

The prospect of Job Creation with special reference to FDI in Gozo

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Honourable Minister,
Distinguished Guests,
Ladies and Gentlemen:

I must admit that the title of my speech is somewhat daunting in the prevailing economic circumstances. However, I do commend the audacity of the Gozo Business Chamber in awarding me with the task of dealing with one of the most worrying issues which Gozo presents to its own eco-system. I am using the word eco-system with purpose and I will get back to this later on during my speech.

In my speech today, I decided to do away with the rhetoric and cut to the chase. Job creation is an issue in Gozo as is Foreign Direct Investment an issue.

Over the past months we have seen unemployment in Malta & Gozo taking an upward turn. The latest ETC statistics report that in the twelve months up to March 2009, unemployment in Malta increased by 893 (15% increase) while that in Gozo increased by a mere 52 (6% increase). It is not fully clear whether this is solely the effect of the global economic downturn going local in the manufacturing and the tourism industry, or whether this is also related to Gozo's competitiveness and/or product quality. Any attempt to look into the glass ball these days is folly. However, one must note that the Gozo unemployment situation has held much better than that of Malta. It is useful to note, that the gainfully occupied in Gozo has increased by approximately 350 in the twelve months leading to November 2008. Not a bad picture at all considering!

On the investment front, while foreign investment appetite in the Malta is still healthy, and given the effort which is continuously placed towards positive

action with respect to Gozo from both the incentive and the marketing side of our operations, we still find it difficult to convince investors or promoters to locate their business in Gozo. Having said this, this year we have managed to secure, a manufacturing concern for the production of personalised payment and credit cards, and which will commence operations in the coming month.

I have to admit that I am a keen supporter of product and destination Gozo. I have spent most of my childhood summers in Xlendi and I have also lived in Gozo for one whole year immersing myself in the rural community of Zebbug. I, therefore, harbour no doubts or scepticism about the island's potential to become an eco-island and concomitantly be an attraction in and out of itself for tourism and investment. Jobs, as you all know, will follow suit!

As at the end of 2008, 51 companies in Gozo employed more than 10 in Gozo to a total of 1,507 workers. By comparison to Malta, the number of those employing more than 10 total 1,285 companies generating 61,895 jobs. In percentage terms this indicates that the *more-than-10s* in Gozo on average are smaller than those in Malta.

If we consider the micro-industry, that is, enterprises which employ less than 10 people, then in Gozo a total 1,859 micro-enterprises generate 2,988 jobs. In Malta, 22,609 micros employ 38,165. In percentages, 7.6% of local micros are found in Gozo and they employ 7.3% of those employed with micros. This indicates that the micros in Gozo on average are similar in size to those in Malta.

My time today will not be spent churning out statistics or trying to lecture you on FDI or job creation. Probably you can teach me through your experience and knowledge. I will devote the next few minutes to outline my reflections on the key challenges and issues which I believe we all need to address. Allow me to entertain you with a short anecdote which illustrates my intervention today.

Two summers ago, some friends and I decided to book a farmhouse in Gozo for a customary weekend break. The only requirements we had were that we wanted a farm swimming pool. The owner required a full deposit in advance by cheque. All set and done, we strutted our way to Kercem in the sweltering heat, only to find upon arrival that the swimming pool was murky and green with moss. No amount of remonstrations with the owner could make him change his mind or the water. We lumped it and did our best to stay out of the water. As if that was not enough, by the stroke of noon on Sunday, two cleaners (buckets, brooms, mops and all) barged their way into the property and started cleaning the place with us still present.

Maybe it's best to call this incident: Hilariously Sad!

Without wanting to be negative, much less generalise – since obviously I've also had very positive experiences in Gozo – I would like to use this anecdote to raise three issues which I believe are strategically important for Gozo to be more investor-ready.

