



2021 SME COUNTRY FACT SHEET'S BACKGROUND DOCUMENT

MALTA

1. Introduction

In the area of digitalisation, Malta is a leader, ranking above the EU average; the country has also actively developed policies aimed at encouraging entrepreneurship. Despite the very positive attitude towards entrepreneurial risk in the country, access to finance remains a fundamental problem within its business environment as well as the lack of concerted measures to increase sustainability and the stagnation in terms of expenditure on R&D in recent years.

While small and medium-sized enterprises (SMEs) managed to increase their number of employees in 2020 (+5.5%), the COVID-19 pandemic and ensuing policy measures had a major impact on SMEs in terms of value added (-15%)¹. These differing trends in SME value added and SME employment were found in some sectors particularly affected by the pandemic. For example, SMEs in *transportation and storage* declined by 45.8% in value added but increased by 4.0% in employment. The most affected sector, *accommodation and food services*, dropped by 57.1% in SME value added yet only fell by 1.2% in SME employment. In contrast, the *information and communication* sector generated rapid growth of 19.5% in SME value added, whereas SME employment fell by 1.6%.

Both SME value added and SME employment are expected to rise significantly in 2021, by 6.7% and 4.7% respectively, although forecasts depend heavily on the effects of the pandemic. Overall, in 2021, SME value added is expected to remain 9.4% below its 2019 level, whereas SME employment is expected to surpass its 2019 level by 10.5%.

SMEs are particularly important to the Maltese 'non-financial business economy'. In 2020, their contribution of 77.5% to overall employment and 76.5% to total value added were both significantly higher than the respective EU averages of 65.2% and 53%. SMEs play a much greater role in Malta's 'non-financial business economy' than large companies, whose contribution of 22.5% to overall employment and 23.5% to value added amounted to only two thirds and one half, respectively, of the EU averages of 34.8% and 47% in 2020. SME productivity, measured as value added per person employed, amounted to EUR 35 400 in 2020, slightly lower than the EU average of EUR 40 000. The average number of people employed was 3.8, roughly consistent with the respective EU averages of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2020

	Number of enterprises			Number of persons employed			Value added		
	Malta		EU-27	Malta		EU-27	Malta		EU-27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
Micro	33 989	92.7%	93.3%	55 672	31.0%	29.6%	2.2	34.9%	18.7%
Small	2 216	6%	5.7%	44 782	24.9%	19.7%	1.4	21.8%	17%
Medium-sized	389	1.1%	0.9%	38 673	21.5%	15.8%	1.3	19.8%	17.3%
SMEs	36 594	99.8%	99.8%	139 127	77.5%	65.2%	4.9	76.5%	53%
Large	79	0.2%	0.2%	40 485	22.5%	34.8%	1.5	23.5%	47%
Total	36 673	100%	100%	179 612	100%	100%	6.4	100%	100%

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term 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).

2. Key strengths

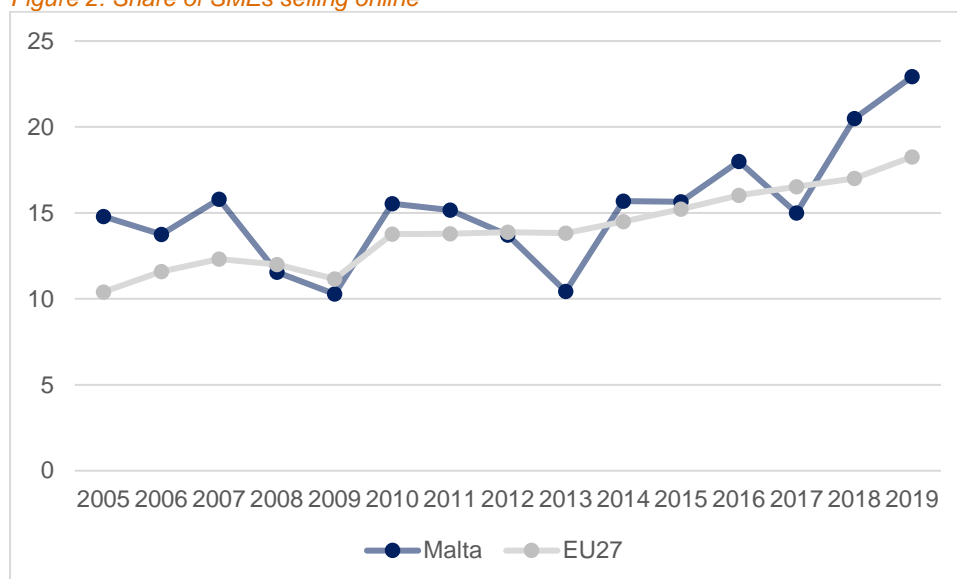
Malta consistently ranks above EU average in digital transformation indicators

Malta took an early lead in the area of digitalisation with the launch of several national strategies aimed at all the different layers of society.

