



EEPO Review: Start-up incentives, September 2014

Malta

Written by Manwel Debono

CEPS/INSTEAD

September 2014



EUROPEAN COMMISSION

Directorate DG Employment, Social Affairs and Inclusion

Unit C.1 – Europe 2020: Employment Policies: European Employment Strategy and Governance

Contact: Monika Kalocinska

E-mail: Monika.Kalocinska@ec.europa.eu

European Commission

B-1049 Brussels

EEPO Review: Start-up incentives, September 2014

Malta

Directorate-General for Employment, Social Affairs and Inclusion
European Employment Policy Observatory (EEPO)

September, 2014

Europe Direct is a service to help you find answers to your questions about the European Union.

Freephone number (*):

00 800 6 7 8 9 10 11

(*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

LEGAL NOTICE

This document has been prepared for the European Commission however it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

More information on the European Union is available on the Internet (<http://www.europa.eu>).

Luxembourg: Publications Office of the European Union, **2014**

ISBN **ABC 12345678**

DOI **987654321**

© European Union, **2014**

Reproduction is authorised provided the source is acknowledged.

1 Introduction: start-up incentives as an active labour market measure

The Maltese population is not particularly entrepreneurial. A survey carried out across the EU indicates that if they could choose between different types of jobs, only a third (34 %) of Maltese persons would prefer to be self-employed rather than employed by a company (European Commission, 2012). The figure is lower than the EU average of 37 %. Besides, fewer people in Malta consider self-employment to be feasible for them within the next five years than across the EU as a whole (20 % and 30 % respectively) (European Commission, 2012). Such attitudes are reflected in the ratio of persons whose main occupation is self-employment, which has over the years been consistently lower than the EU average. During the last quarter of 2013, there were 23 226 self-employed persons in Malta, of whom, 15 821 (or 68 %) were without employees (NSO, 2014). Around 13.1 % of the working population in Malta is self-employed, when compared to the EU-28 average of around 14.5 % (Eurostat). The large majority of self-employed persons are males (with a ratio of nearly 6:1), and the gender difference is wider when considering only self-employed persons with employees. Around 16.1 % of all male workers are self-employed when compared to a much lower 6.5 % among female workers. While the number of self-employed in Malta grew by around 10.4 % over a 10 year period (there were 21 036 self-employed in the last quarter of 2003), it did not grow as fast as the total number of workers. Thus, the ratio of self-employed when compared to all workers shrunk by around 1.2 percentage points over the same 10 year period. In line with the situation across Europe, self-employment in Malta appears to have been negatively affected by the recession starting in 2008. However, whereas self-employment figures in the European Union in 2013 are still 2.3 % lower than in 2007, the situation is considerably better in Malta, as the number of persons in self-employment in 2013 is about 5.5 % higher than that in 2007 (Eurostat).

The Government has focused on bogus self-employment (Vella, 2010) as a way of tackling the apparently increasing phenomenon of precarious employment. The Employment Status National Standard Order (2012) was enacted to reduce the incidence of bogus self-employment. Workers who satisfy five out of the eight criteria set in the regulations have to be listed as employees rather than self-employed. These regulations have probably slowed down the growth of self-employment over the past two years.

The educational system has not traditionally focused much on instilling entrepreneurial skills and creativity among students. An EU survey indicates that persons in Malta are less likely to have taken an entrepreneurship course than the average EU respondent (15 % and 23 % respectively) (European Commission, 2013). Besides, 'far more people in Malta than in the EU in general (25 % vs. 8 %) feel that they lack the skills to be self-employed' (European Commission, 2013, p.5). However, the situation appears to be improving. Entrepreneurship, creativity and innovation form important pillars in the new national curriculum for compulsory schools. Related initiatives are being carried out more regularly. Examples of which include the Entrepreneurship through Education Scheme (Ministry for Finance, 2013a), and the launch of a handbook for teachers entitled *Fostering Entrepreneurship through Education* (di-ve.com). Specialised courses have been set up both at the Malta College of Arts Science and Technology (MCAST, 2014) and at the University of Malta (2014). The Employment and Training Corporation (ETC), Malta's public employment service organisation, also offers an entrepreneurship course (Malta Qualifications Framework Level 4) consisting of 260 tuition hours, targeted toward registering unemployed persons. While over the past years entrepreneurial training was somewhat fragmented, different education and training institutions have increased their synergies and are now collaborating more together and with other important actors.

