

Address by the Hon. Tonio Fenech, Minister of Finance, the Economy and Investment, at the SME Forum: 'Adapting to Change - Government's commitment to SMEs' – St Julian's - 24 June 2008

Ladies and Gentlemen,

Small and Medium Size Enterprises are the bread and butter that make our economy. 98% of our businesses consist of small enterprises and a larger part of these are micro-enterprises that employ less than ten employees. As the Minister responsible for this sector, I am not only honoured to be with you here today to deliver the opening address of this day's event, but more importantly to send a strong message of this Government's commitment toward these businesses that generate the wealth and jobs in this country.

I would also like to take the opportunity at the opening of this event to thank the GRTU and the Forum Malta FI-Ewropa for organising this event thus providing a platform to focus on the issues pertaining to small and medium size enterprises, to share ideas on how to continue promoting their growth and to overcome the obstacles that hinder their success.

SMEs are not only important in our economy but at a European level it is being more and more recognised that the Lisbon goals for the creation of wealth and jobs can only be attained through healthy SME. It is for this reason that the Commission has taken a number of initiatives to make life easy for businesses. As a Government we have consistently and actively supported these initiatives such as those outlined in the European Commission Communication "Putting SMEs First".

As a Government we have adopted this Communication wholeheartedly and my Ministry has initiated and is undertaking a number of projects in line with this Communication. A case in point is the simplification of legislation and administrative burden reduction. The Commission has set an ambitious target, that of reducing administrative costs for businesses by 25% by 2012. I am pleased to note that a lot of work has already been made and we intend to continue aggressively pursuing this initiative which you will hear more of in a more detailed presentation this afternoon.

Speaking of simplification and administrative burden reduction, I would like to bring to your attention another important initiative that we are taking and steadily working on, i.e. the transposition and implementation of the Services Directive. This Directive, which will come into effect in December 2009, covers all service activities; except for some which are specifically excluded primarily because they are regulated by specific EU directives, namely financial, electronic communications and transport services.

This Directive will not only provide another important tool to reduce the administrative burdens for service providers, but also assist Maltese service providers who want to test new markets in other Member States or who are thinking of establishing themselves to offer their services in the EU. Also, quoting from an Article in the Financial Times of the 19th June by Lorenzo Bini Smaghi, a member of the executive board of the European Central Bank, in his article "Europe must look again at liberalising services", states that "Over the past decade manufacturing has recorded an average inflation rate of 0.8 per cent in the euro area.

In services, however, inflation was on average 2.3 per cent and has accelerated in recent months. Lack of competition in services, especially at local level, and the slow growth of productivity explain this resilience of pricing power". Whilst many SMEs are service providers that may be facing increased competition, most SMEs are consumers of services that will hopefully benefit from higher price competition and which therefore is a measure of reducing the burden of cost of services to SMEs.

The Government is currently undertaking a major exercise in this regards that will culminate in the coming months. A significant part of this exercise is a major review of current legislation underlying authorisation of service providers in order to identify, simplify and dismantle barriers to the provision of services. It is planned that the revision of the current legislation will be concluded by November this year.

One interesting development which could be a consequence of the implementation process of the Services Directive is the possibility of taking this opportunity to consolidate the various services offered to business and potential entrepreneurs into one central unit in order to improve our administration from the resulting synergies and to offer the business community a focal point for its needs including assistance so that it can make better use of the opportunities offered by a single market of twenty seven States and 500 million consumers. The Ministry is actively considering this possibility with a view to simplifying and widening the process of providing assistance for our businesses.

We have also embarked on a review process of SME requirements in comparison with larger entities and identified key areas for improvement. For example, we believe that the obligations imposed on SMEs by the current International Financial Reporting Standards are too burdensome for smaller businesses, and thus taking up precious time and consequently imposing a high compliance cost on the operators. Most micro-enterprises in Malta are family-run businesses, making it excessively burdensome for these businesses to come in line with the standards.

In response to this need, the Government has embarked on an initiative to establish a simpler framework of reporting known as the General Accounting Principles for Smaller Entities (GAPSE), which, I'm pleased to announce, will be launched in the coming weeks. The aim of GAPSE is to reduce the audit and financial statement reporting requirements of SMEs to a more realistic level, making compliance more affordable and freeing up precious time, without straying away businesses from the required reporting requirements of users such a shareholders, creditors, banks, fiscal authorities and other users.

Another important initiative is the review that we have recently commenced to bring investment incentives within reach of all enterprises, whether large and small. Government is conscious that incentives, tailor-made for smaller enterprises, should be available in order to sustain the necessary drive for SMEs to work and invest more.

With this need in mind, my Ministry is reviewing the operations of both the Malta Enterprise and the Malta Industrial Parks with the intention of putting more emphasis on the specific needs of SMEs, including the provision of incentives specifically targeting micro-and small- enterprises as while investment promotion must remain the fundamental focus of these enterprises, experience shows that with less efforts indigenous micro-enterprises have the potential to become small, and possibly even medium enterprises. All local businesses have started micro and we should not be trying to change a formula that has been successful and that can bring more success with a bit more focus.

As you are also aware, the EU Commission is proposing a Small Business Act for Europe in order to fully establish SMEs at the heart of EU policy making. The Commission document will be published on 2 July of this year. The Commission has already stated that the European Act will be driven by three political objectives:

- putting entrepreneurship at the forefront of society,
- irreversibly anchoring the "Think Small First" principle in policy-making at all levels within the EU, and
- Systematically promoting SMEs' competitiveness and growth.

Government strongly supports the Commission on this initiative, although we have emphasised the need to be more ambitious. Whilst we appreciate that at a European level the Small Business Act has to cater for all SMEs, duly taking into account their diversity and the different categories and sectors in which they operate, however when transposing this at a local level we should ensure that this Act is more of an act that simplifies life for SMEs particularly micro-enterprises, then a body of principles and standards.

Access to finance is also an important issue for many small businesses. This element is important both in the case of new start-ups as well as with regard to those companies wishing to draw up long-term business plans. In this respect, micro credit (and small credit) schemes should be further promoted. Accessing credit also needs to be facilitated and made less expensive for small businesses. The same applies to tools provided by standardisation which needs to be made more accessible for small businesses. We feel that standardisation can give a significant contribution to innovation and competitiveness of SMEs. Government agrees that more effort is required to ensure that standards-making processes become more accessible to SMEs in order to ensure that these reflect their needs and interests. With these issues in mind, Government aims to be in the forefront in the negotiations on the Small European Act.

However, much as we agree with the Commission's thrust, we believe that such an initiative must not be left at a European level but should be acted upon at national level, by building on the good points emerging from the Commission proposals but also adding those elements that are closer to the national interests. With this thought in mind, Government aims to be in the forefront in implementing the provisions of this proposal and turning it into our own Small Business Act.

To conclude, red carpet, not red tape cannot just be a wish, but is a concept that urgently needs to be rolled down. I augur that this Forum will not only help to unfold this commitment but will be followed by many others on related topics. Faced by the prevailing international economic challenges, such as the rise in oil and food prices, the pressures on SMEs are inevitable, and whilst cushioning such prices may be desirable to limit the impact of the initial shock, adjustment to these realities cannot be avoided.

This makes it more important to have the right environment and the necessary support to surmount these challenges and keep growing. Government is committed to give SMEs the necessary assistance, be it improved access to finance and incentives or a healthy legislative environment that ensures fair competition without adding unnecessary burdens. Thank you.

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