These strategies have been followed by numerous concrete initiatives which include providing financial support (e.g. the eCommerce Grant Scheme), infrastructure (high broadband penetration among others), training programmes for businesses (eBiznify, eCommerce training programme) and institutional setups to promote industry (e.g. Tech.mt).

Thanks to these various strategies and initiatives, Malta continues to perform above the EU average in terms of digitalisation. In 2020, the country scored high on the Digital Economy and Society Index (MT – 62.7; EU-27 – 52.6), performing particularly well in the 'Human Capital' and 'Use of internet Services' areas where the country ranked sixth². Similarly, the European Innovation Scoreboard reports that, in 2018, the percentage of SMEs in Malta with e-commerce sales stood at 22%, well above the EU average of 19%³. Moreover, when looking at the share of businesses that have a website (82%) or that use their website or application for sales (20%), Malta also performs above the EU average – 75.4% and 16.3%, respectively^{4,5}.

Figure 2: Share of SMEs selling online



Source: Eurostat, 2018⁶

Government policies aimed at encouraging entrepreneurship have followed a broad approach.

The World Economic Forum (WEF) has reported that Malta has a very positive attitude towards entrepreneurial risk, ranking 27th out of 141 countries (2019)⁷. Over the years, Malta has developed a number of measures supporting entrepreneurship through education, incubators, competitions, funding schemes and other financial instruments.

In 2013, the University of Malta set up the Centre for Entrepreneurship & Business Incubation. This was followed by the establishment of the TAKEOFF Business Incubator, as well as the launch of the TAKEOFF Seed Fund financed by the central government. The Malta College of Arts, Science and Technology also established its own entrepreneurship centre to provide incubation services to students interested in starting a business. In 2014, the Malta Information Technology Agency launched its ICT Innovation Hub at the SmartCity Malta technology park. Since then, efforts have focused on continuing and consolidating these early initiatives.

3. Key challenges

Expenditure on R&D has stagnated in recent years.

As stated by the European Semester Country Report for Malta 2020, research and innovation play a limited role in the economy of the country⁸. Although Malta's scientific output is improving, academic research does not seem to translate easily into innovation.

R&D expenditure as a percentage of GDP by the business sector (BERD) has been overly stagnant over recent years. In 2018, BERD stood at 0.38% GDP compared to an EU average of 1.41, with Malta ranking just four places from the bottom⁹. In terms of SMEs only, Malta scores much better, with a BERD value of 0.34% of GDP, ranking ninth within the EU and surpassing countries such as Germany (0.18%). Nevertheless, SME R&D expenditure has not significantly increased over recent years.

On innovation, Malta shows a mixed performance depending on the indicator concerned. For example, concerning 'SMEs innovating in-house', Malta scored 52 in 2019 (EU average 91), down

from 88 in 2015¹⁰. On the other hand, non-R&D innovation expenditure is above the EU average of 126, with a score of 151 in 2019.

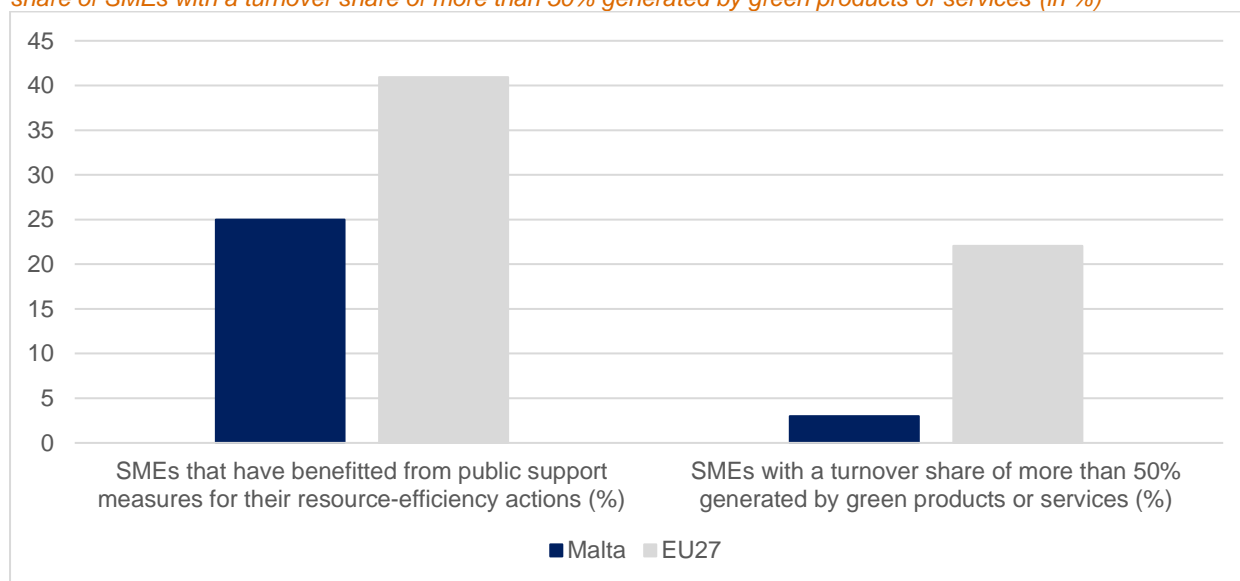
In 2020, the Malta Council for Science and Technology launched the COVID-19 R&D Fund, a mechanism through which cash grants are given to eligible applicants, i.e. public, academic and private bodies, undertaking R&D projects with innovative approaches on infectious disease prevention and relevant research aimed at containing its spread.

