European Economic and Social Committee

Employers' Group

Does the EU encourage private-sector investment?

© Shutterstock: Looker_Studio

Introduction

Nine years after the beginning of the economic crisis, investment in the EU is still 15% below pre crisis levels. Recovery in the field of investment in the EU is too slow and overall, the EU is lagging behind its competitors. In the US, private investment fell dramatically during the crisis, but is recovering at a much faster pace than in the EU, and Japanese private investment has consistently been higher than in the EU.

There is far less venture capital in Europe than in the US (over the last couple of years, venture capital investments averaged 0.20% of GDP in the US but only 0.03% in the EU). Matching the US level would require around EUR 35bn a year in additional venture capital activity. Europe should also increase private investment in venture capital: currently, public funding represents over 30% of total venture capital investment in Europe, much higher than in the US.

Finding a way to encourage more private-sector investment in Europe is essential for promoting growth and job creation across the EU. First and foremost, the obstacles to investment, such as a lack of stability and predictability, over-regulation and the high cost of doing business, should be removed. Secondly, more efforts are needed to promote private investment at both EU and national level. Legal, regulatory and political stability, an efficient, complete Single Market and an ambitious EU trade agenda are just some of the issues that could stimulate more investment.

Incentives for and obstacles to investment: a Maltese case study

For Malta, accession to the European Union in 2004 was a major factor that enhanced the investment environment. Access to the Single Market, a common currency, effective use of cohesion funds for infrastructure improvement and access to third markets through free trade agreements, together with a relatively young English-speaking workforce and a number of incentives created by the Maltese government enabled Malta to attract the attention of foreign investors.

This resulted in unprecedented flows of foreign direct investment. In 2007, the value of FDI flows into Malta equalled over 450% of the country's GDP. In 2016, Malta was the second in the EU in terms of FDI flows expressed as a percentage of GDP (22.5%), with foreign investment worth over EUR 2.22 billion.

A labour force shortage is one of the key obstacles to foreign direct investment facing Malta. Currently, approximately 34 000 foreigners live and work in Malta. A lack of skilled workers artificially raises wages and hampers the competitiveness of Maltese companies in the EU market. Moreover, companies are often forced to employ unskilled workers and provide training.

In order to meet that challenge, the EU should address the issue of harmonising skills to increase cross-border employability. In the long term, the issue of skills matching should be taken up. Modern education systems should be targeted to train people to be able to learn rather than to do specific things. Re-training programmes and life-long learning schemes have a crucial role to play in providing a smooth transition to the labour markets of the future.

There are a number of obstacles to investment that are typical of islands and remote areas, such as relatively high energy prices and freight charges, and significant dependence on maritime transport, primarily affecting manufacturing companies. On the other hand, Malta is small, an advantage in terms of policy making and flexibility. It is relatively easy to discuss policy issues at a high level and implementation of regulation is more efficient. The country's geographical position gives it easy access to the Mediterranean and North African markets.

As 95% of turnover of the Maltese economy is generated by small and medium-sized enterprises, the role of SMEs in investment must not be overlooked. The key obstacle facing SMEs in investment is access to finance. Moreover, last year there was a visible tendency for banks to give preference to larger market players when granting loans.

In order to create incentives for SMEs, employers' organisations called for the Malta Development Bank to be set up. The bank would serve as a second-tier financial institution when private commercial banks failed to make appropriate financing available, or refused to offer the normal market terms. The bank would be owned by the government and would have an authorised share capital of EUR 200 million. This would eventually allow it to leverage this to around EUR 1 billion in loans.

The Maltese employers' organisations also took a number of initiatives to facilitate investment by SMEs. The Malta Chamber of Commerce established a private-public partnership with the government focusing on enabling SMEs to enter the international arena. The chamber created the North Africa Business Council with the aim of promoting business between Malta and North African countries and, in the process, creating business opportunities for the Maltese business community. The chamber acts as a facilitator, researches the markets, prepares briefings about the political aspects of investing in other countries, invites delegations and sets up meeting platforms for both sides to explore potential business opportunities.

To address the issue of access to finance, Malta also makes use of the JEREMIE (Joint European Resources for Micro to Medium Enterprises) and JAIME (Joint Assistance Initiative for Maltese Enterprises) programmes. JEREMIE is a European Commission initiative developed together with the European Investment Fund to promote the use of financial engineering instruments to improve access to finance for SMEs via Structural Fund interventions. Through this initiative, Malta can make better use of the European Structural Fund allocations to invest in revolving instruments such as venture capital, loan or guarantee funds.

JAIME is led by the Malta Enterprise, an economic development agency tasked with attracting new foreign direct investment, as well as facilitating the growth of existing operations. JAIME specifically addresses the challenge of access to finance by providing SMEs with finance for capital investment, related working capital at advantageous interest rates and reduced collateral obligations, as well as helping them to invest in R&D and innovation. This programme will provide assistance of up to EUR 500 000 to 700-850 SMEs and people who want to open/do business and make use of EU Structural and Investment Funds.

The Maltese economy has a number of vulnerabilities that might undermine its attractiveness for investors in the future. Customers expect manufacturing and delivery timeframes to get shorter, but this trend has been difficult for Maltese companies to follow, due to constraints related to being a remote island. Because of its size, the Maltese economy cannot fully benefit from economies of scale. Moreover, the financial services and gaming industries that are currently flourishing could easily be lost to another country that provides better conditions.

