

# 2019 SBA Fact Sheet

## MALTA

### Key points

#### **Past & future SME performance<sup>1</sup>:**

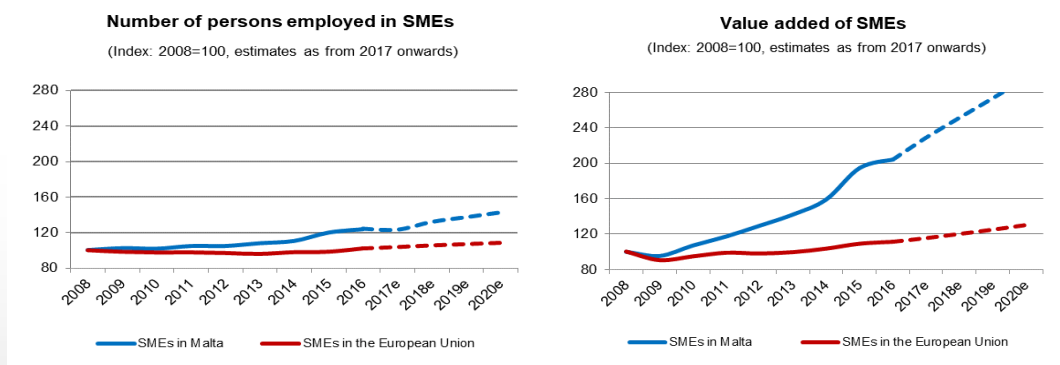
SMEs play a key role in the Maltese 'non-financial business economy'. In 2018, they generated 81.8% of value added and 77.7% of employment, exceeding the respective EU averages of 56.4% and 66.6%. In 2014-2018, overall SME growth in the Maltese 'non-financial business economy' was remarkably strong: value added increased by 58.1%, exceeding that of large firms, which increased by only 43.2%. Overall SME growth in Malta is forecast to remain very strong, with value added expected to rise by 17.8% in 2018-2020, exceeding the 12.5% growth projected for large firms. SME employment is forecast to increase by 8.1% by 2020, equivalent to more than 9,700 jobs.

#### **Implementing the Small Business Act for Europe (SBA):**

Malta's performance in relation to the rest of the EU is mixed. On the SBA principles 'responsive administration', single market and environment, its performance is in line with the EU average, while it performs above the EU average in internationalisation and 'State aid & public procurement'. Its weakest scores are in the areas of 'second chance' and access to finance. In terms of policy measures, since 2008, Malta has put most effort into entrepreneurship, 'responsive administration', access to finance, single market and skills & innovation.

#### **SME policy priorities:**

The environment for SMEs has improved significantly in recent years thanks to numerous measures being introduced. Despite this, Malta still performs below the EU average for many indicators such as 'second chance'. Following the amendments to the Companies Act in 2017 on restructuring and insolvency, efforts should now focus on monitoring impact. There have been several initiatives in the area of 'responsive administration', but there is still ample scope to further streamline business processes including data sharing and coordination between various government departments. Malta also lags behind the rest of the EU in innovation. Finally, Malta should make efforts to improve its performance on environment, by promoting the shift towards a more sustainable and resource-efficient economy.



#### **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.....	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	30,002	93.1%	93.0%	50,277	32.8%	29.7%	2.4	37.0%	20.8%
Small	1,821	5.6%	5.9%	36,382	23.7%	20.1%	1.8	27.4%	17.6%
Medium-sized	345	1.1%	0.9%	32,657	21.3%	16.8%	1.1	17.4%	18.0%
<b>SMEs</b>	<b>32,168</b>	<b>99.8%</b>	<b>99.8%</b>	<b>119,316</b>	<b>77.7%</b>	<b>66.6%</b>	<b>5.3</b>	<b>81.8%</b>	<b>56.4%</b>
Large	67	0.2%	0.2%	34,150	22.3%	33.4%	1.2	18.2%	43.6%
Total	<b>32,235</b>	<b>100.0%</b>	<b>100.0%</b>	<b>153,466</b>	<b>100.0%</b>	<b>100.0%</b>	<b>6.5</b>	<b>100.0%</b>	<b>100.0%</b>

*These are estimates for 2018 produced by DIW Econ, based on 2008-2016 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 key role in the Maltese 'non-financial business economy'. In 2018, they generated 81.8% of value added and 77.7% of employment, exceeding the respective EU averages of 56.4% and 66.6%. Maltese SMEs employ an average of 3.7 people, close to the EU average of 3.9. The annual productivity of Maltese SMEs, defined as value added per person employed, is €44,300, which is close to the EU average of €44,600.

In 2014-2018, overall SME growth in the Maltese 'non-financial business economy' was remarkably strong. Value added

increased by 58.1%, exceeding that of large firms, which increased by only 43.2%. However, in terms of employment, SME growth at 19.3% lagged behind the 32.2% increase generated by large firms. At the root of this difference was a comparatively weak (though positive) performance by SMEs in *wholesale and retail trade* and *transportation and storage*. Nevertheless, in absolute numbers, SMEs created 19,300 new jobs overall, which was more than double the 8,300 jobs created by large firms. Most recently, in 2017-2018, SMEs further strengthened their role as growth drivers with increases of 9.8% in value added and 7.2% in employment.

In 2014-2018, SMEs in the *wholesale and retail trade* sector increased by 50.8% in value added and 17.3% in employment. The growth of this sector reflects the general trend of the wider Maltese economy, which continued to grow substantially in 2018<sup>2</sup>. *Wholesale and retail trade* growth is driven largely by domestic demand, which has replaced net exports as the main growth driver for this sector<sup>3</sup>. In 2018, as unemployment fell to a record low and wages continued to rise, private consumption (i.e. household spending) increased by 7.3% and public spending rose sharply by 11.7%, with an increase in spending across all main expenditure categories<sup>4</sup>.

In 2014-2018, SMEs in the *professional, scientific and technical activities* sector grew significantly. Value added increased by 94.9% and employment by 50%. *Professional, scientific and technical activities* generated 23% of total value added growth in the Maltese 'non-financial business economy' in 2014-2018, the highest contribution of all sectors. Sector growth was driven by an increase in the number of clients, both domestic and international<sup>5</sup>, not least because a steady tightening up of money-laundering regulations has triggered additional demand for the services offered by this sector. Demand has been particularly strong for accounting and auditing services, management consultancy services and back office support<sup>6</sup>. However, this demand has largely been met by foreign-owned firms, rather than Maltese businesses, leading to a sharp rise in the number of foreign-owned firms in the sector<sup>7</sup>.

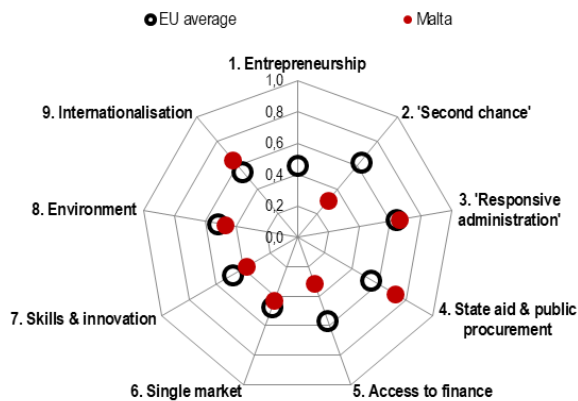
12,482 new businesses were registered in 2018, a rise of 6.9% compared to 2017<sup>8</sup>. In contrast, deregistrations totalled 4,514 in

2018, an increase of 12.1% compared to 2017. Nonetheless, the number of new registrations has remained significantly higher than the number of liquidations in recent years. As a result, there has been a consistent net increase in new companies, rising from 3,379 in 2013 to 7,968 in 2018. The total number of registered companies in 2018 was 113,256 — almost double the total in 2013. Foreign-owned companies account for nearly half of all new business registrations and are now almost as numerous as Maltese-owned ones<sup>9</sup>.

Many firms have successfully scaled up in recent years. The latest available data show that in 2016, 349 firms (16.2% of all firms in the 'business economy'<sup>10</sup> with at least 10 employees) were high-growth firms<sup>11</sup>. This is substantially higher than the EU average of 10.7%. In 2018, Maltese SMEs in the specialised *knowledge-intensive services* and *high-tech manufacturing* sectors, both of which are usually R&D-intensive, accounted for 37.6% of SME value added in the manufacturing and services sectors. This is higher than the EU average of 33%.