Quality Standards

The local manufacturing industry (and here I include the craft industry) and tourism product need to upgrade their quality standards to international levels. We are today competing with the best and the most advanced industrialised countries with inculcated quality controls and standards and who expect nothing less or short of that. This refers to finishes, process controls, quality certifications, health and safety, hygiene and materials, just to mention a few.

By the way, I forgot to mention that the farmhouse was furnished with unwanted extras and seconds from the owner's primary residence!

Service Excellence

This is where we all falter. Service and manufacturing FDIs have been critical to jolt us out of the lack-lustre service level standards in both Malta and Gozo. While huge leaps have been achieved, service excellence for Gozo is of

utmost importance to provide Gozo's product with the necessary edge required of a five star destination for business facilitation, service provision and tourism.

The movement up the ladder of the value chain can be achieved once enterprises, sole traders, service providers and infrastructure owners are capable of doing what they know best in a professional manner. Gozo must also find manners how to keep its talented youth at home rather than losing them off to Malta in search for greener pastures. Investors keep telling us that they are finding it difficult to hire good quality, well educated Gozitan youth, willing and able to embrace the job with enthusiasm. Bryvarc, the Italian company mentioned earlier on, with just a month to go before commencing operations, is already experiencing problems in find the right workers for its new facilities.

Malta Enterprise is keen on assisting to upgrade the skill set of the Gozitan workforce and it is heartening to note that since 2007, 83 Gozitans have made used of the personal tax incentives offered by the My Potential Scheme. This is however not enough, as it relates more to personal initiative. Excellence in service delivery levels ties in with the importance of continuous education and training by enterprise itself. For this reason, the private sector in Gozo needs to focus more on the upskilling of the workforce particularly job related soft-skills and technical abilities. Only this will ensure that quality standards and service levels are consistent.

Technology and Innovation

Gozo's competitiveness in the future will hinge upon the capacity of its local enterprise to develop through technology and innovation. This does not just mean upgrading machinery or facilities, but engaging in innovate high-value added activities, designing and developing products and services and transferring knowledge and technology across industry and service sectors.

In doing so, Gozo needs to compensate for its smallness, by joining-up strategies amongst the indigenous enterprise forming networks and clusters which seek to first of all maximise the full potential of the current infrastructure to facilitate business and then commercialise technology.

Reverting for a moment to my hilariously sad anecdote, wouldn't it have been great if we could book online and pay online for the farmhouse in Gozo just like I do when I visit Scotland or Ireland? This is just one example of how technology can be used (at little expense) to harness the island's potential and attractiveness and in the process create jobs! Regrettably, when Malta Enterprise launched a scheme to improve e-commerce facilities, only 7 Gozitan companies applied and subsequently received assistance.

But back to the subject of research, technology innovation and technology transfer, while being aware of some local efforts being done, allow me to bore you with some figures which demonstrate the slack and inertia present within the industry:

Since 2006, out of 1910 enterprises in Gozo:

- 3 applied for Trade Fair Support
- 1 applied for the SME Development Scheme
- 4 applied for a Business Development Grant
- Only 1 applied for the Eco Innovation Scheme
- 4 made use of our Business Advisor Scheme
- 2 were granted Network Support

The numbers speak for themselves. What I can add is that in the coming days Malta Enterprise will be launching new fiscal schemes and cash grants for Research & Development and it would be interesting to see the participation of Gozitan entrepreneurs in these schemes.

An eco-system for Gozo

The opportunity to innovate is being provided through the vision for Eco-Gozo. The concept of an eco-island is realisable only if it is supported by the establishment of an eco-system. An eco-system is usually a term used for habitats of living organisms that live in interdependently and in perfect harmony with their environment. I am borrowing this term from biology and applying it to the economy to describe how the vision for Gozo can be achieved by an integrated policy framework which links together, industry, tourism, arts and culture, the environment, infrastructure, planning and administrative structures. This requires centralised leadership and planning and integrated policy making. What are called 'linkages measures' need to be established without engaging in excess bureaucracy.