Joint Declaration of Employers and the Government of Malta

Encouraging private sector investment in Europe

The political and economic context in which businesses operate is more uncertain than ever before. Europe is facing a number of serious external and internal challenges such as increased global uncertainty, Brexit, the rise of extremism and security threats. Europe is also suffering from low level of investment. Investment in Europe remains 15% below that recorded before the crisis in 2008 and a further EUR 300 billion of investment would be needed annually to get back to pre-crisis level.

The signatories to this declaration firmly believe that:

1) In these challenging times, **we need to find ways to mobilise and encourage even more private sector investment in Europe. This is essential if we are to promote growth and job creation across the whole of the Union**.

2) We need to **remove obstacles to investment** such as:
   I. **Lack of stability & predictability**: Business needs freedom to operate and legal, regulatory and political stability to attract long-term investment. A coherent policy framework is an important stabilisation factor. A lack of vision for Europe's direction and the uncertainty about its future is likely to make investors less willing to invest.
   II. **Legislative risks, over-regulation**: Fighting over-regulation and administrative burden and thus providing a more business- and employment-friendly regulatory environment would encourage private investment.
   III. **High cost of doing business**: reducing bureaucracy, red tape and gold-plating as well as addressing skills mismatches and encouraging job mobility are needed to bring down costs of doing business.

3) **More efforts are needed to promote private investment:**
   I. **EU and national policies must provide stability and enhance the ease of doing business**. This will allow entrepreneurship to thrive, and private companies and investors to do their part to create jobs, generate growth and push innovation. This entails reducing unnecessary and overly expensive regulation.
   II. **The Single Market is an important asset for attracting investment but greater flexibility and pragmatism is required**. To reap the full benefit of the Single Market, we must fight protectionism and implement Single Market rules. At the same time we must ensure that a degree of flexibility and pragmatism prevails to ensure that SMEs in all Member States are given a fair chance to succeed.
   III. **Robust and ambitious trade agenda**: In the next 10 to 15 years, over 90% of world growth is predicted to be generated outside Europe. We cannot capitalise on this potential without openness to trade. Concluding and implementing trade and investment agreements is essential.

4) **More private and public investment is needed in areas such as technology and innovation**. For instance, the European Fund for Strategic Investment (EFSI) should focus its interventions on sectors of the future, particularly on Industry 4.0, keep its market-driven emphasis and aim for greater involvement of private funding. Moreover, it is vital that EU instruments such as EFSI are designed in such a way as to ensure that all Member States irrespective of their size can fully capitalise on the opportunities that such an instrument brings. Also, public investment should be better directed to areas that support growth.

In the context of the Future of Europe, business needs an efficient and united Europe to be able to withstand the pressures of international competition whilst continuing to enhance competitiveness.
The European Union must continue to use its economic and political strength to be able to negotiate favourable trade agreements which are of benefit to businesses large and small right across the EU.

Joseph Muscat
Prime Minister of Malta

Jacek P. Krawczyk
President of the Employers' Group
The European Economic and Social Committee

Frank V. Farrugia,
President of the Malta Chamber
of Commerce, Enterprise and Industry

Dolores Sammut Bonnici
President of the Malta Employers' Association

Tony Zahra
President of the Malta Hotels
and Restaurants Association

Paul Abela
President of the Malta Chamber of SMEs (GRTU)

Valletta, 11 May 2017

"The private sector contributes to well-being by incentivising investments in new learning and education and by encouraging the acquisition of vital skills. The private sector is a sphere of action where the empowerment of individuals and businesses fosters greater diversification within our economies. That is why we need to encourage governments to stimulate private sector investment by focusing special support on community level and local approach."

HE Marie-Louise COLEIRO PRECA
President of Malta
in her keynote speech during the conference

"We need essential structural reforms to ensure competitiveness. The time has come for this as we now need to unleash our people's potential and not stifle that potential under excessive regulation. Our economies are crying out for breathing space. We need to responsibly liberate and liberalise our investment strategies."

Joseph MUSCAT
Prime Minister of Malta
in his keynote speech during the conference

The publication is a summary of the conference on "Does the EU encourage private-sector investment" that took place on 11 May 2017 in Valletta, Malta. The conference was jointly organised by the Employers Group of the European Economic and Social Committee and all major Maltese employers' organisations: Malta Chamber of Commerce, Enterprise and Industry, Malta Employers' Association (MEA), Malta Hotels and Restaurants Association (MHRA) and Malta Chamber of SMEs (GRTU).

European Economic and Social Committee

Employers' Group

About the Employers' Group

The Employers Group brings together entrepreneurs and representatives of entrepreneur associations working in industry, commerce, services and agriculture in the 28 Member States of the European Union. Its members are genuinely committed to putting their own experiences to good use to further the European venture.

The European Economic and Social Committee is the only European institution that brings together entrepreneurs and people fully involved in the economic and social life of their home country. It ensures that the voice of business is heard at European level.

European Economic and Social Committee

Rue Belliard/Belliardstraat 99 • 1040 Bruxelles/Brussel • BELGIQUE/BELGIË
Published by: "Visits and Publications" Unit • EESC-2017-60-EN
www.eesc.europa.eu

EN

Print
QE-02-17-719-EN-C
ISBN 978-92-830-3670-8
doi:10.2864/803391

Online
QE-02-17-719-EN-N
ISBN 978-92-830-3667-8
doi:10.2864/796764