Overall SME growth in Malta is forecast to remain very strong, with value added expected to rise by 17.8% in 2018-2020, exceeding the growth of 12.5% projected for large firms. SME employment is forecast to increase by 8.1%, equivalent to more than 9,700 new jobs by 2020, corresponding to 82.4% of all projected new jobs in the overall 'non-financial business economy'.

## 2. SBA profile<sup>12</sup>



Malta's SBA profile is slightly different from that of previous years, with both positive and negative developments. On State aid & public procurement, Malta has now surpassed the EU average. Its performance in internationalisation is also above the EU average. On the other hand, in single market, 'responsive administration' and environment its score is in line with the EU average. Finally, Malta's performance in skills & innovation, access to finance and 'second chance' falls below the EU average. On access to finance, Malta is the second worst performing Member State and on 'second chance' the worst performing.

Since 2008 Malta has made good progress in implementing most SBA recommendations, with significant progress in practically all areas. This includes access to finance, despite

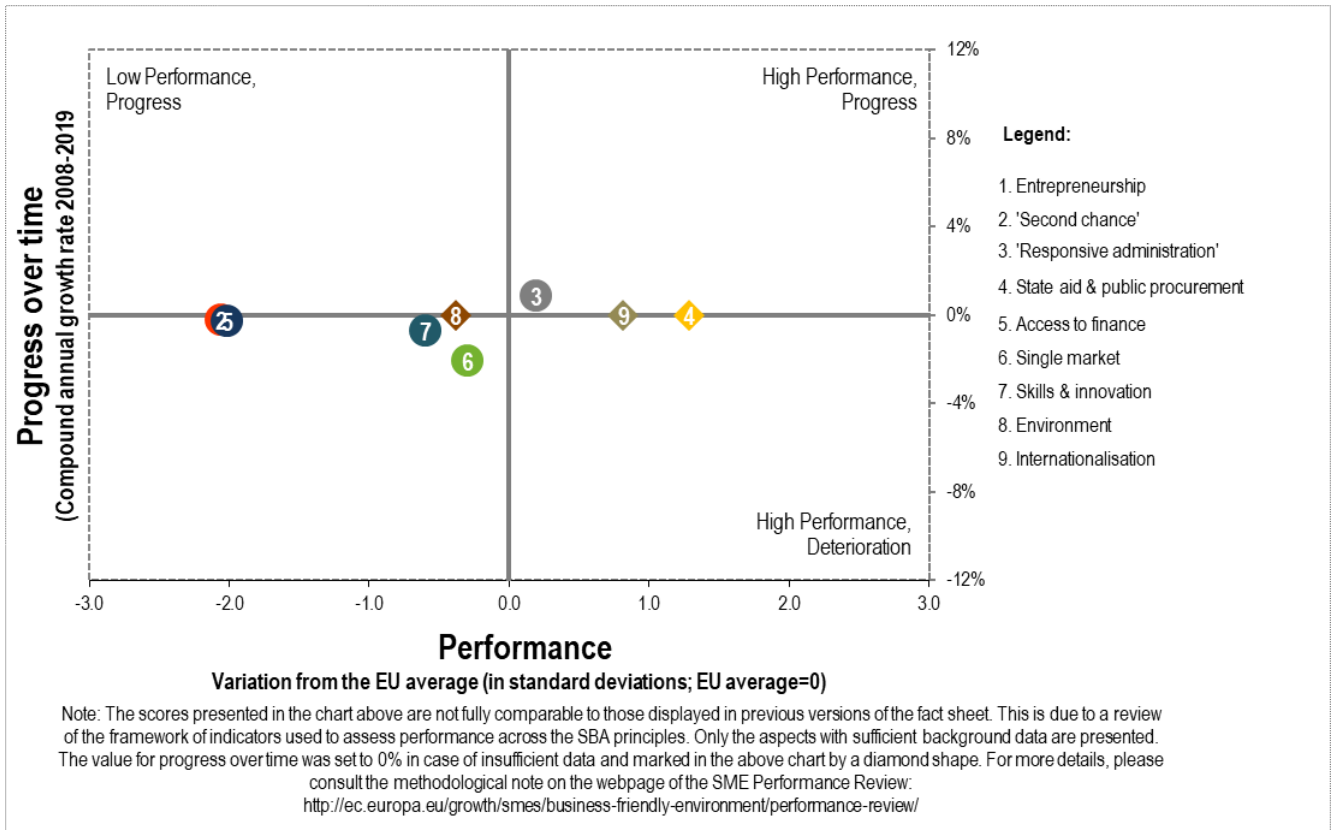
Malta scoring well below the EU average in this area. Initiatives have only been taken recently in some areas, so their effect could not be immediately observed. For example, the important legislative changes that were made to the Companies Act in 2017 have not yet impacted the 'second chance' indicators.

However, opportunities for further progress remain. Despite progress in the 'responsive administration' area, there is ample scope for further simplification through streamlining administrative procedures and data sharing. Promoting a more positive attitude towards failed entrepreneurs is another matter which has still not been adequately addressed. 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.

During 2018 and the first quarter of 2019 — the reference period for this year's fact sheet, Malta implemented 19 policy measures addressing 8 of the 10 SBA areas. The positive trend in terms of the number of measures implemented has been maintained and stakeholders (such as SME representative bodies) acknowledge that the progress in implementing the SBA is satisfactory.

As in recent years, progress was strongest in the entrepreneurship and skills & innovation categories. Under entrepreneurship, initiatives included education, crafts and family businesses, while under skills & innovation most initiatives promoted skills development, with a new funding scheme for space research. Policy areas where progress was limited during the reference period include 'second chance' and State aid & public procurement.

## SBA performance of Malta: state of play and development from 2008 to 2019<sup>13</sup>



### 3. SBA principles<sup>14</sup>

#### 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 SMEs’ 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.

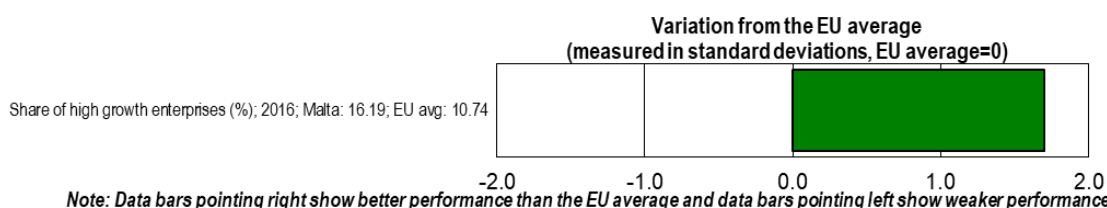
Malta has made significant progress in this policy category, and most of the recommendations falling under the ‘think small first’ principle have now become standard practice. Malta’s Small Business Act was enacted in 2011, and in subsequent years most of the provisions of this legislation came into force. A key concept of the Maltese Small Business Act is the Enterprise Consultative Council which meets every 3 months and is the main instrument for consultation between government and businesses. The ‘SME test’ was introduced in early 2016 and is now applied to all new legislation. In addition to the test, Maltese authorities are required to develop user guidelines and explanatory notes for any new legislation. In 2017, the College of Regulators was established. It meets three times a year under

the chairmanship of the Commissioner for Simplification<sup>15</sup>. This body brings together representatives from various government regulators and policy makers, and has a mandate to seek ways to reduce administrative barriers to private companies.

A major development that took place in July 2018 was the raising of the VAT threshold from €14,000 to €20,000. An estimated 900 microenterprises will benefit from this measure by being exempted from the administrative burden of the VAT system<sup>16</sup>.

Most of the key ‘think small first’ measures have now been implemented. However, there is still scope for introducing specific measures for small businesses and microenterprises. Outstanding measures such as common commencement dates for new legislation as proposed in the Small Business Act for Europe are not considered important by the private sector. Preference was given to introducing a two-month standstill period to give SMEs time to prepare for new administrative and legislative requirements.

#### 3.1 Entrepreneurship



There is no overall score for Malta in entrepreneurship due to the lack of data on most indicators. The information available relates to the percentage share of high-growth businesses with more than 10 employees, which exceeds the EU average and which has been increasing in recent years. As such, the share has increased from 12.54% in 2015 to 16.19% in 2016.

