

Supporting SME's

Distinguished Guests

Ladies and Gentlemen

Its a pleasure for me to be present here with you today, a day specially dedicated to SMEs. The importance of such a day to the Maltese economy is even more pronounced given the fact that micro and small enterprises form the backbone of our economy.

Late last year The Malta Enterprise Act underwent a revision to include a new range of incentives in line with the current EU State Aid policies. The remit of Malta Enterprise included that of articulating incentives to promote the growth and sustainability of the local economy particularly through SMEs.

The primary vision of Malta Enterprise remains that of increasing SMEs' investment in High to Medium Technology sectors such as aviation and precision components; high-end electronics; pharmaceuticals, medical and healthcare. It also promotes investment in medium to low technology sectors such as the film making industry; international logistics; maritime; oil and gas. Knowledge Based Industries are also important for the economy and these include education and training; software development; research and development; shared services and back office operations.

Malta Enterprise also looks towards assisting the local SMEs to sell their locally produced goods abroad. This assistance applies to a range of sectors but particularly the indigenous businesses in the sectors of food processing and packaging, publishing and printing.

Finally Malta Enterprise sustains those local sectors that are exposed to high risk. We need to help them move up the value chain to ensure their sustainability. These sectors include furniture making; engineering workshops and clothing.

The rationale behind this **vision** is a combination of three economic criteria.

The first is **value added operations**. The higher the value added per employee, the higher the contribution towards the local economy. It also ensures a longer sustainability lifecycle. Low value-added exposes the enterprise to vulnerability in a number of areas.

The second economic criterion is the **notion of capital inflows**. The importance of a healthy export oriented industry is crucial to any economy as it contributes towards the country's balance of payments. This is even more crucial in the context of a small island economy such as that of our islands, which is inherently dependent on imports for its basic commodities. Economic growth can realistically take place only through foreign direct investment and exports.

The third is the **market diversity of industrial sectors**. Diversity is important especially in our relatively open economy. Lessening any dependence on any one particular industrial sector will shelter us from the ill-effects of international market volatilities and external shocks. Incentivising new SMEs to enter an already saturated local market does not make any economic sense both for the economy as well as for the entrepreneur. Malta Enterprise needs to deliver its vision by encouraging additionality: that is, helping new economic activities that otherwise would not take place.

Together, all these three economic criteria of value-adding potential; capital inflows and a market diversification context need to be considered when Malta Enterprise assesses those enterprises that need assistance. This effort is

important so as to optimize the finite amount of assistance that the Maltese government can give under the State Aid rules that would eventually reap the most economic returns.

SMEs, the subject of today's seminar, always play a crucial role in the economy of any country. SMEs clearly constitute the majority of recipients of any aid administered by Malta Enterprise. Most economies have a substantial number of registered SMEs particularly if one also includes the micro enterprises that employ 10 or less. This clearly indicates the importance of this size of companies.

However the generic classification of SMEs is difficult to analyze without looking at the different sectors within the classification and their different impacts on the economy. Some sectors, for example, are crucial for the national economy even if they do not generate any foreign revenue earnings. Education is one such sector.

On the other hand sectors in the technology manufacturing sectors typically have an element of all three economic criteria I mentioned before, and because of this, remain the focus of the efforts of Malta Enterprise.

The Changing Manufacturing Scenario

Public statements made regarding the decrease in manufacturing output viz-a-viz the increases in the tourism industry may lead some to wrongly conclude that tourism has overtaken the manufacturing industry in importance and size. The contribution of Malta's manufacturing output rather than decreased as some sources infer, has migrated to higher value adding activities with a concomitant net increase.

