation. Despite mixed results in the indicators for this area, the framework conditions for SMEs that trade internationally are competitive. Information and advance rulings are available, as are fully automated procedures (electronic exchange of data, automated border procedures). These show that the Maltese government is making great efforts to promote the internationalisation of SMEs. The percentage of SMEs exporting online outside the EU remained stable between 2015 and 2017, and is above the EU average. However, the trade community is less involved (communication of policy objectives, consultation between traders and government) in 2017 than in 2015. Malta must also improve cooperation between domestic agencies involved in the management of cross-border trade, as the country scores below the EU average for this measure of cooperation.

Since 2008, many initiatives have been implemented in this area and many of the proposed SBA measures have been addressed. Measures previously undertaken include various funding schemes such as the 'ERDF International Competitiveness Grant' scheme (2008), and the 'Business Advisory Services' scheme (2011). The 'Business Advisory Services' scheme provides financial support for companies to hire consultants to provide specialist support in a number of areas including overseas market development. The 'e-Business Grant' scheme (2010)

provides cash grants to SMEs to invest in ICT to diversify their product and service offering, or to significantly improve their operational process. The scheme allows for a broad range of activities including supply chain management, customer relationship management, e-commerce and e-learning. In 2015 the 'Certify' scheme was launched to encourage eligible businesses to obtain internationally recognised certifications, thus enabling them to enter overseas markets.

An important development in 2015 was the launch of Trade Malta as a joint venture between the government and the Chamber of Commerce⁴⁷. The organisation provides guidance and advice, and supports local companies that want to take advantage of overseas opportunities. This was followed in 2016 by the government's creation of the 'SME Internationalisation Grant' scheme, which provides grants for businesses to participate in international business promotion fairs⁴⁸.

In 2017 and the first quarter of 2018, one additional measure came into effect: the 'SME e-Commerce Grant' scheme. This scheme has an annual budget of EUR 1 million and provides grants for designing, developing, implementing and delivering online sales/booking facilities. Both websites and mobile apps are eligible for support⁴⁹. The grant improves the visibility of Maltese products and services at an international level, making them more accessible to overseas customers.

4. Interesting initiative

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

Family Business Act

Family businesses are very important to the Maltese economy, accounting for around 70-75 % of Maltese businesses. It is estimated that only 30 % of family businesses are successfully passed from the first to the second generation in a family, with less than 10 % making it to the third generation. The Family Business Act is the first of its kind in Europe and comprises a set of measures aimed at improving the survival rate of such businesses. The initiative started in 2011, with the establishment of the Malta Association of Family Businesses. Following a lengthy period of discussion and consultation, the Act finally came into force in 2017 and is supported by two financing schemes. The Act creates a legal framework whereby owners of family businesses can apply for registration on the Family Business Register. This entitles them to specific incentives, legal guidance and help to transfer their business to the next generation. The key measures of the Family Business Act are:

- improved capping under the Loan Guarantee scheme;
- improved tax credits under the Micro Invest scheme;
- positive consideration in the lease-renewal process of government-leased industrial premises;
- educational and training funds of EUR 1 000 annually for family business owners and their employees;
- funding of up to EUR 2 500 for legal and accountancy advice;
- funding for five sittings up to a value of EUR 1 000 for the establishment of the fair value of the family business;
- relaxed investment aid 2014-2020 requirements and a reduction in stamp duty on transfer of business.

References:

<https://www.financemalta.org/publications/articles-interviews/articles-and-interviews-detail/malta-enacts-family-business-legislation>

<http://www.grtu.org.mt/index.php/publications/publications-after-2010/publications-in-2015/3533-the-family-business-act-what-exactly-am-i-going-to-benefit-from>

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 for the 28 EU Member States. 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

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

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. From 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2015 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 Central Bank of Malta, Forty-ninth Annual Report and Statement of Accounts 2016 and 2017. <https://www.centralbankmalta.org/annual-reports>, last accessed 23.5.2018.

³ The property volume index reflects changes in the number of real estate transactions. Source: National Statistics Office Malta, News Release, 091/2017. https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A5/Price_Statistics/Pages/Property-Price-Index-and-Property-Volume-Index.aspx, last accessed 23.5.2018. Own calculations.

⁴ <https://www.timesofmalta.com/articles/view/20170325/local/foreigners-leading-to-maltas-population-boom.643296>, last accessed 29.5.2018.

⁵ <https://www.timesofmalta.com/articles/view/20150524/business-news/Malta-experiencing-a-paucity-of-rental-properties-on-market.569521>, last accessed 23.5.2018.