Over the years, a broad suite of policy measures has been introduced to encourage an entrepreneurship culture from an early age. In 2012 the government launched the ‘Entrepreneurship in Education Scheme’ which provides grants for schools to organise entrepreneurship training and related activities for their students. The following year the University of Malta established 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. The Framework for Education Strategy published in 2014 introduced the concept of entrepreneurship as a cross-cutting theme at compulsory schooling level.

These initiatives were complemented by the establishment of incubation facilities for start-ups. The University of Malta launched the TAKEOFF Business Incubator (2014) together with the TAKEOFF Seed Fund award funded by the central government. The fund has an annual allocation of €100,000 and every year between five and seven beneficiaries receive awards of up to €20,000 each. In the same year the Malta College of Arts, Science and Technology established its own entrepreneurship centre to provide incubation services to students interested in starting a business. Also in 2014 the Malta Information Technology Agency launched its ICT Innovation Hub at the SmartCity Malta technology park. The

Maritime Seed Fund Award (2017) provides funding for proof-of-concept projects and for start-ups in the area of maritime products and services.

Regarding legislative measures, in 2017 the Audit Report Waiver legislation was enacted, granting graduates starting their own business an exemption from financial audit requirements for a period of 2 years. Also in 2017, the Family Business Act — a legal framework giving owners of family businesses a number of benefits including legal guidance and reduction in duties when transferring their business from one family member to another — was enacted. This was complemented by the setting up of the Business Transfer Office, as well as the launching of the Family Business Support Scheme and the Family Business Transfer of Ownership Scheme managed by Malta Enterprise.

Five policy measures were launched during the reference period.

- The Entrepreneurship in Education initiative introduces concepts of entrepreneurship in different school subjects. This started in 2018 in selected classes and the rollout will continue until it covers all primary and secondary classes.
- The Ministry for Economy, Investment & Small Businesses in collaboration with Ministry for Education launched a summer school programme in 2018 to provide hands-on entrepreneurship training to young children aged 8–16<sup>17</sup>.
- To further assist family businesses, the Family Business Transfer Guarantee Scheme was launched by the Malta Development Bank in collaboration with Bank of Valletta<sup>18</sup> in October 2018. Through this scheme, family businesses will be able to benefit from

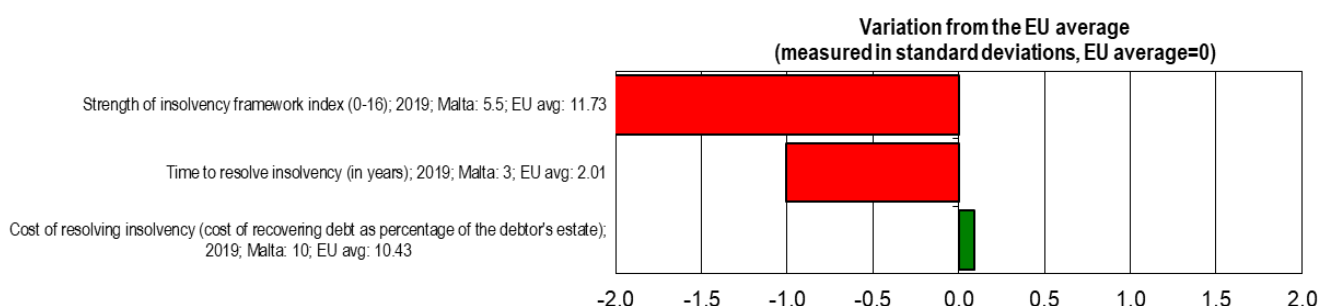
an advantageous loan of up to €750,000 at a reduced interest rate.

- In January 2018, Malta Enterprise launched the LEAP2Enterprise scheme, which offers a grant of €25,000 to disadvantaged people to help them set up their own business<sup>19</sup>.
- The ‘Investing in Crafts’ scheme, which was launched in September 2018, provides cash grants for the transfer of craft skills from experienced artisans to apprentices<sup>20</sup>.

The environment for start-ups has improved significantly in recent years. Developments include the creation of incubation facilities, grant schemes, the possibility of equity funding, subsidised loans and credit guarantees to help start-ups secure bank loans. Crowdfunding is also becoming more of a viable option although it has not yet been used to any significant degree.

Some recent measures primarily target scale-ups. The Startup Advance scheme is specifically for companies seeking finance for expansion and growth. Another relevant scheme is the SME Growth Grant. The possibility of raising equity funding has also improved thanks to the multilateral trading facility provided by the Malta Stock Exchange.

### 3.2 ‘Second chance’



‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Malta is the EU’s lowest scoring country for this SBA principle. While the cost of resolving insolvency is in line with the EU average, the time it takes is well below the EU average. In addition, Malta’s insolvency framework index is the third weakest in the EU.

Malta has also made progress in this area, though perhaps not as much as in other policy categories. A key issue is that in Malta insolvency proceedings are slower and take longer to resolve than in most other Member States. The government acknowledged this state of affairs a number of years ago and in 2014 launched a comprehensive review of the legislative framework. This resulted in the enactment of Act XI of 2017

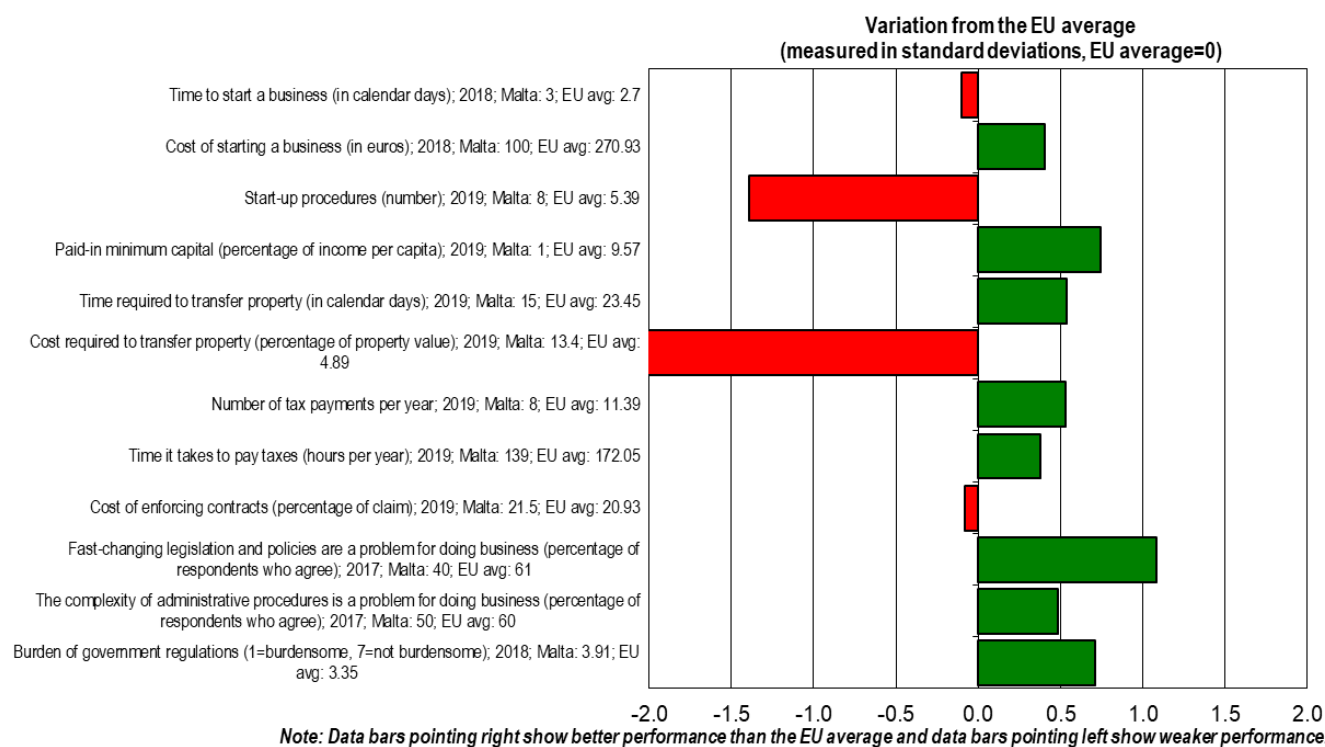


which attempts to modernise the legal approach to insolvency<sup>21</sup>. Many of the measures adopted in this Act follow earlier EU recommendations on handling business failures and insolvencies. Thanks to the new law, a company now has a better chance of avoiding bankruptcy through restructuring and refinancing. The insolvency procedures have also become more efficient. Legislative measures include: (i) the appointment of a special controller; (ii) the use of mediation between creditors and the company; (iii) the introduction of the concept of creditor classes; and (iv) provisions to facilitate new financing and improve liquidity. The mediation approach has become more

popular in recent years and the University of Malta now offers a master's-level course to aspiring mediators.

