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BUSINESS INVESTMENT AND INVESTMENT FINANCE IN MALTA – EVIDENCE FROM THE EIBIS 2019 SURVEY

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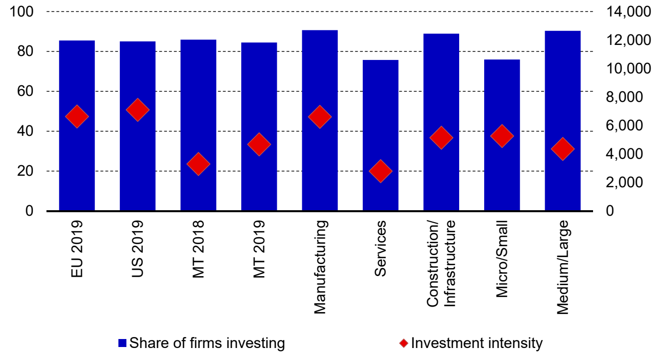
BOX 1: BUSINESS INVESTMENT AND INVESTMENT FINANCE IN MALTA – EVIDENCE FROM THE EIBIS 2019 SURVEY[1]

The EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide, annual survey of 12,350 firms, 170 of which are operating in Malta.[2] It collects data on firms' characteristics and performance, past investment activities, future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, the EIBIS is representative across the 27 Member States of the European Union, firm size (from micro to large) and four main sectors (manufacturing, services, construction and infrastructure). For the fourth wave of the EIBIS, telephone interviews with Maltese firms were carried out between April and June 2019. All results – including expectations – predate the COVID-19 outbreak.

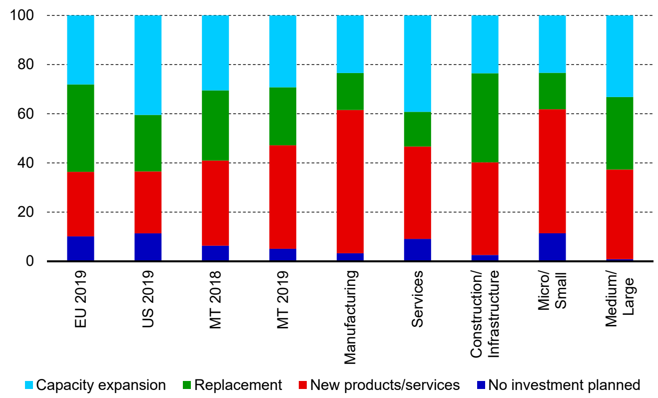
EIBIS 2019 depicts a positive investment environment for Malta. Chart 1 shows that, at 84%, the share of firms investing during the last financial year was in line with the EU average (85%) and only slightly smaller than the share reported in EIBIS 2018 (86%). The reported intensity of investment is below the EU average (€4,677 vs €6,631 per employee, respectively) but increased compared to EIBIS 2018 (€3,297 per employee). Furthermore, the medium-term outlook was also positive, as only a very small share (5%) of Maltese firms had no investment plans over the next three years (see Chart 2). This percentage

Chart 1
INVESTMENT ACTIVITY IN LAST FINANCIAL YEAR
(per cent; EUR per employee)



Source: EIBIS 2019.
Note: The blue bars indicate the proportion of firms who have invested in the last financial year. A firm is considered to have invested if it spent more than €500 per employee on investment activities. Investment intensity is the median investment per employee of investing firms. Investment intensity is reported in real terms using the Eurostat GFCF deflator (indexed to EIBIS 2016).
Base: All firms (excluding don't know/refused responses).

Chart 2
FUTURE INVESTMENT PRIORITIES[(1)]
(per cent)



Source: EIBIS 2019.
Base: All firms (excluding don't know/refused responses).
(1) Question: Looking ahead to the next 3 years, which is your investment priority? (share of firms by purpose of investment).

