

## **Why Malta?**

### **Projecting Malta as a Business Centre on the International Scene**

It is a pleasure for me to be present here with you today. I plan to discuss how Malta Enterprise is to become an important driving force towards the attainment of Malta's VISION 2015, and in doing so projecting our country as a Centre of Excellence in:

- Information and communication technologies;
- Education
- Financial Services;
- Tourism Services;
- High value added manufacturing and related activities;
- Health Services;

To these we can add the vision for Eco-Gozo and our ambitions for the Island's sustainable development.

As a support organisation to the private sector – the main engine behind our economy – our role is very important. Our ability to work closely and collaborate whole-heartedly with the private sector is critical for the achievement of this vision. I wish, therefore, today to explain what Malta Enterprise is doing to fulfill this role, and also to invite you to offer your views on how we can improve. In order to discuss the future, I must first make some reference to recent trends and current economic circumstances with a brief mention of Malta Enterprise's contribution and achievements so far. I will then give a summary overview of the funds available and the schemes we are administering and how we plan to contribute to the realisation of Vision 2015 .

#### ***The role of Malta Enterprise***

As you are quite aware Malta Enterprise is the Government's entity responsible for both attracting inward investment and for supporting enterprise in Malta to grow and internationalise. It is a merger of the then MDC, METCO and IPSE. The extent to which this merger has been successful, or whether it was the best decision, is in itself a subject of debate. What is sure, is that Malta Enterprise today, is more MDC, than METCO and IPSE.

Nonetheless, we provide pre-investment advice and support, start-up assistance as well as post investment services and after-care facilities. The Corporation also offers trade promotion services aimed at introducing foreign companies to local manufacturers, service providers, suppliers and potential strategic partners in Malta. We are committed to creating the right environment for successful business to flourish and to that end, Malta Enterprise administers Government policies, EU and local programmes promoting and supporting enterprise in general.

Since the merger, more effort has been put into the attraction of foreign direct investment than to the support and internationalisation of local business. We are on our way to redress this imbalance and a thorough internal re-organisation shall be underway. This together with the recent revision of the legal framework in which we operate will result in a complete revamping of the way in which we design and deliver our incentives. Even though Malta Enterprise has been focussed largely on the attraction of FDI, and has delivered a good measure of success, one still needs to keep updating our targetting strategies since most of the time, we are failing to make our presence felt in markets which possesses investment appetite.

The new Malta Enterprise Act addressed a number of issues that existed with the incentives granted under the Business Promotion Act. First of all these were mostly in the form of fiscal incentives and limited only to certain export-related activities within the manufacturing sector.

The budget for incentives has now been propped up, both by Government directly and through EU funds, and our incentive measures are gradually being transposed from the Business Promotion Act to the Malta Enterprise Act which provides a more flexible framework within which we can operate.

The first incentives under the Act were launched in February 2008 and fall under the categories of Investment Aid, SME Development and Enterprise Support. In particular under the Enterprise Support category, the eligible sectors have been widened.

Whilst the fiscal incentives remain more relevant to the manufacturing sector (although it must be noted that even here there is a change since they are now open to **all** manufacturing enterprises rather than just those involved in export), other incentives, such as our Business Advisory and E-Commerce schemes, have already been opened to other sectors. The new Act also puts local enterprises involved in eligible activities on the same footing a foreign enterprises when it comes to eligibility for receiving assistance.

We are also beginning to emphasise more the need to assist local companies tap into new markets abroad. Our focus is on high/medium tech, knowledge based and innovative activities. But we are moving away from simply accompanying local entrepreneurs to fairs and exhibitions abroad. We aim to assist them in every respect to become internationally competitive. We provide advice, and possibly even funding, to promising companies to bring about the required improvements (ranging from the introduction of new products or processes through to effective marketing) to enable them to expand into international markets.

The Malta Enterprise Act has also established the principle of positive action towards SMEs by offering them higher "Intensity Levels". These "Levels" indicate the percentage of assistance each Member State may give under State Aid rules. Malta is able to offer the higher range of Investment Aid to eligible SMEs (40% or 50%), whereas large companies may obtain up to 30% of their investments in tax credits. These are the maximum intensity levels allowed by EU State Aid rules which provide the framework within which we may grant assistance.