Malta has also embarked on an ambitious project to reform the national justice system. In Malta insolvency and 'second chance' are predominantly tackled through court procedures, so the amendments to the justice system influence the insolvency and 'second chance' framework. This has been done, among other actions, by establishing a commercial section of the Civil Court through Act 1 of 2018. This specialised court now exclusively deals with matters arising from the Companies Act, including insolvency cases.

### 3.3 'Responsive administration'



'Responsive administration' refers to public administration being responsive to the needs of SMEs. Malta's performance is in line with the EU average, having improved moderately since 2008. The time and cost to start a business is close to the EU average. On the transfer-of-business indicators, the time needed to transfer property is better than the EU average, whereas the cost is the highest in the EU. In addition, government regulations are perceived to be less burdensome than the EU average. In fact, only half of the respondents believe that the complexity of the country's administrative procedures is problematic for doing business (which is broadly in line with the EU average of 60%) and only 40% agree that fast-changing legislation and policies are a problem for doing business.

Since 2008, Malta has registered significant improvement in this policy area. An important government initiative called 'Business First' was introduced in 2012 as a one-stop-shop for businesses to get information, guidance and assistance on the rules of setting up a business. The then Malta Environment and Planning Authority launched 'Businesssense' in 2014, centralising permit applications and providing regulatory advice to applicants. In 2013, the government appointed a Commissioner for Simplification and Reduction of Bureaucracy, tasked with reducing bureaucracy by 25%. This office has launched some initiatives, for example facilitating data sharing between the government agencies — the Malta Financial Services Authority and Jobsplus, leading to reductions of 65% in processing time and 50% in the training aid framework scheme's<sup>22</sup>



administrative costs. Another of the office's successes was to reduce the registration period for a VAT number to just 1 day by developing a single electronic application that merges two distinct processes, namely applying for a VAT number and applying for an employer number.

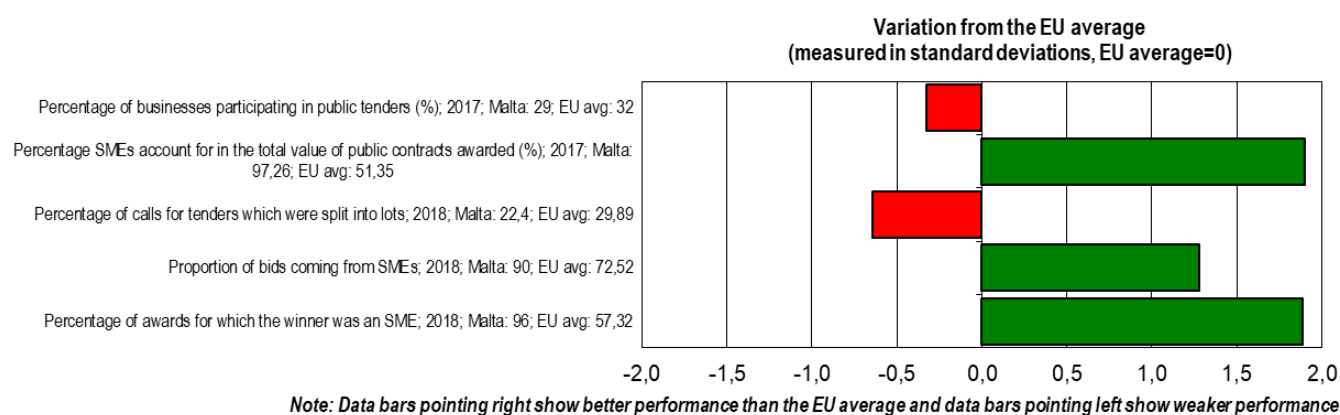
2017 saw further simplification with the withdrawal of the requirement for trade licences for most business categories. An estimated 15,000 businesses benefited from this measure. Also in that year, Business First facilitated the start-up process by introducing electronic forms and combining all the forms required by the local authorities into a single submission. To provide a better service to businesses, the government, in collaboration with the Malta Chamber of SMEs, relaunched Business First as Business First Ltd. This was accompanied by a number of one-stop-shop centres called 'servizz.gov'. Another 2017 initiative was the removal of restrictions on retail outlet opening hours, something which had long been requested by the retail sector. Also in that year, the 'Coordination of Government

Inspections Act' was passed to address the issue of multiple regulatory inspections carried out on businesses.

During the reference period, the Ministry for the Economy, Investment and Small Business (MEIB) launched the Enterprise Incentives App which complements the information services provided by Business First. This mobile phone-based app provides users with a centralised list of all funding schemes (grants and tax credits) and a list of awards for the private sector.

In spite of these achievements, there is still ample scope to further streamline business processes. In particular, data sharing and coordination between various departments needs to be maximised to reduce the burden to SMEs of having to provide the same information repeatedly when dealing with different government departments. A case in point is the recent demand for better streamlining and less fragmentation in the construction sector.

### 3.4 State aid & public procurement



Important methodological changes have been introduced for this principle in this year's fact sheet. Three new indicators from the Tenders Electronic Daily (TED) database have been added and refer to procurement above EU thresholds:

- percentage of awards for which the winner was an SME;
- proportion of bids by SMEs;
- percentage of calls for tender which were split into lots.

In addition, the indicator on e-procurement has been removed. Therefore, the overall performance in this area cannot be compared to last year's.

Malta's performance is above the EU average in this SBA area. The three new indicators have contributed to Malta's strong performance. The share of bids coming from SMEs is the third

highest in the EU and Malta is the EU's top performer in terms of SMEs winnings awards and SMEs being awarded public contracts. By contrast, the proportion of calls for tender that were split into lots was below the EU average in 2018.

This policy area has seen significant progress since 2008. Most of the policy initiatives have aimed to help SMEs participate in public procurement. Many of the improvements stem from the launch of the e-procurement system in 2011 — a system which covers the full procurement cycle. There have also been legislative and procedural changes to reduce barriers to SME participation in public tenders. These include: (i) the requirement to split tenders into lots; (ii) rigorously applying the concept of proportionality; and (iii) facilitating the process for SMEs to form joint ventures and consortia. Tenders generally allow subcontracting and this requirement will only be waived on the basis of a proper justification by the purchasing party. The requirement for bid bonds has been reduced and such bonds are only requested for tenders of over €500,000. Bidder experience

requirements have also been lowered. The Maltese government's Contracts Department has also introduced a system of consultation sessions with suppliers and businesses, and regularly organises training sessions on the e-procurement system.

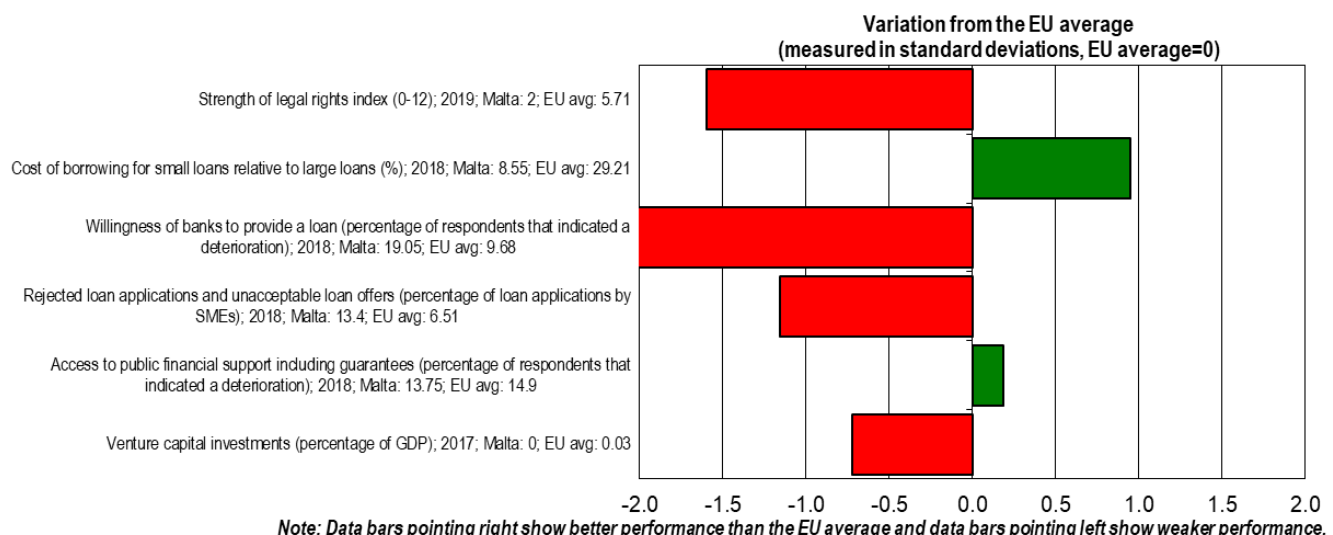
Further improvements were made in 2016, when it became obligatory for all public tenders of over €5,000 to go through the e-procurement system. Additional measures taken in 2016 include the introduction of the 'European single procurement document' for tenders and the simplified process for business registration in the e-procurement system. In the same year, Malta transposed a number of measures of the EU's 2014 public