The manufacturing output in apparel has migrated, amongst others, to a slightly lower output of electronics and pharmaceutical sectors but with a much higher

value rendering more benefits to our economy. So though it may be true that overall the output volume is less, the emerging sectors contribute more to the economy than those lost. Meanwhile international manufacturing is also becoming more complex to define as it involves more and more specialist subcontractors in the areas of product design, training, logistics and maintenance. Take these manufacturing activities out from under the umbrella of a large manufacturing enterprise and suddenly you have a fledging sub-contractor industry that typically falls within the definition of a knowledge-based industry. These sub-contracting activities, strongly allied to the manufacturing industry, are dependent and integral to the current definition of manufacturing and are very different to the other services industry. However, this same fragmentation of the manufacturing sector also contributes towards functional specialisation with more and better skills required.

The local SME specialist enterprise can benefit significantly from this fragmentation of the manufacturing firms because the larger enterprises realise that these specialist SMEs offer solutions that are more cost effective than those provided for internally. This fragmentation also leaves the large enterprise with more time and energy to focus on its core business. The large enterprises are looking more and more outside their companies not only for innovative ideas on their product design, but also on innovative ideas on how their products are produced, marketed and sold.

Manufacturing encompasses the full chain of activities from marketing to designing a product that the market needs; the making of the product right to the sales; and logistics as well as after sales support. One may rightly argue that typically the foreign companies with production units in Malta have opted to keep the marketing and product development units safely tucked away in their native country. Admittedly, we now need to incentivise the migration to Malta of these elements as well through specific incentives by Malta Enterprise. This would not only lengthen the sustainability duration of the bundled foreign activities, but it

also opens new opportunities for our workforce to gain new skills in marketing and product design.

Becoming a local specialist SME globally supplying innovative services to large international enterprises is not easy. Of course information and communication technologies (ICT) are the enabling tools for this service to take place. What is more important however is that the local sub-contractor has crucial first hand experience and skills in the manufacturing sector that has conveniently been provided by the larger foreign investors. This is the true knowledge industry part that adds that extra added value and increases our competitiveness.

Of course the increasing potential in the sub-contractor industry is not only for those allied to manufacturing. The industries involving call centres, financial services, ICT and tourism are also very important to the national economy. However the advantages and opportunities that arise from the successfully evolving manufacturing sectors are also important for Malta's long term strategy. These may not be clearly visible to the general public, but the successful foreign direct investment in local manufacturing, and the allied sub-contractor sectors, still have a long and important contribution to our continuing economic sustainability.

Widening eligibility in favour of local manufacturing

Under the recent modifications of the Malta Enterprise Act, Investment Aid has now been opened up to include all manufacturing activities as well as the sub-contractor sectors. This is a benefit to the local manufacturing SMEs that previously were not been eligible for Investment Aid. Under the old Business Promotion Act (BPA), Investment Aid was restricted to only the target sectors involved in export. With the revised Malta Enterprise Act sectors such as furniture making, printing and food processing and packaging have now become eligible for the tax credits under the Investment Aid scheme. Several hundred SME local manufacturers are now already eligible

Positive Discrimination in favour of SMEs

The Malta Enterprise Act also established the principle of positive action towards SMEs by offering higher "Intensity Levels". Intensity Levels are the percentage of assistance that each member state can give. The Intensity levels awarded to SMEs are higher than large companies. For example in Investment Aid whilst large companies obtain 30% tax credit on the investment total, SME's can get up to 50%.

Aid for local exporters

As already noted, export is important for the local economy because it generates crucial foreign revenues that is so important for local economic growth. Under the Malta Enterprise Act there are incentives for manufacturing SMEs to promote the sales of their locally manufactured goods abroad particularly in the EU market. ME's assistance ranges from helping the SMEs develop new products right through to putting together export plans that include product and market research in the targeted countries.

Start ups

Start-ups are crucial to the sustainability of the local economy and can be seen as the crucial birth-rate of our SME population. Malta Enterprise not only encourages but actually facilitates and houses the setting up of promising micros at the Kordin Business Incubation Centre particularly if they show commitment in attaining a good performance of all the three economic criteria. Over the past 5 years, the KBIC has facilitated the birth of over 50 SMEs at a success rate of 86%. A couple of these, namely Inspectra and JTI, have grown not only to meet the 3 economic criteria but also have gone on to employ over 100 employees each. These two examples can be termed as star performers and justify why the KBIC is now being expanded from its present 5200 square meters to an eventual facility of some 9000 square meters through the use of European Regional Development Funds (ERDF).