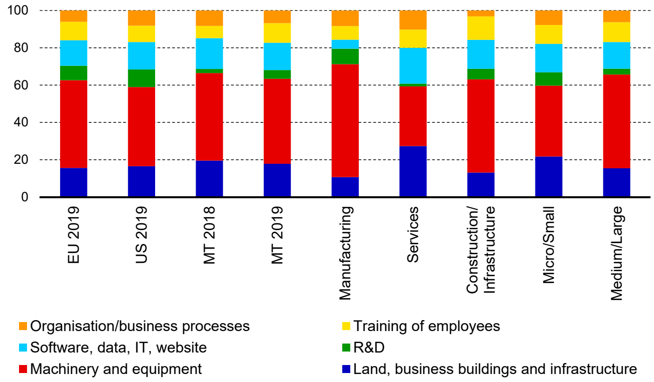
1 Prepared by Annamaria Tueske and Pedro de Lima from the European Investment Bank (EIB).
2 EIB (2019). EIB Group Survey on Investment and Investment Finance 2019. Country overview: Malta, *European Investment Bank*, Luxembourg.

is significantly below that registered for the European Union as a whole and the United States. The most frequently cited investment priority for the next three years by firms in Malta was investment in new products and services (mentioned by 42% of investing firms, up from 35% in EIBIS 2018), while investments in replacement became relatively less important since 2018.

EIBIS 2019 revealed increasing investment in intangible assets and, at the same time, a larger share of investment devoted to both capacity replacement and the development of new products and services. At 46%, machinery and equipment accounted for the largest share of investment (see Chart 3), followed by land, business buildings and infrastructure (18%), and software, data and Information Technology (IT) (15%). Overall, the pattern is similar to that registered in EIBIS 2018 and to the EU average. The survey revealed that investment in intangibles increased from 34% in 2018 to 37% in 2019. This was driven by increased outlays on Research and Development (R&D) and training, bringing the share of investing firms in line with the EU average (37%), although below the US share (41%).

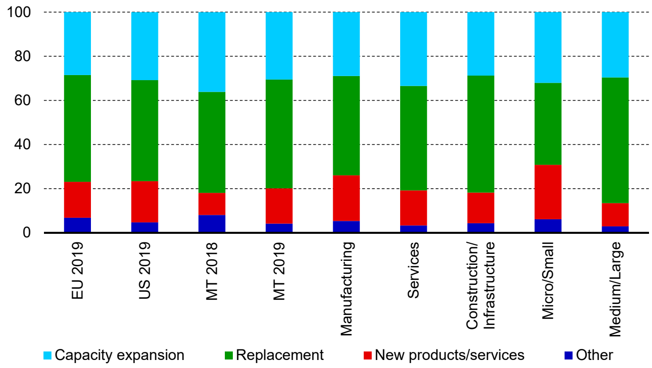
EIBIS 2019 also shows that investments were driven by the need to replace existing buildings, machinery, equipment and IT (see Chart 4). The share of investment devoted to replacement was slightly above the EIBIS 2018 figure (49% compared with 46%), similar to the EU average of 48% and higher than the US share of 46%. Capacity replacement was highest in the construction/infrastructure sector (53%) and among medium/large firms (57%). There has also been an increase in investment in new products and services as a share of total investment (16% compared with 10%

Chart 3
INVESTMENT AREAS(1)
(per cent)



Source: EIBIS 2019.
Base: All firms who have invested in the last financial year (excluding don't know/refused responses).
(1) Question: In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

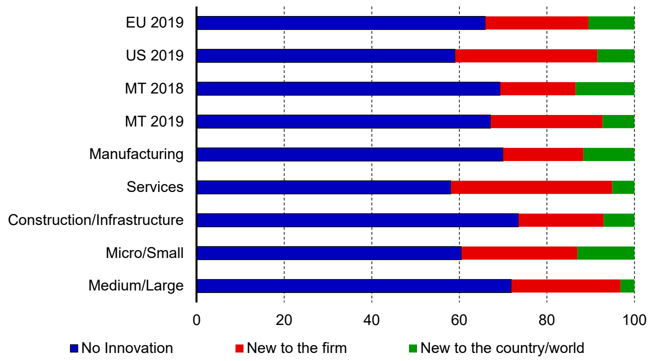
Chart 4
PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR(1)
(per cent)



Source: EIBIS 2019.
Base: All firms who have invested in the last financial year (excluding don't know/refused responses).
(1) Question: What proportion of total investment was for (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

in EIBIS 2018), especially among micro/small firms (25%, compared with 12%). One-third of firms have developed or introduced new products, processes or services as part of their investment activities, a slight increase over the 31% reported in EIBIS 2018 (see Chart 5). However, only 7% of firms claimed that they had undertaken innovation that is new to the country or world, a figure that is lower than that of the European Union, the United States and EIBIS 2018, where the shares stood at 11%, 8% and 13% respectively. By contrast, the share of active innovators that both invested in R&D and introduced new products, processes or services grew from 6% to 11% year-on-year. However, this is still lower than the EU average (19%).