Lack of concerted action in the area of environmental strategy

Malta is the smallest, most urbanised, and most densely populated country in the EU. With demographic and economic growth expected to put further pressure on capacity constraints in the coming years, the Maltese economy faces significant sustainability challenges. The increasing economic activity is likely to exacerbate environmental concerns and put pressure on scarce natural resources¹¹.

The country's limited focus on environmental considerations is reflected in various indicators. Ranking 21st among the EU-28 in the 2019 Eco-Innovation Index, Malta ranks second last in terms of 'Eco-innovation inputs', 'Employment in eco-industries', and 'Exports of products from eco-industries'. On the other hand, there has been a respectable level of academic interest in the area with a score of 150 (EU average 100) for 'Eco-innovation related academic publications' in 2019¹².

Figure 3: Share of SMEs that have benefitted from public support measures for their resource-efficiency measures and share of SMEs with a turnover share of more than 50% generated by green products or services (in %)



Source: Eurobarometer survey of SMEs and the environment, 2017¹³

The transition to greener and more sustainable economic development calls for a long-term and comprehensive strategy¹⁴.

Among the few initiatives launched, grant schemes have been set up to support businesses in their investment in more energy-efficient equipment and processes, as well as in renewable energy. However, little has been done to encourage SMEs (or any businesses) to develop a larger number of green products. The Minister for Finance announced, in his speech on the budget for 2021, plans for the Malta Stock Exchange to start offering green bonds for financing environmentally-friendly initiatives¹⁵.

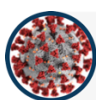
Accessing finance remains a crucial problem in Malta's business environment

Difficulties in accessing finance are a growing business concern for Maltese companies and especially small businesses. In 2020, there was a reduced share of Maltese SMEs that resorted to bank loans as a form of external finance (around 11%). In general, around 9% of Maltese SMEs see access to finance as their biggest problem¹⁶.

Over the years, the Maltese authorities have introduced a range of measures to make finance more readily available to Maltese businesses, relying on both national and EU funding. The Malta Enterprise Corporation, a government agency charged with promoting business in Malta, operates several support schemes with a range of financial instruments including direct grants, tax credits and loan guarantees. More recently, the government embarked on more elaborate measures such as equity funding (in collaboration with the Malta Stock Exchange) and lending facilities (through the Malta Development Bank).

Nevertheless, some large gaps remain in the funding system, notably in the areas of alternative finance such as venture capital, business angels, and crowdfunding, and action needs to be taken to support better access to finance.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

COVID-19 badly affected all private companies including SMEs, but the government's stimulus package was effective in reducing bankruptcy and unemployment.

According to a survey by the Malta Chamber of SMEs in July 2020, only 13% of respondents reduced their workforce, in most cases by less than 10%¹⁷. A survey by the Malta Employers Association found broadly similar results¹⁸.

Tourism and external trade, which are critical sectors of Malta's economy, have been the most affected by the pandemic¹⁹.

The pandemic and move towards online shopping have highlighted the need for action as regards SME digitalisation. In 2020, 16% of respondents reported plans to invest in e-commerce and online marketing (compared to 10% in 2019)²⁰.



SCALE-UP ENVIRONMENT

The number of scale-ups has been increasing significantly, with the percentage of high-growth enterprises increasing from 9.8% in 2012 to 14.5% in 2018 (compared to the EU average of 11.9%), making it the seventh best performer in the EU²¹.



SOCIAL ASPECTS OF SUSTAINABILITY

In recent years, between 6% and 10% of SMEs highlighted traffic congestion as their top concern²², while transport and logistics infrastructure are not considered attractive at all by 43% of foreign businesses operating in Malta in 2019²³.



MARKET ACCESS

17% of SMEs in Malta consider finding customers for their products or services the second most pressing problem, compared to 22% in the EU²⁴.