It has to be said that our efforts in are even being recognised internationally and in fact our Chief Officer responsible for Incentives is in Berlin this week presenting one of our pilot schemes to the 'EU Academy for Taxes, Economics and Law'. The scheme has been selected by the EU Commission as an example of best practice. This however is no reason to be complacent. The final judge of our performance is not the EU Commission, but rather the success of local enterprise and the attraction of FDI.

#### ***Malta Enterprise's contribution***

Before elaborating on our plans for the future, let us take stock briefly of the recent past and current economic circumstances. Malta's economic fundamentals are sound, with GDP last year valued at Euro 5.5 billion and growth at 3.8%, income is relatively evenly distributed and we have a generous welfare state. This is no mean feat considering we started from 3<sup>rd</sup> world economic conditions on Independence only 44 years ago. MDC, METCO, IPSE and now Malta Enterprise all played a part in our continuing economic success. As an illustration – last year the projects Malta Enterprise approved are expected to create more than 1,900 jobs and attract direct investment amounting to Euro 107.3 million over the next 5 years. Whilst the bulk of FDI (foreign direct investment) continues to emanate from Europe, early this year we welcomed the setting up of our first Indian pharmaceutical company.

During 2007 close to 1,000 fiscal applications valued at around €42.6 Million were processed. The gross value of aid administered that year included an additional sum of Euros 59 million in the form of tax credits approved but not utilised and carried forward to subsequent years. Thus the gross fiscal aid approved in 2007 amounted to around €100 Million.

With regards to start-ups, over the past 5 years the Kordin Business Incubation Centre (KBIC) has facilitated the birth of over 50 SMEs with a remarkable success rate of 86% including companies which now employ over 100 people. With the increasing demand for facilities at the KBIC, this year Malta Enterprise successfully obtained EU funding and, together with Malta Industrial Parks, has embarked on its expansion to house an additional 24 units.

It must be said that a significant portion of investment brought about by Malta Enterprise goes largely unnoticed. These include the gaming industry, the ICT Sector and financial services whose investment economic returns are not captured since they frequently do not benefit from any incentives administered by Malta Enterprise but which nonetheless would have been brought to Malta through the efforts of the Investment Promotion team.

Gozo deserves a special mention due to the “double insularity” issues that we have had to properly address. Last year Malta Enterprise launched a series of support schemes to promote economic activity in Gozo with very positive results especially in ICT and related activities. Our incentives for Gozo have to take into account the particular issue faced by enterprises there and it is heartening to see that our approach has encouraged some important companies to locate there.

An example of the attention we are placing on Gozo is the Gozo Regeneration Scheme which we are administering together with the Employment & Training Corporation. This scheme covers ½ of the salary of jobs created in Gozo for the unemployed, school leavers or mothers returning to work. This scheme applies to all sectors and we have already committed €1 Million to support these jobs.

The vision now set is for Gozo to become a world renowned eco-island: this poses more exciting challenges for Malta Enterprise. Our aim is to make Gozo an even more attractive location for investment. Eco-Gozo is indeed as much of an economic vision as it is environmental.

### ***Economic Trends***

In line with the changing sectorial emphasis emerging in our economy our focus continues to be that of increasing investments in SMEs in high and medium technology sectors and of promptly exploiting niche business opportunities to expand knowledge based activities.

Whilst Malta’s manufacturing output has decreased in volume terms, the sector remain one of the more important contributors to our GDP and we have witnessed a successful migration to higher value adding operations. In parallel there has been an impressive growth in the ICT sector and in subcontracting activities strongly dependent on manufacturing. This has led to increased specialisation and thereby a workforce with an ever improving skills mix.

We need however to diversify our product. Excellence in the health and education sectors cannot be brought about unless we open ourselves to competition and make Malta an investment location for such services. Malta Enterprise is currently in discussions with a number of key health and education providers and intends to pursue its course of ensuring that such providers invest in Malta.

In this sense, Government needs to have a clearer vision and strategy of achieving its targets. So far there does not seem to be any cogent approach for the proliferation of higher level educational services and little support for investment in the whole array of health-related services by foreign providers.