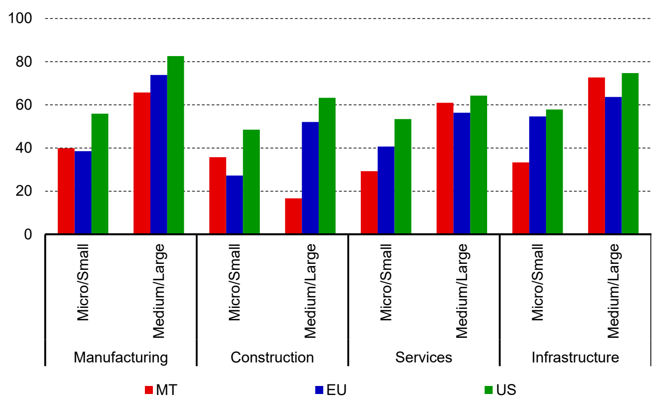
Chart 5
INNOVATION ACTIVITIES[1]
(per cent)



Source: EIBIS 2019.
Base: All firms (excluding don't know/refused responses).
[1] Question: What proportion of total investment was used for developing or introducing new products, processes, services? Were the products, processes or services new to the company, new to the country, new to the global market?

Digitalisation is progressing in Malta. Around half (51%) of all firms in Malta have implemented, either fully or partially, at least one digital technology. These firms, labelled digital, created 70% of the total value added in Malta. The proportion of digital firms was below the EU average of 58%. It was also lower than in the US for every sector and size class (see Chart 6). Implementation of the internet of things (IoT) was in line with the EU average in the construction and service sectors, but manufacturing and infrastructure firms in Malta lagged behind their EU counterparts in this regard (see Chart 7). No construction firms reported using drones or virtual reality (VR) and the use of robotics, big data and artificial intelligence (AI) in other sectors was also less widespread than in the European Union. The adoption of digital technologies is above the EU average in micro/small firms within the manufacturing and construction sectors and among medium/large firms in the services and infrastructure sectors (see Chart 6).

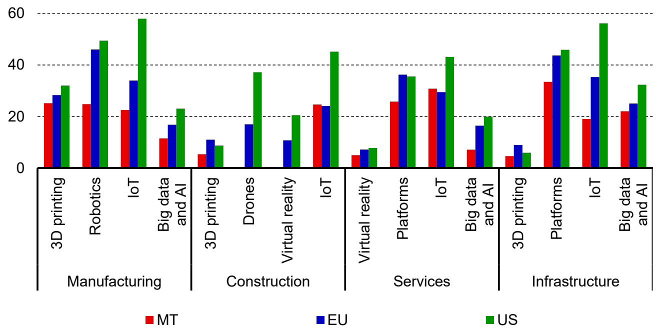
Chart 6
DIGITAL ADOPTION BY FIRM SIZE AND SECTOR
(per cent)



Source: EIBIS 2019.
Note: Micro/Small firms are those with fewer than 50 employees. Medium/Large firms are those with 50 or more employees.