Research & Development

Malta Enterprise is awaiting EU approval for its plans to launch new incentives to support R&D in Malta. Malta has a low proportion of SMEs engaged in R&D and is currently one of the lowest in the EU. We shall be promoting and envisage a significant growth of R&D activities being carried out in Malta over the next few years. These new incentives will support what is termed as industrial research and experimental research. These types of research are less risky as they are close to market and most of the development has a high chance of it ending as a commercial and profitable product that is not only made in Malta but also designed in Malta.

Research and Development is also important for the present foreign companies already set-up on the island. Typically such companies would have set up locally with the intention of only carrying out their manufacturing activities. Some of them may already feel the economic pinch especially if their value-adding levels are falling. The introduction of R&D locally would automatically improve the value-adding factor of their bundled activities because of the substantially higher value adding of the R&D activities. Local SMEs have an excellent opportunity in working with the foreigners to establish a local R&D subcontractor network.

SME's are clearly perceived as being more agile and innovative than the larger more bureaucratic large enterprises. It is a fact that within the global economy, the international trend is that SMEs carry out R&D as sub-contractors to large companies. This encourages innovative SMEs to specialize in the different branches of R&D and work with the large companies in the different sectors. This helps technology transfer between different industries as well as between universities and industry thereby making the recipient more competitive.

SMEs that engage in R&D in Malta will receive more aid through the Malta Enterprise Act than the large companies because again higher aid intensities are

allowed by State Aid rules. Part of these grants are intended to be funded by the EU under ERDF programs.

These ERDF schemes will compliment the successful EUREKA R&D schemes. Over the past 2 years Malta Enterprise has committed 350,000 Euros to leverage over 1.2 million Euros worth of local research and development. The estimated economic benefits from these projects are significantly more. The nine locally based companies that are individually using these funds along with more funds of theirs and of their foreign partners, will ensure that their resulting products are not only commercially viable but also have higher chances on the global market at a truly internationally competitive level.

Access to Finance

SMEs in all manufacturing sectors as well as, pharmaceutical and biotechnology; software development; call centres; and filming industry can be supported with loan guarantees, soft loans and loan interest subsidies. These forms of financial assistance still arise from the Business Development Act and were and will remain very applicable also for SMEs.

Regretfully the quality of the SME projects and their efforts to meet the three economic criteria seem to be lower in the typical Maltese projects that Malta Enterprise receives. However Malta Enterprise is sure that the seasoned entrepreneurs together with the up and coming technologists can put together promising projects that would be very eligible for the full range of assistance offered by Malta Enterprise.

Of course apart from this type of financial assistance from ME, and loans from the local banks, local industries are still missing venture capitalists. Notwithstanding the fact of the evidence of significant local investment in property, stocks and shares and retailing businesses, there has been little interest from local private investors to provide this crucial funding for our star

SMEs. Government has over the past few years committed to put some 2 million Euros in a pot with the intention of leveraging a further 20 million Euros from private investors for Malta first official Venture Capital fund. Regretfully, it seems that the private investor was not ready to commit their end of the funds leaving SME projects with high economic potential by the wayside.

Gozo

Of course I cannot but include a special mention on Gozo. Gozo's economy as a region needs special attention to ensure that double insularity issues are properly addressed. Last year Malta Enterprise launched a series of support incentives to promote industrial activity in Gozo with successful results particularly in the ICT enabled sectors.

Double insularity is defined when any physical produce of Gozo has to be first ferried across to Malta before it begins its journey to overseas markets typically by sea. Some EU officials claim that other regions in Europe suffer significantly larger insulation from the EU markets than Gozo. However, this does not mean that Malta Enterprise will lessen its efforts to alleviate this situation or seek alternative economic activities that are less susceptible to any double insularity effects.