The main challenges that have been cited for self-employment in Malta are lack of funding and excessive bureaucracy. A survey carried out in 2012 found that a third of entrepreneurs in Malta recalled that the biggest challenge they faced when setting their business was access to finance (National Commission for the Promotion of Equality, 2012). Malta Enterprise was set up in 2000 in order to facilitate the expansion of private business.

Over the years it has provided an array of different incentives to help entrepreneurs, including tax credits (such as the MicroInvest scheme), loan guarantees (such as the Jeremie scheme) and consultancy services.

A number of actions have been taken to reduce the impact of bureaucracy on potential entrepreneurs. A Small Business Act (2011) was enacted, though it still appears not to be fully implemented (PFK Malta, 2014). The new Government established the office of Commissioner for Simplification and Reduction of Bureaucracy, with the task of recommending ways of tackling excessive bureaucracy. Malta Enterprise set up Business First, a one-stop-shop facility meant to help entrepreneurs deal with Government bureaucracy and focus more on their operations. In 2014, the Malta Environment and Planning Authority (MEPA) set up a Business Development Unit to serve as a one-stop-shop in a bid to simplify the procedure for applying for a development permit and at the same time reduce applicants' expenses.

Incubation centres have also been set up. The Kordin Business Incubation Centre was developed in order to attract and facilitate the growth of innovative business ideas. More specialised incubation centres are also being set up. For example, the University of Malta set up an incubation centre called Take Off, through which aspiring entrepreneurs interested in the technology of knowledge-based industries can have access to funds and training among others. A Life Sciences Centre, currently being built up, is meant to encourage entrepreneurs in biotechnology, clean technology, life science products and diagnostic equipment/services, contract research organisations (CROs), medical device manufacturers and specialised service providers (Ministry for Finance, 2013b, p.120).

The above measures tended to focus more on the general support and development of SMEs, rather than serving as start-up incentives for the unemployed or the inactive. The latter have mainly stemmed from the ETC. Considerable EU funds have been used for this purpose. Several schemes that were offered by ETC over the years promoted both employment and self-employment. For example, the Training Subsidy Scheme, which made use of EU funds, supported training for both self-employed persons and individuals employed in micro enterprises (ETC, 2012). As part of another EU funded programme called NISTA, publicity campaigns have been carried out to promote both employment and entrepreneurship among women.

Some ETC initiatives have focused more exclusively on facilitating entrepreneurship. Apart from its specialised training programmes, in 2007, the ETC published an entrepreneurship manual for its clients. In 2007-2008, the ETC carried out an EU funded programme called Promoting Entrepreneurship among Women whose main aim was to help women set up their own business. The programme included training in business skills, a mentoring skills course, the development of a training manual and DVD for new entrepreneurs, a TV campaign and a reference library for trainees (ETC, 2007, p.31). In 2008, the ETC utilised the European Globalisation Adjustment Fund, to help a considerable number of persons who suffered from collective redundancies in the manufacturing sector. The initiative included entrepreneurial start-up grants for those who were interested in starting their own business up to a maximum of EUR 5 823 (to cover initial expenses such as permits, licenses, marketing and basic equipment) (ETC, 2008, p.38). Over the years, the ETC has also promoted youth entrepreneurship through training, mentoring and grants. The main entrepreneurship scheme offered by the ETC will be discussed in the next section.

The ETC efforts have also been complemented by Government fiscal incentives that were announced from time to time, such as tax credits for women returning to employment and self-employment after a period of absence from the labour market.

2 Start-up incentives today: detailed description

While, as noted above, there have been several general incentives for SME support and development in Malta, few schemes have focused specifically on unemployed or inactive people. This section will discuss the main start-up scheme for unemployed people in Malta,

entitled Start your own Business, and a recently-announced more specialised scheme entitled Youth Entrepreneurship Scheme.