As shown in the EIB Digitalisation Country Fiche for Malta, more than 75% of digital firms reported having increased the number of employees in the last three years, compared to less than 50% of non-digital firms, while wage per employee was almost 1.2 times higher in digital than in non-digital firms.[3]

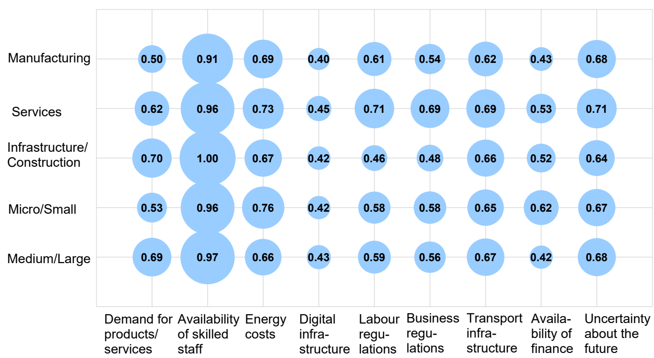
Chart 7
ADOPTION OF DIGITAL TECHNOLOGIES BY SECTOR(1)
(per cent)



Source: EIBIS 2019.
Note: Reported shares combine technology implemented 'in parts of business' and 'entire business organised around it'.
Base: All firms (excluding don't know/refused responses).
(1) Question: Can you tell me for each of the following digital technologies if you have heard about them, not heard about them, implemented them in parts of your business, or whether your entire business is organised around them?

At 97%, virtually all Maltese businesses reported that the availability of skilled staff is a barrier to investment. This share increased since EIBIS 2018 (90%) and stands clearly above the EU average of 77%, though this is also the most cited barrier among all EU firms. Manufacturing firms are the least concerned, but even among them, more than nine out of ten reported the lack of skilled staff as an obstacle to investment (see Chart 8). Demand for products/services, energy costs, inadequate transport infrastructure and the availability of finance are also more likely to be cited as barriers in Malta than in the European Union. According to EIBIS 2019, availability of finance was more often cited as a barrier by micro/small firms (62%) than by medium/large firms (42%, see Chart 8). Access to digital infrastructure is the least cited obstacle to investment. The share of Maltese firms mentioning this as a limiting factor was 43%, down from 48% in EIBIS 2018.

Chart 8
LONG TERM BARRIERS BY SECTOR AND SIZE(1)
(per cent)



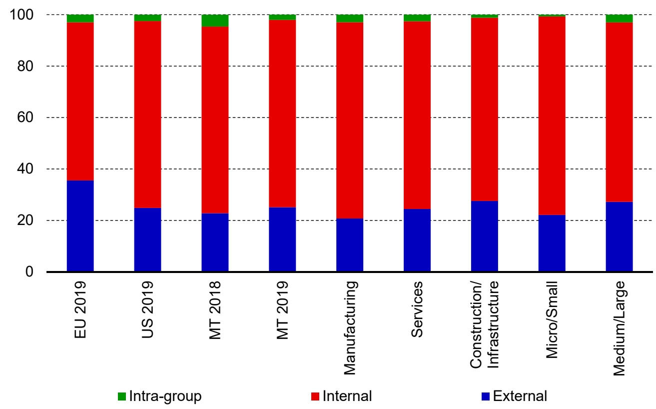
Source: EIBIS 2019.
Note: Reported shares combine 'minor' and 'major' obstacles into one category.
Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused).
(1) Question: Thinking about your investment activities in Malta, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Maltese firms have a less diverse financial structure than their EU and US counterparts, relying almost exclusively on internal funds and bank finance, and reported that they were less in need of external finance. At 73%, internal funds have accounted for the highest share

3 Given limitations of sample size and sectorial composition, these results should be interpreted with caution.

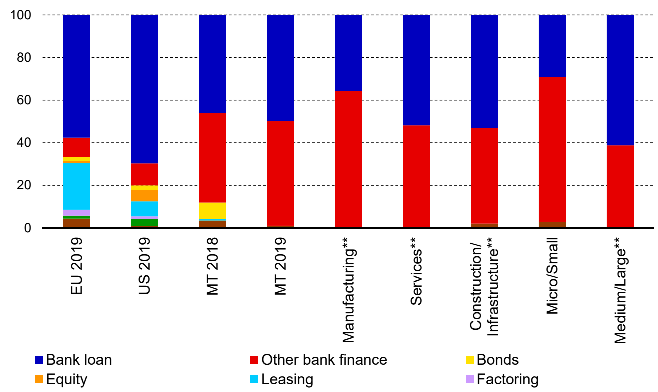
of investment finance, above the EU average of 62%, while the share of external finance was lower at 25%, compared with 36% EU-wide (see Chart 9). Around a quarter (23%) of all firms in Malta reported that the main reason for not applying for external finance is because they are happy to use internal funds or that they do not need external finance. This is a higher share of firms than reported in EIBIS 2018 (13%) and higher than the EU average (16%). Bank loans and other forms of bank finance such as overdrafts accounted for almost equal shares of external finance at 50% and 49%, respectively (see Chart 10). The remaining 1% was sourced via grants. This is broadly similar to EIBIS 2018, where bank finance also accounted for a high share of external finance (88%).