Gozo's economy is perceived to be less based on manufacturing industry than that of Malta. This may not necessarily be a bad thing as the vision set for Gozo's to become an eco-island may not be compatible with a strongly industrialised manufacturing sector. However, the investment levels in the food industry, such as that of Magro Brothers, can be seen to be complementary of the Gozo eco-friendly image and can actually help the discerning visitor in buying high-quality and high-value adding food souvenirs.

Malta Enterprise's incentives for Gozo are over and above those already available for the Maltese industries in general. Particularly the incentives further

promote investment and employment, offered through the ETC Gozo office, and have successfully encouraged companies like HSBC, 6PM and Datatrak to setup operations in Gozo over the last 18 months. This follows the previous transfer of other activities from Malta to Gozo such as the back office operations of the Maltese utility companies and even private banks.

In a globalized economy, knowledge resources such as know-how, expertise, and intellectual property are becoming more critical than other economic resources such as land, natural resources, or even manpower. A key concept of this sector of economic activity is that of knowledge and education, often referred to as "human capital", and can be treated as a business product. Such educational and innovative intellectual products and services can be exported for a high value return. SMEs operating in knowledge intensive sectors would have a positive economic impact coupled with little negative eco-impact.

One here has to distinguish between a knowledge economy and a web economy. The web-economy is dependent on enterprises like Google and eBay and are dependent on massive interconnectivity rather than on knowledge-based skills. A web-economy enterprise will not have sufficient services for such an operation to be viable on Gozo.

The knowledge based industries (KBIs) are not limited to information technologies (IT). Other knowledge based industries include sectors such as health care and education as a service to visitors seeking break away sabbaticals. KBIs also include activities of writing, composing and authoring in various fields and sectors. There are also the fields of call centres, back-office and on-line logistics operations. The skills requirements of the potential employees in the KBIs vary and may not necessarily require a significant skill set. What ties up all of these is that they are all enabled via IT. These are ideal industries for Gozo as they are again complimentary to eco-island concept and maximise the existent facilities to greet and host visitors.

The transfer of knowledge based activities from Malta to Gozo may not necessarily have a significant economic jump for the collective national economy even though the activities in Gozo may well be more competitive than in Malta. However, this promotion to transfer Maltese services to Gozo would go a long way to prove that Gozo has the necessary capacity and infrastructure to host specific knowledge based activities. This latter situation will be crucial before foreigners will eventually prefer to invest directly in Gozo rather than in Malta.

Business Support and Innovation

Being a business support organisation, Malta Enterprise helps SMEs to apply new management techniques that produce measurable improvements in their business performance to get more customers and enjoy greater profits. The introduction of new management techniques typically requires a company's time and management commitment and not so much additional finances. In fact Malta Enterprise also offers subsidised assistance to selected SMEs to acquire and implement these new techniques.

Our team of advisors take into account an SME's individual circumstances to come up with a careful mix of management techniques that are relevant to their need. Malta Enterprise can help SMEs learn and implement these new management and innovation techniques so that a company can become more cost efficient and be competitive on international markets.

Malta Enterprise offers various support measures for the competitiveness of SMEs and also offers assistance related to a number of EU programmes and projects such as BTN Malta, CIP Programme, FP7, EUREKA, METTTES and the Enterprise Europe Network (EEN) amongst others.

Innovation and competitiveness are very closely linked both in measurable criteria as well as techniques that need to be implemented to improve the efficiency of the SME. Innovation is not only about developing a new technology,

it can also be managerial, organisational, or marketing-based. It is also about using existing technologies in new contexts. EU funding opportunities are available to achieve these objectives and Malta Enterprise assists SMEs in particular to identify and learn of ways to participate in these EU projects.