procurement package including the Concession Contracts Regulation, the Public Contracts Regulation, and the legislation on Public Procurement of Entities operation in Water, Energy, Transport and Postal Services Sectors

In 2017, the updated General Block Exemption Regulation broadened its scope to provide State aid to airports and ports. Regulations were amended to facilitate the use of simplified cost options for operations that are partly financed through an EU fund. A number of notification thresholds were increased, in particular in the area of culture and heritage conservation.

During the reference period no measures were adopted or formally announced for this SBA principle.

### 3.5 Access to finance



Malta's performance is the second weakest in the EU in the area of access to finance, although any comparison with other Member States is affected by the unavailability of some indicators for Malta.

Receiving loans has become particularly difficult for SMEs in this reference period. The perception that banks are unwilling to provide loans has risen from 8.3% in 2017 to 19.1% in 2018, making Malta the EU's worst performer for this indicator. Similarly, the percentage of rejected and unacceptable loan offers is far higher than the EU average (rising from 8.9% in 2017 to 13.4% in 2018). In addition, venture capital investments account for a very low share of Malta's GDP, which makes it difficult for start-ups to secure funding. This is likely linked to a weak performance of the country's legal rights index, which is among the worst in the EU. On the other hand, Malta performs above the EU average for the cost of borrowing for small loans as compared to large loans,

Since 2008, Malta has introduced a range of measures to make finance more readily available to Maltese businesses. Financial schemes such as 'JEREMIE,' 'MicroInvest,' 'MicroCredit,' 'MicroGuarantee' and 'ERDF Start-up Grant' were launched, making use of advantages like tax credits, grants and financial guarantees. A good example is the 'Business Start' scheme, which provides a cash grant of up to €25,000 for a one-year period.

2016 saw the launch of the 'JAIME' (Joint Assistance Initiative for Maltese Enterprise) scheme, a collaborative initiative between the Bank of Valletta and the Maltese government, co-funded by the European Structural and Investment Funds. In 2018 this initiative financed more than 50 SMEs with loans totalling €12 million<sup>23</sup>. Efforts were made to address the lack of venture capital with the launch of Venture Capital Malta in 2015 — a joint initiative by the government and private financial service providers. This was followed by the 'Prospects' multilateral trading facility in 2016. This Malta Stock Exchange initiative sought to make equity capital available to SMEs and

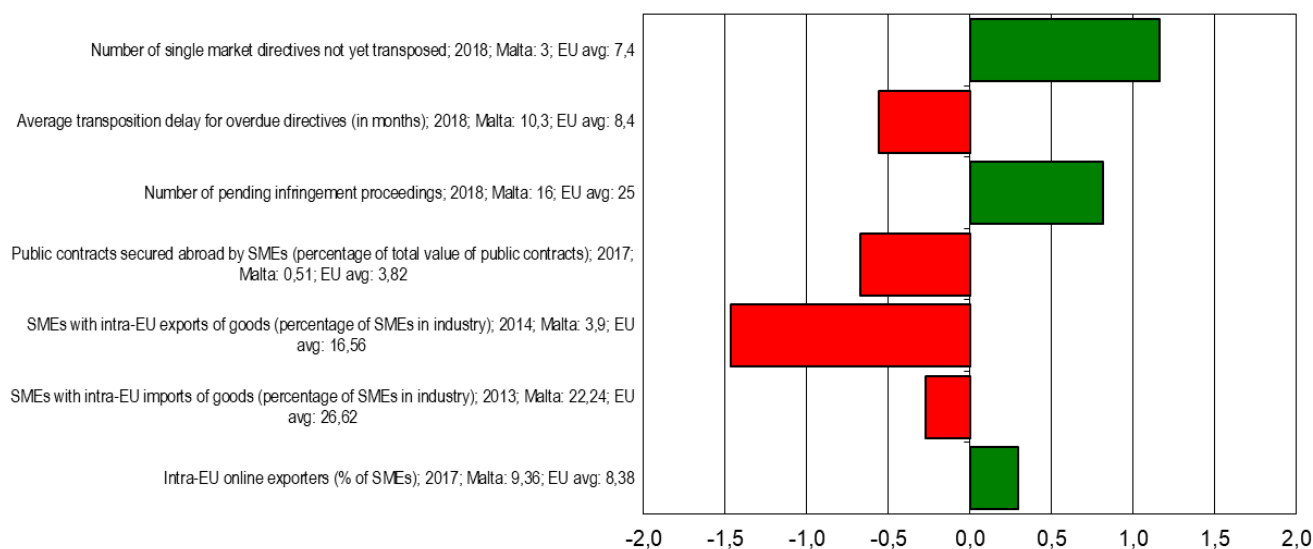
start-ups by issuing bonds or new shares or by selling existing shares to the public. In 2016 the ‘Business Enhance’ initiative was launched, boasting a total budget of €51 million. This major initiative uses European Structural and Investment Funds and includes the ‘Start-up Investments Grant’ scheme (19 beneficiaries, €3.4 million), the ‘SME Growth Grant’ scheme (30 beneficiaries, €6.54 million) and the ‘SME Innovation and Diversification Grant’ scheme (39 beneficiaries, €4.0 million)<sup>24</sup>. Another important development was the launch of the government-backed Malta Development Bank in 2017. This is a second-tier financial institution that can provide financing when normal private institutions fail to do so. It aims to address an estimated financing gap of between €330 million and €600 million.

During the reference period, two new initiatives were launched.

- The Startup Advance scheme, which was put in place in January 2018 is targeted at small undertakings of up to 5 years old. It has a budget of €3 million for 2019 and provides grants of up to €100,000 to innovative start-ups with demonstrated market potential that are in the process of consolidating their operation<sup>25</sup>.
- The ‘Refurbishment of Hotels and Restaurants’ scheme provides tax credits to self-employed people and private companies in the hospitality sector to cover the refurbishment of premises including furniture, fittings, equipment and redecoration<sup>26</sup>. It has a total budget of €20 million.

### 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’s performance in the area of single market has deteriorated since 2008 and is no longer above the EU average. SMEs only secured 0.5% of the total value of public contracts in 2017, which is still broadly in line with the EU average, though a significant drop from 14.5% in 2013. This coincides with the SMEs’ weak intra-EU imports and exports. Malta has also fallen behind in the average delay for transposing overdue directives. The average delay has increased from 6.9 months in the last reporting period to 10.3 months — longer than the EU average of 8.4 months. The number of pending infringement proceedings doubled from 8 in 2017 to 16 in 2018, which is still better than the EU average of 25. On the other hand, with only 3 single

market directives not yet transposed in 2018 (down from 7 in 2017), Malta is the EU’s third-best performer for this indicator.