Start your own business (Ibda Negożju Tiegħek, INT)

This scheme, which has been offered by the ETC for over 10 years, targets persons of all ages who want to start their own business. The scheme is open to unemployed persons and priority is given to persons who are registering for employment on Parts 1 and 2.

The scheme consists of a package of counselling, entrepreneurship training, mentoring and financial assistance (Ministry of Finance, the Economy and Investment, 2012, p. 155). The training, spanning about 270 hours, focuses on creativity, confidence building, business planning, business and people management, marketing, negotiation skills, legal aspects, health and safety, investment and financial management, retail skills, customer care and competition (ETC, no date). Such training modules reportedly 'compare well with international practice' (ETC, 2006, p.26). The training is given by qualified trainers and guest speakers from relevant Government entities. While participants are not examined on their learning, active participation is expected during the training sessions. Participants are encouraged to draw up and present a detailed plan about their proposed business idea. An evaluation board is in charge of assessing whether the business plan is realistic and can be implemented. Participants receive assistance from experienced mentors, who include retired people who have managed a business in the past (ETC, no date). Mentors offer confidential personal business counselling and advice, aiming to assist participants to manage their weaknesses and build on their strengths. A financial grant of up to EUR 5 000 is awarded to participants who attend at least 80 % of the training modules, have their business plans approved and have all official documents and permits in order.

Over the years, the scheme has been complemented by other services meant to increase its success rate. A childcare subsidy is offered to participants who need to leave their children at childcare centres while attending the scheme. Besides, ETC offers a transport subsidy to participants who live in the smaller island of Gozo.

The participants have included both men and women, registered and non-registered unemployed, young and older persons, and persons with varying levels of education including graduates (Barbara, 2003). Intakes have been occasionally specifically reserved for particular groups of persons. In 2009, two intakes were held just for the former employees of Malta Shipyards, a Government company that was restructured and privatised. Twenty-five people who previously worked at Malta Shipyards took part in the scheme (which include 160 hours of training when compared to the current system of 270 hours), out of whom almost half started their own business (ETC, 2009b). Interest in the scheme fluctuated over the years. Between 2005 and 2012, 227 persons started the INT scheme (ETC, 2006, 2007, 2009a, 2009b, 2010, 2012, 2013). In recent years, the success rate of the scheme measured by the number of participants who were awarded the enterprise grant was rather low. Indeed, only about a fourth of participants between 2010 and 2012 managed to get the financial grant.

Employment advisors working at the ETC play an important role in referring registering clients to the scheme. An informal service in this scheme is the provision of pre-entry counselling to clients who wish to take part when they only have an idea to start up a business (ETC, 2010, p.23). The service is meant to reduce the number of registering unemployed who enrol in the scheme without having their mind set on entrepreneurship (ETC, 2006, p.26). Over the years, the ETC has given advice to and held interviews with hundreds of clients in relation to the scheme. By accepting the grant, the scheme's participants agree to forfeit their unemployment benefits for a number of months if their business fails. This clause is also meant to increase the motivation of the participants to make their project succeed. Besides, it reduces the risk of possible abuses of the scheme.

Throughout the years, the scheme has led to a wide variety of businesses such as diving schools, artworks and retailing, importation and sale of collectible and antique firearms, electrical handyperson services, and holiday letting (Ministry of Finance, the Economy and Investment, 2008, p.18).

The amount of funds dedicated to this scheme until now is unknown. Apart from the number of course participants, very little evaluation material of the scheme is publicly available. It appears that throughout the years, confidential evaluations of the scheme took place, taking into consideration feedback from the scheme's participants. For example, it was reported that in the early stages of the scheme, the ETC interviewed some participants to gather feedback (Barbara, 2003).