The transfer of technology to the organisation of SMEs is an important way to increase competitiveness and will typically improve delivery times and quality. It also shortens products development time and leads to a new or improved product or service that increases the competitive advantage of the SME.

Malta Enterprise also offers assistance for SMEs to better collaborate with Commercial Partners. The commercial networking between SMEs, buyers and suppliers, as well as colleagues from other companies, helps SMEs find business connections that work. Networks can further develop into business clusters that can be sector specific (e.g. plastics industry), horizontal (e.g. techniques and skills to design new products), as well as vertical (e.g. supply chain).

Environmental Protection and Energy Saving Technologies is also an area that Malta Enterprise is active in. The application of environmental or 'green' technologies not only reduces the impact of SMEs on the environment, it can also save money, help comply with environmental legislation and improve the image of the SME with existing and potential customers. They can also ensure that SME activities are more sustainable long-term.

Employment Incentives

One of the final incentives I will be mentioning today is Training Aid under the old BPA that was previously enacted to favour the foreign companies operating in Malta. The new incentives administered by the ETC are now being opened up to all enterprises. SMEs will get a higher percentage of aid. ETC is expected to launching the new schemes around September which will be mainly financed by the EU.

Conclusion

Malta Enterprise has 28 different products to assist SMEs in forming, growing and contributing more and more to the local economy. I have not mentioned schemes like the e-commerce scheme that runs under the Income Tax Act resulting in tax credits for implementing automated systems to sell on-line. Nor have I mentioned the My Potential scheme where several hundred persons have benefited from this scheme which helps individuals to obtain qualifications in IT and applied engineering and sciences.

This does not mean that we are doing everything. As Malta Enterprise we need to rethink our SME Strategy now that thankfully, the responsibility for SMEs is not longer fragmented under different Ministries, but falls directly within one portfolio together with the responsibility for the industry and for the economy.

Malta Enterprise empathises with local entrepreneurs when they say they need simpler regulations, less tax for home business, one-stop shop concepts when it comes to trading licences and similar. It also appreciates that regulations may have an adverse impact on businesses like when for example MEPA restricts workshops in village cores. These needs are to be discussed further with the scope of finding solutions that are acceptable to all those concerned.

At the same time, we need to ensure that assistance goes to those areas which will render returns to both the businessman and the economy. We cannot experiment with failure. We will support creativity, innovation and entrepreneurship, but we will not support those who simply want to get a government factory for its own sake. Even in this matter, we need to review the current rent and allocation policy so that those operators possessing government land are not put at an advantage over those who freely operate in the market. Malta Enterprise must not compete with the private sector but rather support it and its policies must be geared towards enticing the private sector to grow and flourish and not to stifle it through outdated policies which create distortions and

unfair competition. It is the remit of Malta Enterprise to identify those sectors that are deemed as market failures. The incentives are there to encourage business people to invest in a **diverse** range of sectors that are both high value adding as well as foreign revenue earners.

The tourism, retailing and property development industries are well established and even if they may need simplification of regulations, Malta Enterprise does not see the need to incentivise further new businessmen to enter into these crowded sectors. What is not well established however are local businessmen who are investing in other sectors and that is what is deemed as a market failure. Such an investment would make the Maltese economy less vulnerable to economic shocks by being dependent on a variety of industries and markets.

The speaker after the break will give us further details on the Small Business Act currently being discussed at EU level. The SBA is promoting the following:

1. Better regulation for the benefit of SMEs
2. Putting SMEs at the forefront of society
3. SMEs access to markets
4. SMEs access to finance, skills and innovation
5. Turning the environmental challenge into opportunities for SMEs
6. Enhancing the implementation of EU SME policy principles.

As you have heard, Malta Enterprise has already gone a long way towards the action items of the SBA. If and when the SBA is eventually adopted, Malta Enterprise will seek ways to implement further schemes in order to meet the requirements of the SBA so as to ensure that Maltese based star-SMEs would benefit from the best possible assistance to keep our economy competitive in a global context.

Thank you for your attention.