Malta has made considerable progress in this SBA area since 2008. A key initiative was the setting up of the local branch of the Enterprise Europe Network in 2015. In the same year the Commerce Department took various measures to make it easier to register patents and trademarks in Malta. Online filing facilities were developed so that registration, renewal, and change of ownership for trademarks and designs could be done online. Legislative changes to the Patent and Design Act — which included the creation of a tribunal for hearings on the revocation of patents and patent priority claims — came into force in 2015,

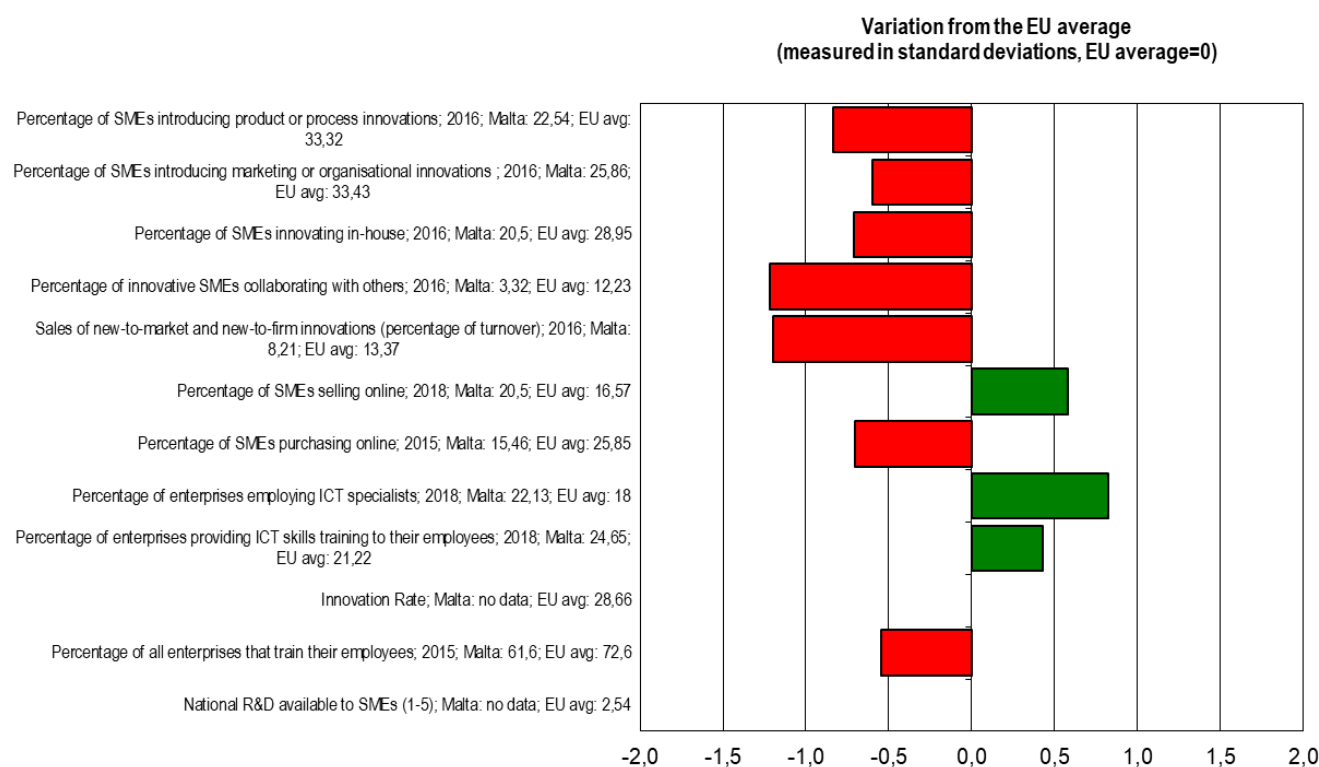
During the reference period, further progress was made and the online administrative system was further developed.

- In March 2018, the Commerce Department launched an online trademark register where any interested person can search for a trademark application or registration on the national trademark database and see pertinent information on a trademark such as applicant/owner details, scope of protection, date of

filing, last renewal and status of the trademark. All related documents dating back to 1900 have been digitised, allowing users to conduct an online search and retrieve all relevant information<sup>27</sup>.

- In October 2018, a mobile app — featuring a ‘chatbot’ — was developed to provide guidance on protecting trademarks, designs, copyright and patents.

### 3.7 Skills & innovation



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

Malta’s performance, which was in line with the EU average in the previous reference period, has fallen below the average in the current one. Progress in innovation by SMEs has slowed since 2008. In particular: (i) the introduction of innovative products decreased from 26.7% in 2014 to 22.5% in 2016; (ii) marketing strategies fell from 30.8% in 2014 to 25.9% in 2016; (iii) the proportion of SMEs innovating in-house dropped from 23.9% in 2014 to 20.5% in 2016; and (iv) innovative collaboration decreased from 4.2% in 2014 to 3.3% in 2016, making it the second weakest in the EU. While the share of enterprises with skilled and trained employees are above and in line with the EU average, respectively, they dropped slightly compared to last year (from 23.8% and 26.3% in 2017 to 22.1% and 24.6% in 2018).

Numerous initiatives have been launched in this policy area since 2008. For skills development, a flagship initiative called the ‘Training Aid Framework’ was launched in 2008, providing grants to companies for a broad range of staff training activities. The ‘Loan of Qualified Experts’ scheme set up in 2009 was specifically to enable SMEs to recruit highly-skilled people. In 2016, Malta Enterprise launched the ‘Knowledge Transfer Tax Credit’ with a total budget of €10 million to help develop and implement customised training programmes for SMEs. In 2016, legislation was passed to set up the National Skills Council.

On the innovation side, a national research and innovation strategy was launched in 2014 together with a number of policy measures to promote research and innovation among SMEs. In

addition, the 'Innovative Actions Grant' scheme was launched in 2008 with a budget of €5.6 million<sup>28</sup>. By its end, this scheme had funded 66 beneficiaries at a total of €4.9 million. Other initiatives include the 'R&D Grant' scheme and the 'FUSION programme'. In 2017, Malta Enterprise launched two measures: (1) 'Aid for Research and Development', which provides tax credits to companies undertaking R&D projects; and (2) the 'Tax Credits for RD&I' scheme for companies employing PhD students or PhD graduates.

During the current reference period, five new schemes were launched.

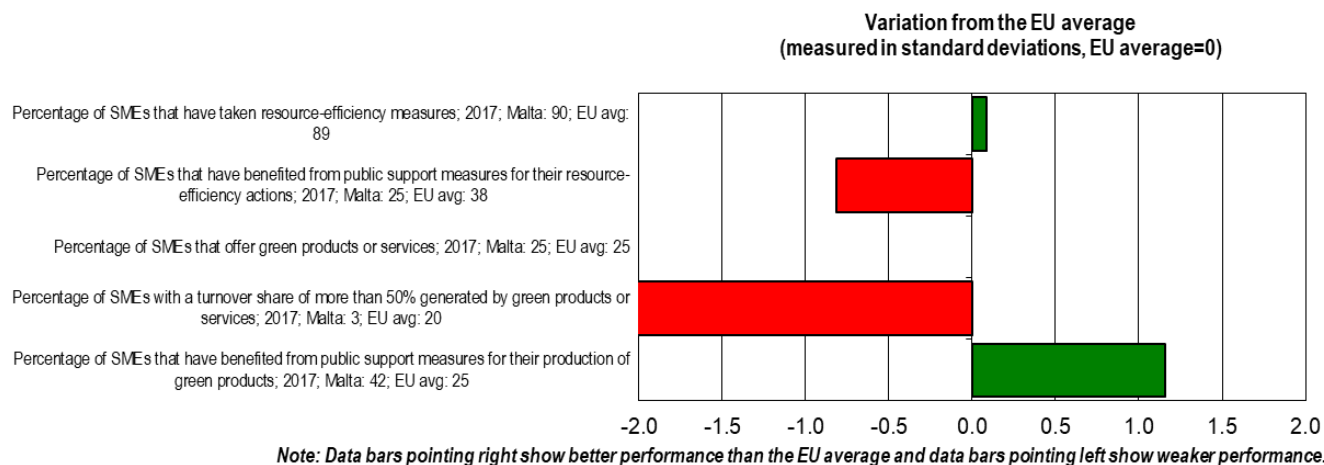
- The Business Enhance RD&I Grant Scheme (under the Business Enhance umbrella) has a total budget of €20 million and provides grants for a variety of R&I activities including feasibility studies, R&D projects, research infrastructure and process innovation<sup>29</sup>.
- A completely novel initiative for Malta was the launch of the Space Research Fund for research, development and innovation projects that make use of the earth observation data made available through the

Copernicus programme<sup>30</sup>. The budget for 2018 was €308,000.