This is why I keep mentioning tourism and destination management whenever I mention FDI, entrepreneurship and the Gozitan economy. Tourism, investment and enterprise development, social life and culture provide the virtuous cycle which is so essential for a balanced eco-system.

Eco-Gozo will not be attained with the flick of an eye. Nor can it be attained by simply throwing money at it. Gozitans need to embrace the vision as much as the politicians and the administrators do. Commitment needs to move away from lip service into concrete action and key players brought together on fast track. We don't have time to waste and more than anything else we are not re-inventing the wheel. The Symbiocity concept in Sweden aims at achieving this and the Isle of Wight's Sustainable Community Strategy is eco-Gozo incorporated!

Developing Gozo as an eco-island will provide a fresh outlook to our investment promotion strategy and we look forward to be part of the eco-system where we actively participate and contribute to realise Eco-Gozo as

soon as possible. From my hat at Malta Enterprise and Malta Industrial Parks, rest assured that we are more than willing to devise strategies and incentives to complement the Eco-Gozo concept and we are also willing to invest financially to render our industrial property more eco-friendly. We feel more than reassured that Eco-Gozo will generate new FDI and new jobs both in the making of as well in the maintenance of the vision.

Internationalisation for Job Creation

You might have been wondering why little is being said about Foreign Direct Investment. The first reason being that Gozo first has to be a marketable destination for investment. Cut-throat competition from our neighbouring countries, coupled with the fact that the harmonisation of our fiscal, tax and grant incentives has made our incentive regime less competitive, investors are nowadays factoring other issues in their investment decision-making matrix.

The second reason, is that Gozitan enterprises should focus more on their growth and development rather than waiting for some magic wand to land FDI's. Statistics show that the main generator of jobs in Gozo are not the FDI's but the Gozitan industry itself.

As you all know, Malta Enterprise has a rather generous incentive framework for Gozo. This is solely designed to remove any inherent disadvantages pertinent to double insularity and also to assist us in convincing investors to choose Gozo over Malta. Over the past year, we have dispensed no less than €500,000 on the Gozo Transport Scheme alone while around €1.5 Million have been granted by way of incentives for the Gozo industry between 2005 and 2007.

Maybe we can do more and for this reason, I have directed the review of the Gozo Industrial Policy within the framework of Government's vision for Gozo to be an eco-island. This realisation of this vision for Gozo will enable us to focus more our investment promotion efforts since clearly Gozo is not attractive to any industry come what may.

Domestic Market Access

Without in any way diminishing the importance of FDI, allow me to strongly argue that job creation in Gozo will be more successful if linked to enterprise development. Gozo's economy is not dependent on FDI industries. It is largely the sole traders and micro-enterprises in the manufacturing and tourism industries that spin the wheel of the private sector. This is where the issues of quality, service and innovation mentioned earlier attain critical significance.

Local enterprise needs to invest heavily in upgrading its infrastructure. This does not mean brick and mortar, but largely technology and skill. It's all good for the Gozitan Business Chamber to urge Government and MEPA to act decisively if it wants to safeguard the Gozitan economy. Your frustration is shared also by us since we are still awaiting MEPA permits for the Tal-Barmil SME Park while pressure is being mounted on us by MEPA's policies of driving industrial activity away from village cores! But some soul searching also needs to be done and responsibility must be shared.

It is heartening to note how some Gozitan companies are growing and investing by tapping the Malta market. Others are acting as sub-contractors to the Malta-based FDIs. The vast majority however, have remained fossilised in the work methods and obsolete technology rendering them inefficient and hence incapable of competing even with their Maltese counterparts.

What I call the Malta market should be the litmus test of competitiveness for Gozitan enterprises. So rather than banking on the remote possibility of big multinational companies setting up base in Gozo, it is more realistic in our opinion for Gozitan entrepreneurs to invest in penetrating the Malta market thereby generating jobs in the process. Hence my earlier disappointment at

the poor uptake of the Business Advisory Services and the ERDF Schemes by Gozitan entrepreneurs, since one opportunity missed is one opportunity too much in the prevailing economic circumstances.