The scheme has been amended and improved on the basis of such evaluations. For example, changes were recently carried out with regards to the use of the grant and the consultancy services. Originally, the grant was divided into two parts, with the first part given to the consultant to assist the participant in the drafting of the business plan, and the second part to be given later for the implementation of the plan. The second part of the grant was often not given as the participant would drop out of the scheme. The main difficulties appear to have been related to the planning of the financial feasibility of the business. In order to improve the situation, the ETC sought help from Malta Enterprise which made available its experts to mentor the participants. Such mentoring was integrated in the training component of the course and part of it became free of charge. Such changes reportedly improved the success rate of the scheme.

The INT scheme has surely increased awareness about entrepreneurship among unemployed persons. However, its objective of serving as a one-stop entrepreneurship programme for the unemployed has only achieved moderate success. The scheme would perhaps benefit from a stricter selection of participants in favour of the more skilled and motivated unemployed persons.

Youth Entrepreneurship Scheme

In July 2013, the Parliamentary Secretary for Research, Innovation, Youth and Sport announced that the ETC will initiate a scheme of youth entrepreneurship, meant to encourage more young persons to take up self-employment. This scheme, which is not yet being implemented, is included in this report due to its specific target group of young persons.

According to the National Reform Programme 2013, only around 3 % of the youth workforce is self-employed (Ministry for Finance, 2013b). This figure is much lower than the national average of 13.1 % among the whole working-age population (NSO, 2014).

The Government acknowledges that young people face specific challenges that impede them from setting up their own business. Such challenges include lack of knowledge about entrepreneurship, lack of feelings of self-efficacy, lack of useful contacts and networks, and lack of financial capital (Ministry for Finance, 2013b). Apart from such challenges, youths may also face discrimination from potential clients who might not trust their products or services on the basis of the entrepreneurs' young age (Ministry for Finance, 2013b).

The Youth Entrepreneurship Scheme seeks to assist interested youths to confront some of these challenges. The main aspects of the scheme appear to be similar to the previously-discussed INT scheme. It will include general information and specialised training on entrepreneurship. It will also offer mentoring services to participants. Besides, the scheme will provide financial assistance through which successful participants may start-up their venture.

The Government originally aimed to keep the scheme on-going, as part of the core operations of the ETC (Ministry for Finance, 2013b). It was planned that there will be two yearly intakes for the scheme, each taking 25 youths. The Government estimated that around 30 participants will manage to finalise the programme and benefit from the final grant every year (Ministry for Finance, 2013b). A moderate amount of EUR 317 900 was committed as an initial budget for this scheme (Ministry for Finance, 2013b).

However, despite the budgetary allocation and the scheme's planned structure, by mid-2014, the scheme had not started to be implemented. Besides, it appears that the ETC might not be given responsibility for the scheme and instead it might be managed by the

Malta College of Arts Science and Technology (MCAST). MCAST should be able to carry out the scheme as it already has lecturers who deliver entrepreneurship training tailored to young adults. Having said that, the ETC has in recent years managed successful EU-funded schemes targeted at youths and, together with MCAST is currently assisting in the implementation of the Youth Guarantee, which aims to offer personalised training and work experiences to youth not in employment, education or training.

3 Conclusion

Some start-up incentives meant as active labour market measures have been organised over the years by the ETC. The ETC collaborates with relevant social actors such as Malta Enterprise and MCAST in the organisation of its schemes. Malta Enterprise plays a major role in offering consultancy and mentoring services, while MCAST offers specialised training. The most substantial and long-standing of such start-up schemes is the INT scheme, which is open to all interested unemployed persons, though throughout the years it has also been used to help specific groups of persons. Other schemes targeting specific groups of persons who experience less labour market integration have also been offered, such as Promoting Entrepreneurship among Women. A Youth Entrepreneurial Scheme is currently planned. Overall, the unemployed individuals who are most likely to make use of start-up incentives in Malta are men aged between 25 and 39 years.

While start-up incentives have formed part of the country's labour market policy since the early 2000s, the amount of resources allocated and the number of participants they involved indicate that they have played a minor role in subsequent Government's active labour market policies. For example, an average of six participants were awarded the enterprise grant as part of the INT scheme every year between 2010 and 2012 (ETC, 2011, 2012, 2013), while 15 participants completed the full training programme Promoting Entrepreneurship among Women in 2007 (ETC, 2007). Start-up schemes in Malta are used much more prominently as a means of business development rather than as part of active labour market policy.