- The Business Advisory Services scheme provides support to private enterprise to cover the cost of consultancy services to formulate business strategies that support sustainability and growth<sup>31</sup>. It has a budget of €750,000 for its 3-year duration.
- The 'Investing in Skills' scheme (budget: €2 million for 2018) provides training grants to the self-employed, organisations and private companies to organise training courses on a broad range of topics including e-learning<sup>32</sup>.
- The 'Skills Development Scheme' (budget: €10 million for 2018–2020) provides private companies with cash grants and tax credits to cover the costs of employee training on many subjects<sup>33</sup>.

Despite the various initiatives in this policy category, Malta has not taken any significant measures related to the Lead Market Initiative.

### 3.8 Environment



Malta's performance in environment is in line with the EU average, although there has been no update since last year's fact sheet. The share of SMEs that make half their turnover from green products and services is still the third lowest in the EU. The uptake of public support measures has also remained the same, with the uptake of public support for environmental initiatives increasing from 16% to 25% between 2015 and 2017 and the uptake of public support for green products increasing from 22% to 42% in the same time period.

Since 2008, Malta has made significant progress in this area. The 'ERDF Energy Grant' scheme was launched in 2009 with a budget of €9.9 million. This scheme provided finance for

initiatives aiming to increase energy efficiency and investment in renewable energy solutions<sup>34</sup>. The scheme proved popular and by the time it closed it had funded nearly 200 beneficiaries<sup>35</sup>. At a strategic level, the 2010 National Energy Efficiency Action Plan reflected the importance of increasing energy efficiency in the private sector. The 2012 'Quality+' scheme gave SMEs tax credits to finance quality and environmental certifications and the 'ERDF Innovation Actions Grant' provided funding for investment in eco-innovation solutions.

In 2015, the Ministry for the Economy, Investment and Small Business launched the Sustainable Enterprise Award that rewards businesses that take measures to improve their

economic, social and environmental sustainability. The award is gaining in popularity and the number of submissions has increased significantly over the years.

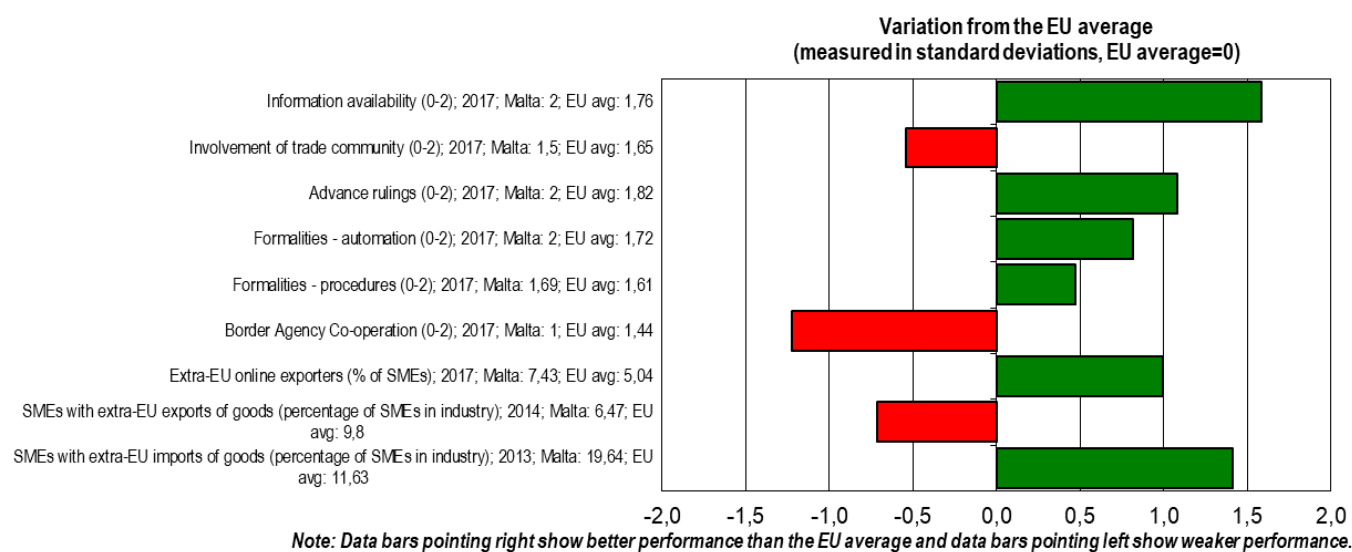
Additional measures were introduced in 2016, namely: (i) the ‘Aid for High-Efficiency Cogeneration’ scheme, which uses tax credits to incentivise companies to invest in high-efficiency generation equipment or to upgrade existing generators to improve energy efficiency; and (ii) the ‘Energy Audit Voucher’ scheme, which provides SMEs with vouchers to pay a certified energy auditor to audit their operations and identify measures and investments that reduce energy consumption.

During the reference period there was further improvement with one new initiative in this policy area.

- The ‘Investment Aid for Energy Efficiency Projects’ scheme gives private companies tax credits to invest in measures that improve energy efficiency, such as upgrading to more efficient equipment or more efficient lighting<sup>36</sup>. To ensure significant savings, only projects that reduce energy consumption by at least 20% are eligible for funding.

While significant progress has been made in this policy area, there is still room for improvement. More effort needs to be made to encourage local industry to develop eco-friendly products. Energy efficiency in the home also needs to be addressed. Rigorous enforcement of the energy performance of buildings Directive is needed to encourage the construction industry to focus more on this area.

### 3.9 Internationalisation



Malta performs above the EU average in the area of internationalisation. Despite mixed scores, it is among the top scoring countries for 5 out of the 9 indicators: (i) top-ranking for the availability of information; (ii) top-ranking for advance rulings; (iii) top-performing in automation of formalities; (iv) third-best scoring in extra-European online exports; and (v) third-ranking performer in SMEs who import goods from the extra-EU region. However, Malta scores below the EU average for the national trade community’s involvement and for border agency cooperation.

Since 2008, Malta has made significant progress in this area and has put in place measures to address most of the SBA recommendations. For example, it introduced the ‘ERDF International Competitiveness Grant’ scheme in 2008 and the ‘e-Business Grant’ scheme in 2010. The latter involved cash grants to SMEs for investment in ICT to diversify their range of products

and services and/or significantly improve their operational processes. Many activities were eligible under this scheme, notably supply chain management, customer relationship management, e-commerce and e-learning. Furthermore, the ‘Business Advisory Services’ funding scheme introduced in 2011 encouraged companies to hire consultants to provide specialist support in areas such as overseas market development, and the ‘Certify’ scheme launched in 2015 encouraged businesses to obtain internationally recognised certifications, which is often a prerequisite for supplying overseas markets.

In 2015, Trade Malta was launched as a joint venture between the government and the Chamber of Commerce to increase the internationalisation of local companies. This initiative mainly provides guidance, advice and support to local companies that want to venture into foreign markets. The ‘SME Internationalisation Grant’ of 2016 provided businesses with



grants to participate in international business promotion fairs. The scheme did not prove very popular and as of May 2019 there were only two beneficiaries<sup>37</sup>. In 2017, Malta launched the ‘SME e-Commerce Grant’ with an annual budget of €1 million. This scheme gives companies grants to set up online sales and booking systems (on websites and mobile apps) to help them access overseas markets. As of May 2019, 48 beneficiaries had received grants totalling €223,000<sup>38</sup>.

During the reference period two new measures were introduced:

- the ‘Certify’ tax credit scheme relaunch, which encourages private companies to improve the quality of their products, processes and services by obtaining industry recognised certifications and quality standards<sup>39</sup>; and
- the ‘Cooperate for Growth’ scheme, which helps two or more parties organise meetings on topics including technology transfer, knowledge sharing, developing a business, facilitating research collaborations and venture funding<sup>40</sup>.



## 4. Interesting initiative

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

### SkolaSajf — Entrepreneurship for young people

SkolaSajf is a programme for schoolchildren aged 3-16 organised by the Ministry for Education and Employment. Taking place during the summer holiday months, it normally focuses on cultural, artistic and physical activities. However in 2008, the Ministry for the Economy, Investment and Small Businesses (MEIB) introduced entrepreneurship activities in this programme.

JAYE Malta was selected to provide the training as it was considered to be the best fit for the target audience. JAYE Malta is a non-profit entrepreneurship education body specialising in providing education programmes on entrepreneurship to young people.