Beat the Crunch: Invest

The key message that I wish to convey to you today, over and above all that I have said is that this is the time to invest. For the Gozitan economy to recover its lost competitiveness, the right investment strategies need to be pursued. Malta Enterprise is geared to assist both through its advisory services as well as through its incentive framework particularly that related to access to finance. This does not mean that we will assist whatever, whenever, wherever! Our interest lies primarily in innovation led industries, in enterprises which clearly demonstrate their capacity to move up the value chain and embrace technology and innovation. We are not interested to support saturated sectors and we are neither the social housing department for industrial activities and manufacturing concerns.

Malta Enterprise will encourage entrepreneurs to consider migrating into industrial activities that encompass three economic criteria: high-value-adding operations, foreign revenue earnings, and a diversity of markets.

It may be appreciated that it may be easier to import and retail than to start-up a manufacturing business or one that services the manufacturing industry. One can also justifiably argue that businesses in the tourism industry, for example, have both value-adding as well as a foreign revenue generation.

Numerous studies have shown that firms that innovate consistently, employ more workers, have higher skill levels, pay higher wages and offer more stable prospects to both their employees and investors.

Such entrepreneurs enable Gozo to access new markets, and it is our responsibility to encourage and assist them to succeed through being innovative and hence competitive.

It is pertinent to remind you that since 2008, under the new Malta Enterprise Act, we have opened up investment aid to additional sectors such as furniture, printing and food processing. These three sectors entail several local micro enterprises that could benefit from a 50% tax credit on the value of their capital expenditure, without any capping in euro terms.

In addition through LN 334 of 2005 under the Income Tax Act, tax credits can be provided to all Micros from all sectors, particularly those that are not eligible for investment aid. Furthermore applicants need not be companies. Here the aid is capped at €120,000. This LN expires at the end of 2009 and we are therefore just in time to start discussing the merits of extending or redefining this scheme beyond 2009.

I do not believe that Micro enterprises are fully aware of these incentives since their uptake has been almost negligible. Malta Enterprise might also be at fault for not explaining and marketing enough these incentives.

Provision of Micro Credit

We are aware the investment requires credit which is increasingly becoming more difficult to raise these days. While Banks profess their support to assist and facilitate business, their support is still dependent on 100% collateral even for the provision of micro-credit. The Bank's requirements are becoming evermore taxing making it more difficult for the entrepreneur to secure the required capital. While I have no intention or competence to advice Banks on their credit policies, its bears reminding that economic performance needs to be sustained in the best interest of all parties and the any move by the Banks to impose higher premia, upgrade interest rates or demand excess collateral cover will simply compound problems and liquidity issues which filter down the whole supply chain.

As Malta Enterprise we have anticipated this and we are trying to step in where the Banks have retreated. We are being more forthcoming in our policies to provide access to Finance at the same time, we are putting

together a micro-credit incentive scheme to encourage micro-enterprise to invest and grow.

Having said, all this, it bears to note that with a handsome depositor base of around €600M, the gozitan 'economy' is liquid enough to seize the opportunity and invest in its own industrial activities.

Conclusion

By way of conclusion, I wish to reiterate Malta Enterprise' full commitment towards Gozo. We are convinced that pursuing the right strategies will make Gozo fit for purpose...and the right strategies for job creation and investment lie squarely on the ability of all of us to articulate and implement Eco-Gozo in the shortest possible time. My central concern at this stage lies only in the fact that there still is no clear policy and governance framework to achieve this vision and we cannot start walking towards a direction we don't know. This does not mean that we should sit on our laurels or rant and rave until the penny drops. It means mobilizing government, the private and social sector as well as citizens themselves into a harmonized eco-system to achieve determined outcomes. Gozo's size makes the vision achievable in the short term. All we need is an architect!

Thank You