⁶ Ibid

⁷ IIP requires the main applicant to purchase property with a minimum value of EUR 350 000 or lease property at an annual rent of at least EUR 16 000 for a period of no less than five years. Central Bank of Malta, Forty-ninth Annual Report and Statement of Accounts 2016. p. 55. <https://www.centralbankmalta.org/annual-reports>, last accessed 23.5.2018.

⁸ Ibid. pp.52-60.

⁹ First-time buyers are exempt from the duty on documents on the first EUR 150 000 of the total value of the eligible property. Ibid. p. 55.

¹⁰ Following the 2014 reform, lessors have the option of paying a 15 % flat rate on rental income, rather than their marginal tax rate. For most lessors, this represents a reduction in tax on rental income. Ibid. p. 55.

¹¹ As of 2015, property was subject to one final withholding tax of 8 % on the transfer value of the property. This replaced a system that consisted of both a 12 % final withholding tax and a 35 % tax on any profit made. Ibid. p. 54-55.

¹² Times of Malta, 3 Apr 2013, Minister promises sustainable revival of the property market. <http://www.timesofmalta.com/articles/view/20130403/local/minister-promises-sustainable-revival-of-the-property-market464027>, last accessed 23.05.2018.

¹³ The Smart Island, The National ICT Strategy for Malta 2008-2010. www.mita.gov.mt/en/Documents/ICT_Strategy/National_ICT_Strategy_2008-2010.pdf, last accessed 23.5.2018.

¹⁴ Angelou Economics, March 2010. Malta Vision 2015 and Beyond. A Path to a Knowledge-based Economy.

¹⁵ Digital Malta. National Digital Strategy 2014–2020, March 2014. <https://digitalmalta.org.mt/en/Documents/Digital%20malta%202014%20-%202020.pdf>, last accessed 23.5.2018.

¹⁶ 'Horizontal enabler' is defined as a growth driver across all sectors of the economy and society.

¹⁷ Ministry for Education and Employment. National Research and Innovation Strategy: <http://www.mcst.gov.mt/Media/0f3855ec-025c-48b5-8ade-2171b8749276.pdf>, last accessed 23.5.2018.

¹⁸ Malta Enterprise, 2016. Invest in Malta, The ICT Sector in Malta: <https://www.maltaenterprise.com/sites/default/files/ICT%20Sector.pdf>, last accessed 23.5.2018.

¹⁹ NSO, 2 May 2018. News Release 073/2016 Business Demographics: 2012-2017. https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_B4/Business_Registers/Documents/2018/News2018_068.pdf, last accessed 18.5.2018.

²⁰ NSO, 2 May 2018. News Release 073/2016 Business Demographics: 2012-2017. https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_B4/Business_Registers/Documents/2018/News2018_068.pdf, last accessed 18.5.2018.

²¹ Due to data availability, the data on high-growth firms refers to the 'business economy' only, which covers sections B-N including section K (financial activities, except activities of holding companies). The 'non-financial business economy' excludes section K.

²² In line with Commission Implementing Regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees in 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 13.4.2018).

²³ The 2018 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.

²⁴ 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 2018. 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 2018. 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/>

²⁵ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. The national SME policy expert that PwC (DG GROW's lead contractor for the 2018 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.

²⁶ TVM, April 2017. Regulatory entities grouped under College of Regulators. <https://www.tvm.com.mt/en/news/regulatory-entities-grouped-under-college-of-regulators/> last accessed 5.5.2018.

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- ²⁸ Times of Malta, October 2014. MCAST sets up Entrepreneurship https://www.timesofmalta.com/articles/view/20141023/business-news/Mcast-sets-up-entrepreneurship-centre_540899 last accessed 5.5.2018.
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- ³³ http://www.maltaenterprise.com/sites/default/files/Incentive%20Guidelines%20Version%201_%2004.10.2016.pdf
- ³⁴ http://www.maltaenterprise.com/sites/default/files/Incentive%20Guidelines%20Family%20Business%20Transfer%20of%20ownership%20_%28Version%201_%29.pdf
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- ³⁹ Malta Enterprise, June 2017. Business First Ltd launched. <https://www.maltaenterprise.com/business-first-ltd-launched> last accessed 5.5.2018.
- ⁴⁰ <http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lom&itemid=12619&l=1>
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- ⁴² https://www.maltaenterprise.com/sites/default/files/Incentive%20Guidelines%20Version%201_%20_%288.6.2017_%29.pdf
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- ⁴⁴ <https://businessenhance.gov.mt/en/schemes/RDandIGrantScheme/Pages/RD--I-Grant-Scheme-.aspx>
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