Two separate programmes cater to the different age groups:

- the 'Our Community' programme, tailored to 8-10 year olds, uses interactive techniques to help children understand the basic concepts and importance of a community, and the jobs that form part of it; and
- 'Europe my Business', was designed for 11-14 year olds to broaden their entrepreneurial knowledge and skills.

Both of these programmes were specifically designed to help children gain entrepreneurial skills and knowledge and to develop an entrepreneurial culture in an enjoyable yet effective way.

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[https://servizz.gov.mt/en/Pages/Education\\_Science-and-Technology/Education-Services/Educational-Support-Services/WEB1856/default.aspx](https://servizz.gov.mt/en/Pages/Education_Science-and-Technology/Education-Services/Educational-Support-Services/WEB1856/default.aspx)

[https://fes.gov.mt/en/Pages/FAQs/faq\\_ss.aspx](https://fes.gov.mt/en/Pages/FAQs/faq_ss.aspx)

<https://jayemalta.org/introducing-our-summer-programmes/>

## 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](mailto:grow-spr@ec.europa.eu)

Small Business Act:

[http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index\\_en.htm](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

<sup>1</sup> 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 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 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/>

<sup>2</sup> Central Bank of Malta, Fifty-first Annual Report and Statement of Accounts 2018. <https://www.centralbankmalta.org/site/excel/publications/AR-2018.pdf>

<sup>3</sup> European Commission, Winter 2019 Economic Forecast – Malta. [https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin\\_forecast\\_winter\\_07\\_02\\_19\\_mt\\_en.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_winter_07_02_19_mt_en.pdf)

<sup>4</sup> Central Bank of Malta, Fifty-first Annual Report and Statement of Accounts 2018. <https://www.centralbankmalta.org/site/excel/publications/AR-2018.pdf>

<sup>5</sup> MaltaProfile. <https://maltaprofile.info/article/professional-services>

<sup>6</sup> Malta Chamber of Commerce, Enterprise and Industry website. <https://www.maltachamber.org.mt/en/more-than-25-new-companies-registered-in-malta-every-day>

<sup>7</sup> Malta Chamber of Commerce, Enterprise and Industry website. <https://www.maltachamber.org.mt/en/more-than-25-new-companies-registered-in-malta-every-day>

<sup>8</sup> National Statistics Office (02 May 2019), *Business Demographics: 2013-2018*. News Release 067/2019. Malta. [https://nso.gov.mt/en/News\\_Releases/View\\_by\\_Unit/Unit\\_B4/Business\\_Registers/Documents/2019/News2019\\_067.pdf](https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_B4/Business_Registers/Documents/2019/News2019_067.pdf)

<sup>9</sup> Malta Chamber of Commerce, Enterprise and Industry website. Available at: <https://www.maltachamber.org.mt/en/more-than-25-new-companies-registered-in-malta-every-day>

<sup>10</sup> 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, apart from activities of holding companies). The 'non-financial business economy' excludes section K.

<sup>11</sup> In line with the 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 year, over a 3-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. The source of the data on high-growth enterprises is Eurostat ([http://ec.europa.eu/eurostat/web/products-datasets/-/bd\\_9pm\\_r2](http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2), last accessed 15.04.2019).

<sup>12</sup> The 2019 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.

<sup>13</sup> 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. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2019. 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 2019. 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/>

<sup>14</sup> The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2018 and the first quarter of 2019. The national SME policy expert that PwC (DG GROW's lead contractor for the 2019 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.

<sup>15</sup> 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.

<sup>16</sup> [https://www.maltatoday.com.mt/business/business\\_news/87677/vat\\_exemption\\_limit\\_raised\\_to\\_20000#.XNAa5eqzajs](https://www.maltatoday.com.mt/business/business_news/87677/vat_exemption_limit_raised_to_20000#.XNAa5eqzajs)

<sup>17</sup> <https://jayemalta.org/introducing-our-summer-programmes/>

<sup>18</sup> <https://mdb.org.mt/en/Schemes-and-Projects/Pages/Family-Business-Transfer-Facility.aspx>

<sup>19</sup> <https://www.maltaenterprise.com/support/leap2enterprise-scheme>

<sup>20</sup> <https://www.maltaenterprise.com/support/investing-crafts>

<sup>21</sup> An Act to amend the Companies Act: <http://justiceservices.gov.mt/DownloadDocument.aspx?app=lp&itemid=28336&l=1>

<sup>22</sup> Mizuri ta' Simplifikazzjoni 2015. Available at: [https://publicservice.gov.mt/en/Documents/Mi%C5%B0Curi\\_ta%27\\_Simplifikazzjoni\\_2015.pdf](https://publicservice.gov.mt/en/Documents/Mi%C5%B0Curi_ta%27_Simplifikazzjoni_2015.pdf)

<sup>23</sup> Bank of Valletta Annual Report and Financial Statements 2018. Available at: <https://www.bov.com/documents/bov-aqm-2019---annual-report>

<sup>24</sup>

<https://businessenhance.gov.mt/en/schemes/Documents/1%202018%20from%20February/List%20of%20Beneficiaries/List%20of%20Beneficiaries%20-%20Business%20Enhance%20ERDF%20GS%20%202021052018.xlsx>

<sup>25</sup> <https://www.maltaenterprise.com/support/startup-advance>

<sup>26</sup> <https://www.maltaenterprise.com/support/tax-credits-supporting-refurbishment-hotels-and-restaurants>

<sup>27</sup> [https://commerce.gov.mt/en/Industrial\\_Property/Trademarks/Pages/applications-forms.aspx](https://commerce.gov.mt/en/Industrial_Property/Trademarks/Pages/applications-forms.aspx)

<sup>28</sup> <https://investinyourfuture.gov.mt/project/environment-climate-change-and-renewable-energy-sources-private-sector/erdf-innovation-action-grant-schemes-innovation-and-environment-33947683>

<sup>29</sup> <https://businessenhance.gov.mt/en/schemes/RDandIGrantScheme/Pages/RD--I-Grant-Scheme-.aspx>

<sup>30</sup> <http://mcst.gov.mt/space-directorate/space-research-fund/>

<sup>31</sup> <https://www.maltaenterprise.com/support/business-advisory-services-2018-2020>

<sup>32</sup> <https://jobsplus.gov.mt/schemes-jobseekers/investing-in-skills>

<sup>33</sup> <https://www.maltaenterprise.com/sites/default/files/Incentive%20Guidelines%20Skills%20Development%20%28Version%201%29%20Final.pdf>

<sup>34</sup> <https://investinyourfuture.gov.mt/project/environment-climate-change-and-renewable-energy-sources-private-sector/erdf-energy-grant-scheme-33947685>

<sup>35</sup>

[https://eufunds.gov.mt/en/Operational%20Programmes/Operational%20Programme%20I%20Approved%20Projects%20and%20Beneficiaries/Documents/ERDF%20Aid%20Scheme%20Beneficiaries%20March%202017%20Final%20Versions/ERDF%20133\\_PDF](https://eufunds.gov.mt/en/Operational%20Programmes/Operational%20Programme%20I%20Approved%20Projects%20and%20Beneficiaries/Documents/ERDF%20Aid%20Scheme%20Beneficiaries%20March%202017%20Final%20Versions/ERDF%20133_PDF)

<sup>36</sup>

[https://www.maltaenterprise.com/sites/default/files/Incentive%20Guidelines%20Investment%20Aid%20for%20Energy%20Efficiency%20Projects\\_0.pdf](https://www.maltaenterprise.com/sites/default/files/Incentive%20Guidelines%20Investment%20Aid%20for%20Energy%20Efficiency%20Projects_0.pdf)

<sup>37</sup> <https://businessenhance.gov.mt/en/schemes/e-CommerceGrantScheme/Pages/e-Commerce-Grant-Scheme.aspx>

<sup>38</sup> *ibid*

<sup>39</sup> <https://www.maltaenterprise.com/sites/default/files/Certify%20IG%20version%201.pdf>

<sup>40</sup>

[https://www.maltaenterprise.com/sites/default/files/Cooperate%20for%20Growth%20Incentive%20Guidelines%20version%201\\_0.pdf](https://www.maltaenterprise.com/sites/default/files/Cooperate%20for%20Growth%20Incentive%20Guidelines%20version%201_0.pdf)