Chart 9
SOURCE OF INVESTMENT FINANCE[(1)]
(per cent)



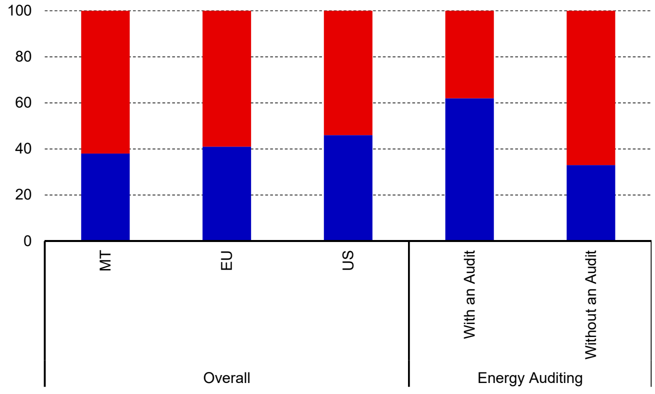
Source: EIBIS 2019.
[(1)] Question: What proportion of your investment was financed by each of the following?

Chart 10
TYPE OF EXTERNAL FINANCE USED FOR INVESTMENT ACTIVITIES[(1)]
(per cent)



Source: EIBIS 2019.
Note: *Loans from family, friends or business partners, **Very small base size of fewer than 30 firms.
[(1)] Question: Approximately what proportion of your external finance does each of the following represent?

Maltese firms seem to lag somewhat their European counterparts on energy efficiency (EE) matters. There are relatively fewer firms investing in EE measures in Malta than in the rest of the Union. The main driver for investing in EE appears to be energy costs, as Maltese firms more affected by energy costs were also more likely to invest in EE improvements. There are also relatively fewer firms conducting energy audits in Malta than in the rest of the Union. Only one fourth of the firms surveyed in Malta had had an energy audit in the past three years, compared to two fifths in the European Union (and a third in the United States). Firms that go through energy audits are typically more likely to invest in EE (EIB Investment Report 2019). This is also the case for Malta: 62% of firms which had undergone an energy audit invested in EE, while only 33% of those without an audit invested in EE, an almost 2-to-1 ratio (see Chart 11).



Source: EIBIS 2019.
Base: All firms which have invested (data not shown for those who said don't know/refused).

In conclusion, EIBIS 2019 results reveal an overall positive picture of investment dynamics in Malta, while also pointing to areas that could profit from targeted policies. During the financial year surveyed by EIBIS 2019, investment in Malta stood at around 50% above pre-crisis levels, ranking second in terms of investment intensity in the European Union, with more firms expecting to increase their investment rather than decreasing it in the coming year. Furthermore, the perceived investment gap was lower than the EU average. For the next three years, 42% of firms prioritised investment in new products and services, up from 34% in EIBIS 2018.

EIBIS 2019 also points out some less positive aspects. The share of Maltese firms claiming to have undertaken innovations that are new to the country or world dropped significantly from the previous year. Malta has a lower adoption rate of digital technologies than its EU counterparts, despite the employment and wage premia enjoyed by digital firms. Lack of skilled staff remained the main long-term barrier to investment, and has even increased in importance. Local firms continue to rely almost exclusively on internal funds and bank finance, while EE considerations rank below those of their EU counterparts.

These findings offer insights in areas relevant from a policy perspective: energy costs, transport infrastructure, low-adoption rate of digital technologies, the availability and less-diverse structure of investment finance are some of the major shortages identified by EIBIS 2019. Meeting these challenges by the removal of barriers would offer further investment and innovation opportunities in Malta, contributing to productivity growth thereafter.