There is scant information about the results of start-up incentives. Such evidence mainly consists of the number of course participants and completers, at times divided according to gender and age. Longitudinal research about the success or otherwise of the new business ventures is unavailable. Besides, there is no evidence about deadweight, displacement or substitution effects of start-up incentives.

While complementary measures such as subsidised childcare, free transport, TV campaigns and so on may play a role in attracting participants to such schemes, their real impact and value for money is unknown.

The INT scheme has over the years suffered from a large percentage of dropouts. Only one in every four participants successfully completed the scheme and was awarded an enterprise grant between 2010 and 2012 (ETC, 2011, 2012, 2013).

The INT scheme appears to have become more successful when the ETC integrated the drafting of the business plan within (rather than after the completion of) the training part of the scheme and when professional mentors started to be recruited from Malta Enterprise. This indicates the need to plan very carefully a scheme's structure and focus attention on the more difficult aspects of the planning stage, namely the planning of the financial feasibility of the business. Besides, experience demonstrates the importance of having good mentors with direct hands-on experience of business.

4 Bibliography

Barbara, A., Start your own business, *Times of Malta*, Sunday June 1, 2003. Available at internet: <http://www.timesofmalta.com/articles/view/20030601/business/start-your-own-business.148946>

Di-ve, *Entrepreneurship handbook for teachers*, 2013. Available at internet: <http://www.di-ve.com/news/entrepreneurship-handbook-teachers>

Employment and Training Corporation, *Annual report 2005-2006*, 2006. Available at internet: <http://etc.gov.mt/Resources/file/Resources/Annual%20Report%202005-2006.pdf>

Employment and Training Corporation, *Annual report 2006-2007*, 2007. Available at internet: <http://etc.gov.mt/Resources/file/Resources/Annual%20Report%202006-2007.pdf>

Employment and Training Corporation, *Annual report 2007-2008*, 2009a. Available at internet: <http://etc.gov.mt/Resources/file/Resources/Annual%20Report%202007-2008.pdf>

Employment and Training Corporation, *Annual report 2009*, 2009b. Available at internet: <http://etc.gov.mt/Resources/file/Resources/Annual%20Report%202009.pdf>

Employment and Training Corporation, *Annual report 2010*, 2010. Available at internet: <http://etc.gov.mt/Resources/file/Resources/Annual%20Report-2010.pdf>

Employment and Training Corporation, *Annual report 2011*, 2012. Available at internet: http://ws.eures.com.mt/AnnualReport2011/files/etc_annual_report_2011_pdf.pdf

Employment and Training Corporation, *Annual report 2012*, 2013. Available at internet: http://etc.gov.mt/Resources/file/Resources/Annual_Report_2012.pdf

Employment and Training Corporation, *Entrepreneurship manual – Don't just start a business... start a successful one!*, 2007. Available at internet: http://etc.gov.mt/Resources/file/Resources/2007%20-%20Entrepreneurship%20Manual%20-%20Don%27t%20just%20start%20a%20business___%20Start%20a%20successful%20one!%20EN.pdf

Employment and Training Corporation, *Start your own business*, no date. Available at internet: <http://etc.gov.mt/category/3/82/int.aspx>

Employment Status National Standard Order, 2012. Available at internet: <http://www.justiceservices.gov.mt/>

European Commission, *Flash Eurobarometer 354 – Entrepreneurship. Country report: Malta*, 2012. Available at internet: <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/eurobarometer/>

Eurostat. Available at internet: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

Malta College of Arts, Science and Technology, *MCAST and Malta Enterprise collaborate to provide students with access to entrepreneurial world*, 2014 Available at internet: <http://www.mcast.edu.mt/mainmenu/newsandevents/announcements/news/tabid/334/id/1036/mcast-and-malta-enterprise-collaborate-to-provide-students-with-access-to-entrepreneurial-world.aspx>