***Funds and Schemes managed by Malta Enterprise***

In the next few weeks, we shall launch five schemes with a budget of Euro 20 million from the European Regional Development Funds made available for Malta Enterprise to disburse over the next 5 years. These funds will be utilised:

- to help SMEs improve their international competitiveness
- to support the operational costs of eligible start-ups
- to encourage innovation within SMEs by contributing to the development of new products, processes, services and the introduction of innovative management techniques. Funds will also be channeled towards projects involved in waste management, waste water treatment and air emissions.
- To develop e-business by assisting SMEs to make better use of ICT
- To part finance R&D to encourage SMEs to invest in this area and develop new products, processes or services.

In addition to these EU funds, Government has also budgeted EU 6 million for Malta Enterprise for the next financial year. Furthermore the Government is allocating an additional Euro 10 million to assist enterprises in the implementation of energy efficiency and renewable energy projects and close to Euro 20 million for the upgrading of Industrial Parks.

This year the EU has also granted €12 million in (ERDF) funds for the setting up of a Bio-Technology Park. This centre will have close ties with the hospital and the university to create a knowledge-based R&D village of international standards though the attraction of foreign investment. Our Business Development team is already targeting innovative companies in various sectors including health and bio-technology, laboratory facilities, research institutes, training colleges and overseas universities whose profiles match the typical tenants of the envisaged Centre. Very soon, an expression of interest will also be launched on the international scene for the design, build and possible management of the Park.

The success of this venture hinges largely on the ability of Malta Enterprise to work closely with the University, MCAST and the health and education Ministries to jointly promote Malta as having centres of excellence in innovative activities, particularly related to healthcare and the provision of related educational support services.

Whilst we do have some good experience of cooperation with MCAST in particular in the pharmaceutical and aviation maintenance sectors, we need to do more especially since the provision of qualified labour may be a limiting factor in our attempts to attract new business activities.

I would like to briefly address however the current economic scenario. The unfolding events of the past few months has made fools of anyone who dares forecast economic behaviour. The fundamentals of economics and finance have been challenged by a greater psychological order: that is, fear, apprehension and distrust. No injection seems good enough these days to restore confidence and we have yet to see how and when the global markets will drive round the bend to better pastures.

In this scenario, I must admit, that as Malta Enterprise we are concerned and we have immediately embarked on a strategy of defending our current investments. This essentially means that we are studying ways of how to stand in and assist those FDI manufacturing concerns. It also means, filling a possible gap in the provision of credit when the banks are redrawing their lines and becoming even more risk averse to financing investment. While so far, it is positive to note that new projects are still coming in and investment appetite is still sound, we need to ensure that this remains so throughout the passing of the current turmoil.

### ***Lessons from the past***

This leads me to speak openly about the present shortcomings I feel we have and how we can use lessons from the past to improve. In general I believe that there is a need for closer cooperation between entities such as ourselves, the ETC and the University to forge links between our educational institutions and industry.

While Malta Enterprise has its representative sitting on MCAST, the absence of a Malta Enterprise representative in the decision making structures of the University of Malta is illustrative and symptomatic at the same time.

The struggle we are facing in encouraging innovative economic activity may also be due to this vacuum. Concomitant to this is the loss of our best graduates who have obviously ventured abroad for more challenging career opportunities and better conditions. Through the *My Potential Scheme*, we are assisting 1000 individuals to pursue post-graduate studies in areas of applied science and engineering. This assistance is given in the form of tax credits upon the completion of studies specifically to incentivise these individuals to remain in Malta. But will this be enough? Unless we address this problem effectively there will be few highly professional resources available for the knowledge-based economy to which we aspire – with the inevitable failure to realise our VISION 2015.

Our industrial parks continue to make premises available largely for manufacturing activities leaving service providers to struggle for affordable premises on the private property market. Moreover, the plethora of arrangements made available to accommodate the most mundane to the highly value added industries operating in our industrial parks makes governance an entangled mess.