REGULATORY BURDEN

A survey of SMEs in 2019 reported that top concerns for 2020 were increased regulation and compliance costs (7%) and bureaucracy (6%)²⁵.



START-UP ENVIRONMENT

In the WEF competitiveness report, Malta has a low ranking on the cost of starting a business (ranking 74/141) and time to start a business (89/141)²⁶.

In spite of this, the World Bank reports that in 2018 Malta ranked fifth globally in terms of new business density (number of newly registered corporations per 1 000 of the working-age population)²⁷.

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- ¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- ² European Commission (2020), *DESI 2020 - Malta*, available at: <https://ec.europa.eu/digital-single-market/en/scoreboard/malta>
- ³ European Commission (2020), *European Innovation Scoreboard online interactive tool*, available at: <https://ec.europa.eu/docsroom/documents/41884/attachments/1/translations/en/renditions/native>
- ⁴ Eurostat (2019), websites and functionalities, available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ciweb&lang=en
- ⁵ Eurostat (2019), *E-commerce sales*, available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ec_eseln2&lang=en
- ⁶ Eurostat (2018), *Community survey on ICT usage and eCommerce in enterprises*, available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ec_ebuyn2&lang=en
- ⁷ World Economic Forum (2019), *The Global Competitiveness Report*, available at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf
- ⁸ European Commission (2020), *European Semester, Country Report Malta 2020*, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0517&from=EN>
- ⁹ Eurostat (2018), *Business expenditure on R&D by size class and source of funds table*, available at: https://ec.europa.eu/eurostat/databrowser/view/RD_E_BERDSIZE__custom_259486/default/table?lang=en
- ¹⁰ European Commission (2020), *European Innovation Scoreboard 2020*, available at: <https://ec.europa.eu/docsroom/documents/41884>
- ¹¹ European Commission (2020), *European Semester, Country Report Malta 2020*, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0517&from=EN>
- ¹² European Commission (2019), *Eco-innovation scoreboard interactive site*, available at: https://ec.europa.eu/environment/ecoap/indicators/index_en
- ¹³ European Commission (2017), *Eurobarometer survey of SMEs and the environment*, available at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm
- ¹⁴ See Note 11.
- ¹⁵ Times of Malta (2020), *Green bonds and an import ban on single-use plastics*, available at: <https://timesofmalta.com/articles/view/green-bonds-and-a-beefed-up-car-scrappage-scheme.825697>
- ¹⁶ European Commission (2019), *Survey on the Access to Finance of Enterprises (SAFE)*, available at: http://ec.europa.eu/growth/access-to-finance/data-surveys/index_en.htm
- ¹⁷ Malta Chamber of SMEs (2020), *Survey on the continued effects of the COVID-19 pandemic on business in Malta*, available at: <https://www.smechamber.mt/wp-content/uploads/2020/09/SME-Chamber-June-July-Business-Survey.pdf>
- ¹⁸ Malta Employers Association (2020), *Business Performance during COVID-19 Preliminary Results*, available at: <https://www.maltaemployers.com/loadfile/f92fd886-9cb2-48bb-9268-741dc469b5e3>
- ¹⁹ European Commission (2020), *European Economic Forecast*, available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf
- ²⁰ Malta Chamber of SMEs (2020), *Survey on the continued effects of the COVID-19 pandemic on business in Malta*, available at: <https://www.smechamber.mt/wp-content/uploads/2020/09/SME-Chamber-June-July-Business-Survey.pdf>
- ²¹ Eurostat (2020), *High growth enterprises (growth by 10% or more) and related employment by NACE Rev. 2*, available at: https://ec.europa.eu/eurostat/databrowser/view/bd_9pm_r2/default/table?lang=en
- ²² Malta Chamber of SMEs (2019), *Business Performance 2019*, available at: <https://www.smechamber.mt/wp-content/uploads/2020/09/Business-Performance-Survey-2019-Presentation.pdf>
- ²³ Ernst & Young (2019), *How do you get to next before next gets to you? EY Attractiveness Survey Malta*, available at: <https://cdn-others.timesofmalta.com/7aec38527fbf3aed581e7c396d0fab59c394b83d.pdf>
- ²⁴ Central Bank of Malta (2019), *Fifty-second annual report and statement of accounts 2019*, available at: <https://www.centralbankmalta.org/site/excel/publications/AR-2019.pdf>
- ²⁵ Malta Chamber of SMEs (2019), *Business Performance Survey 2019*, available at: <https://www.smechamber.mt/wp-content/uploads/2020/09/Business-Performance-Survey-2019-Presentation.pdf>
- ²⁶ World Economic Forum (2019), *The Global Competitiveness Report*, available at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf
- ²⁷ World Bank (2018), *New business density*, available at: <https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS>