



# **Malta**

## **National Reform Programme**

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## Minister's Foreword



As this Government enters its third year of legislature, it is now comforted by the economic and financial performance to date, and more aware than ever that its ambitious objectives are realisable.

Its strategy of raising potential output, putting back our public finances on track, and enhancing our competitiveness will thus remain the backbone of this year's National Reform Programme, while the implementation of the respective measures will continue to unfold.

The Government believes that a sustainable rate of economic growth which would satisfy the aspirations of the Maltese is indeed within our reach.

A handwritten signature in black ink, appearing to be 'E. Scicluna'.

Prof. Edward Scicluna  
Minister for Finance



# Contents

<b>1. Introduction</b>	<b>3</b>
<b>2. Macroeconomic context and scenario</b>	<b>9</b>
<b>3. Implementation of the Country-Specific Recommendations</b>	<b>19</b>
<b>4. Progress towards national Europe 2020 targets</b>	<b>39</b>
<b>5. Additional Reform Measures and the use of Structural Funds</b>	<b>51</b>
<b>6. Involvement of stakeholders</b>	<b>61</b>









# 1. Introduction

Last year was another successful year for the Maltese economy which continued to be one of the top performers in the Euro Area and the European Union, both in terms of economic growth as well as labour market outcomes. Indeed, Malta's real GDP growth stood at 3.5 per cent, up from the rate of 2.7 per cent recorded a year earlier. The main driver for this growth was the robust and sustained increases in domestic demand supported by the growing disposable income of households and a buoyant labour market. Indeed, LFS employment figures showed that the number of employed persons increased by 1.2 per cent in the final quarter of 2014, marking an annual average increase of 3.1 per cent. This performance in the labour market was reflected in a historically low unemployment rate, decreasing from 6.4 per cent in 2013 to 5.9 per cent in 2014.

Although the European Commission is no longer considering Malta as having substantial macroeconomic risks in terms of the Macroeconomic Imbalances Procedure, the Government continues to monitor and address the challenges outlined in the Commission Staff Working Document with respect to the sustainability of public finances, resource efficiency, business environment, the labour market, social policy and education. Policy measures intended to address the above-mentioned challenges are being outlined in this National Reform Programme and in the coming Update of the Stability Programme, in line with Government's economic and fiscal strategy and its policy objectives of raising potential output, ensuring sustainable public finances and enhancing the competitiveness of the Maltese economy.

In order to continue fulfilling these policy objectives, Government is implementing a number of supply-side policies which are aimed at raising the country's potential growth whilst also ensuring responsible environmental management and social cohesion. In this regard, one notes that consistent with last year's Budget, the Budget for 2015 was based on the strategy of making work pay by ensuring that the social security system positively spurs work effort and discourages dependency, strengthens cohesion and reduces poverty. In addition, the Government has continued to direct its efforts towards addressing skill gaps and raising educational levels.

The Maltese Government is also committed towards the attainment of its fiscal targets which would lead to the abrogation by the Council of its decision on the existence of an excessive deficit in Malta, while also strengthening the country's public finances over the medium to long-term.

## **Strengthening the Sustainability of Public Finances**

The strategy underpinning the attainment of Malta's fiscal targets shall be outlined in the Update of the Stability Programme. Government has progressed with regard to the strengthening of fiscal institutions in Malta. The Fiscal Responsibility Act was adopted by the Maltese Parliament with the Fiscal Council becoming operational following its appointment earlier this year. Tax compliance and tax evasion have also been the focus of several Government measures, ranging from schemes offering persons in breach of taxation legislation the possibility to come to terms with the law and regularise their position to studies which assess the expanded use of electronic payments and the possibility of having a limit on the amount of cash for a single transaction.

Government remains committed to continue with the pension reform process. The Pensions Strategy Group has submitted its report to Government and will be presenting the Strategy to Cabinet shortly, after which it will be published for public consultation. The Prime Minister has also recently announced that the reform process shall be prioritised in the second half of this year. Furthermore, Government has introduced fiscal incentives with the aim of sustaining the policy objective of diversifying retirement income through the taking up of voluntary third pillar pensions.

With regard to the health sector, the conduct of comprehensive reforms in the public health system to ensure the delivery of a cost-effective and efficient service has been high on the political agenda over the past few years. This has been mainly driven by strategic investments to underpin the revision of existing processes, whilst shifting the focus of care away from hospital and towards the primary health care setting. Progress has also been registered with respect to strengthening health promotion and disease prevention. These developments reflect the adoption of a new National Health Systems Strategy covering 2014-2020 focusing on three pillars: Improving Governance; Health Promotion and Disease Prevention; and Strengthening of Primary Care. The Strategy has now reached the stage where an action plan has been drawn whilst an Implementation Monitoring Committee is being set up. Furthermore, a Health System Performance Assessment Framework has been set up to monitor the progress achieved in these areas with a periodic assessment. Government is also actively seeking the involvement of the private sector in the health sector. This should improve efficiency while easing pressures on public finances.

## **Labour Market and Education**

Strengthening labour market performance and addressing skill mismatches is one of the key policy priorities for Government. The Government is addressing the particular challenges faced by working and studying parents by providing free childcare facilities, opening schools earlier, providing after-school care services, and extending the tax deduction for parents sending their children to private childcare centres.