We have large construction industries (generating high levels of dust) sitting door-to-door to the sterile environments required by the pharma industry. We have tenants on emphyteutical deeds not operating and unwilling to give up their spaces. We have squatters without any title whatsoever who have been allowed to operate for too long period of time. Yet, we cannot provide spaces to the more service oriented industry which cannot find the right space in the private sector. To illustrate, it is next to impossible to find a parcel of land of approximately 3,500 square metres in the private sector for the development of, for example, an educational institution. This not to mention planning permissions which seem to actively mitigate against investment.

Our investment promotion efforts have generally neglected the local private sector and although we are beginning to address this from the policy framework point of view, we need to do more in practice. Moreover, we need to build bridges with multiplier organisations both local and foreign to be better able to channel our efforts accordingly.

It may be much easier to persuade foreign companies to invest in Malta with sound local partners who know the ropes. We should talk more to established local entrepreneurs wishing to export their services, but in need of foreign partners to do so. Our job should be to help these companies find such partners.

Malta Enterprise has been very much involved in providing a brokerage service for local companies seeking new technologies and partners, mainly through EU projects such as the Euro-Info Centre and the Innovation Relay Centre (now merged as the Enterprise Europe Network). Possibly we should make better use of these projects to assist our core business community.

We also need to be in a better position to provide an effective market intelligence service to our companies, as well as step up our efforts to help innovative local companies to identify sources of funding – such as venture capital – which have traditionally not been available to them.

In a nutshell, Malta Enterprise needs to become an invaluable resource tool for both government and the private sector but providing market and economic intelligence, shared services and synergies for growth and partnerships.

***The way forward***

To provide continuing and increasing support to our SMEs we need to ensure that, in our search and bid for funds and in the administration of them, we do not become bogged down in bureaucracy and red tape. We must also guard against the provision of grants or subsidies to local companies that lack the entrepreneurial spirit and capabilities to make appropriate use of them.

In addition we have some very tricky decisions to take when it comes to how funds should be disbursed. Do we spread the limited amounts we have at hand amongst a large number of relatively eligible companies (with the risk of creating the illusion of assistance rather than providing substantive help), or do we concentrate on fewer more promising ventures which may lead to significant performance measurement in terms of economic returns and job creation? Which of these two approaches will bring more economic benefits to our country?

In the broader picture we need to ask how we should position ourselves in the context of the current international financial turmoil. Certainly we need to continue to aggressively promote Malta as a business location, especially for enterprises which are less susceptible to economic fluctuations, and thereby provide attractive opportunities for our well-qualified graduates and our successful entrepreneurs to invest their skills and resources in our country. But to achieve our VISION 2015 we need to agree on a common strategy not only with other Government entities but also with the leading players in our private sector.

Moreover, we desperately need to embark on an international branding exercise. We are absent from the investment radar largely due to our inability to aggressively market ourselves abroad. While admittedly this requires substantial financing, I strongly argue for a synergy between all stakeholders in order to establish an International Marketing Council which brings together Malta Enterprise, Finance Malta, Malta Tourism Authority and the private sector to jointly become custodians of a single integrated brand for our country thereby linking culture, arts, tourism, investment, real estate, heritage and opportunity. This does not mean coming up with a quick logo. This requires the establishment of a purposely established structure as was done in South Africa in 2002.

We are operating in a highly competitive environment and many comparable locations (Cyprus, South Africa, Northern Ireland, Wales, to name but a few) have already embarked on aggressive marketing programmes. We have to find a unique voice for Malta in this cluttered space.

To achieve all this we need to work together even more. Sometimes one gets the feeling that government agencies and departments are acting at cross purposes. This is not to say that each one's intentions are not good. Rather, that at times we seem to lose sight of the big picture.

**Presentation made by Mr Alan Camilleri, Chairman Malta Enterprise at the Malta Business & Finance Forum 2008 organised by EMCS Malta on 26<sup>th</sup> November 2008**

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Even as Malta Enterprise, some soul searching would need to be done to be able to create a real matrix organisation capable of responding effectively and collaboratively to the requirements of industry and the private sector while at the same time prod government to enact policies which anticipate market trends and seize the best opportunities of the arising contexts.

At this juncture – I would like to invite you to ask questions and make suggestions and I thank you for sparing the time to listen.