Ministry for Finance, *Entrepreneurship through education scheme*, 2013a. Available at internet: <http://mfin.gov.mt/en/home/entrepreneurship-2013/Pages/default.aspx>

Ministry for Finance, *Malta's National Reform Programme under the Europe 2020 Strategy*, 2013b. Available at internet: http://mfin.gov.mt/en/home/popular_topics/Documents/National%20Reform%20Programme/2013/National%20Reform%20Programme%202013.pdf

Ministry of Finance, the Economy and Investment, *Malta National Reform Programme 2008-2010. Progress report 2008*, 2008. Available at internet: ec.europa.eu/social/BlobServlet?docId=6171&langId=en

Ministry of Finance, the Economy and Investment, *Malta's National Reform Programme under the Europe 2020 Strategy*, 2012. Available at internet: ec.europa.eu/europe2020/pdf/nd/nrp2012_malta_en.pdf

National Commission for the Promotion of Equality, *Unlocking the female potential*, 2012. Available at internet: https://secure3.gov.mt/socialpolicy/admin/contentlibrary/Uploads/MediaFile/research_report.pdf

National Statistics Office, *Labour force survey Q4/2013*, 2014. Available at internet: http://www.nso.gov.mt/statdoc/document_file.aspx?id=3980

PFK Malta, *Small Business Act – SME – whispering its faults*, 2014. Available at internet: <http://www.pkfmalta.com/news/small-business-act-sme-whispering-its-faults/>

Small Business Act, 2011. Available at internet: <http://www.justiceservices.gov.mt/>

University of Malta, *Master Degree in Knowledge-Based Entrepreneurship*, 2014. Available at internet: <http://www.um.edu.mt/cebi/courses2>

Vella, N., *Bogus self-employment. IR Review, Issue 4*, January 2010. Department of Industrial and Employment Relations. Available at internet: http://dier.gov.mt/en/About-DIER/Publications-and-Archives/Newsletter/Documents/IRReview_Issue4.pdf

Annex 1: Measure Description Table

Measure Title	Type of measure:	Target Group	Number of beneficiaries	Amount of subsidy/duration of subsidy	Permanent or Temporary measure and dates of implementation	Conditionality imposed on beneficiary individuals or firms	Funding source and total budget	Measures complementing the initiative	Monitoring arrangements	Evaluation results available	If no evaluation is available, what is the expert's assessment of the impact of the measure?
Start Your Own Business	Start-up scheme	All unemployed	227 persons started the scheme 2005-2012	Financial grant of up to EUR 5 000	Has existed for over 10 years, and so one may view it as a quasi permanent initiative	Need to complete training programme and satisfy other criteria to be awarded the grant	Government of Malta. Total budget is unknown	Childcare subsidy; transport subsidy for participants from Gozo	Unknown	Only participation data are available	The impact of the scheme on the setting up of new entrepreneurial initiatives by unemployed persons appears to be small
Youth Entrepreneurship Scheme	Start-up scheme	Young persons	50 participants per year are projected	Unknown	Aimed to be permanent	Unknown	Government of Malta. EUR 317 900 committed as an initial budget	Unknown	Unknown	None – the scheme has not yet been implemented	If the scheme is maintained and its funds are boosted, it has the potential of improving significantly entrepreneurship levels among young persons.

HOW TO OBTAIN EU PUBLICATIONS

Free publications:

- one copy:

via EU Bookshop (<http://bookshop.europa.eu>);

- more than one copy or posters/maps:
 - from the European Union's representations (http://ec.europa.eu/represent_en.htm);
 - from the delegations in non-EU countries (http://eeas.europa.eu/delegations/index_en.htm);
 - by contacting the Europe Direct service (http://europa.eu/europedirect/index_en.htm) or calling 00 800 6 7 8 9 10 11 (freephone number from anywhere in the EU) (*).

(*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

Priced publications:

- via EU Bookshop (<http://bookshop.europa.eu>).

Priced subscriptions:

- via one of the sales agents of the Publications Office of the European Union (http://publications.europa.eu/others/agents/index_en.htm).



Publications Office