During the past year, the Government put in place a number of successful initiatives including: the Employment Aid Programme, educational and vocational training programmes, the Youth Guarantee Programme, apprenticeship programmes for students, the National Literacy Strategy, and promotion of flexible working arrangements. These contributed to a significant growth in the participation of women and youth in the labour market. The Government is also making work pay through initiatives such as reducing the income tax for long-term unemployed women who are over 40 years of age, changing in the income tax rate brackets and providing full pension for employed widows. The reforms in benefit design also complement the strengthening of labour market incentives, particularly through tapering of benefits and the introduction of in-work benefits.

With regard to addressing skill gaps, the Government drafted a legal notice to reform the national apprenticeship schemes that are currently being offered by Malta College of Arts, Science and Technology (MCAST) with the aim of creating a single national apprenticeship scheme covering more qualification levels. Through such a reform, as well as through scholarships and a National Strategy regarding Lifelong Learning,

Government would also be addressing the issue of skills gaps within the labour market as well as securing the relevance of education at the place of work.

A revamped system of monitoring students who are potential or actual early school leavers alongside the implementation of the strategy by an Inter-Ministerial Committee should ensure that Malta continues to make progress relative to the pertinent Europe 2020 target.

### **Resource Efficiency**

The reform of the energy sector is another policy priority of the Maltese Government. In this regard, considerable investments are being made in upgrading the energy infrastructure, diversifying sources and supply, and improving energy efficiency. The electricity interconnector came on stream on the 9<sup>th</sup> April 2015, while the planned switch from heavy fuel to natural gas, alongside the closing down of inefficient power plants, should further contribute towards further lowering costs and carbon emissions. With regard to renewable energy, Government is prioritising solar photovoltaic systems and solar water heating in order to achieve its committed renewable energy target in line with Directive 2009/28/EC through grants and feed-in tariffs. Studies are ongoing with respect to a fixed natural gas connection from Malta to Gela, Italy.

In the area of transport, Government is analysing the potential of complementary passenger transport systems which include monorail and transport by sea. Such alternative modes of transport would complement the ongoing reform in public transport. Government is also implementing a strategy to accelerate the uptake of electromobility, whilst the existing autogas conversion scheme has been extended.

### **Improving the Business Environment**

With regard to improving access to finance, Government launched Venture Capital Malta, with the aim of enhancing the financing capacity of enterprises, not just through debt, but also through equity and venture capital. Efforts in this area are being complemented by the Managed Seed Capital Fund, intended to support early stage technologies and knowledge-based start-ups and the JEREMIE financing package. Government is also working to develop further the Maltese Capital Markets where SMEs can raise capital in form of equity and bonds. With regard to public procurement, Government is raising efficiency whilst addressing bureaucracy through electronic procurement. Consequently, the average adjudication period was reduced to 122 days by January 2015, from 185 days prior to the reform.

The reform of the justice system is also underway. Government announced that a bill regulating the administration of justice, reflecting the recommendations of the Commission for the Holistic Reform in the Justice system, will be finalised by the first half of 2015, followed by a comprehensive consultation process. Further developments included amendments to the Criminal Code with regard to the freezing of assets, admission of guilt, plea bargaining, judgements in absentia and depenalisation of drugs. In addition, agreement on Acts of Parliament such as those concerning the removal of political prescription and the protection of the Whistleblower Act has been reached, leading to improvements in the overall quality of the judicial system. Other initiatives, including the addition of a new building to accommodate the judiciary, intensified IT

services and new customer service at the law courts, should contribute to enhance the business environment and the overall competitiveness of the Maltese economy.

## **2. Macroeconomic context and scenario**

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## 2. Macroeconomic context and scenario

### 2.1 Macroeconomic outlook for the period covered by the programme

#### Ministry for Finance Macro Forecasts 2014-2018

Following the robust growth registered in 2014, the Maltese economy is expected to continue growing at a steady pace over the forecast horizon, with real GDP growth reaching 3.4 per cent and 3.1 per cent in 2015 and 2016, respectively. This positive momentum is expected to be supported primarily by strong domestic demand which is in turn expected to drive up imports, resulting in a negative net trade contribution to growth in both forecast years.

Private consumption is expected to remain strong and contribute significantly to economic growth over the forecast horizon as labour market developments, a moderate appreciation in wages and lower energy prices are all expected to have a beneficial impact on disposable income. Following a strong increase in 2014, growth in government final consumption expenditure is expected to be more moderate in the forecast horizon, reaching 0.6 per cent and 1.2 per cent in 2015 and 2016, respectively. It is pertinent to note that higher revenue from the International Investor Programme which is considered as market output and therefore deducted from government consumption, explains the subdued growth in this component of expenditure in 2015. Gross fixed capital formation is set to remain the main driver of economic growth, increasing by a significant 23.6 per cent and 13.1 per cent in 2015 and 2016, respectively. This robust investment performance reflects the materialisation of the large scale energy projects, namely the construction of a new power plant and the conversion of another plant to the use of natural gas for power production as well as other private investment projects planned for completion over the same period.

#### Main Macroeconomic Indicators

Table 2.1

	2014	2015(f)	2016(f)	2017(f)	2018(f)
Real GDP (% change)	3.5	3.4	3.1	2.8	2.8
Inflation rate (%)	0.8	1.0	1.8	2.4	2.4
Employment growth (%) (1)	2.0	2.0	1.8	1.7	1.8
Unemployment Rate (%)	5.9	5.8	5.7	5.8	5.8
Exports of goods and services (% change)	-0.2	2.8	2.4	1.0	1.9
Imports of goods and services (% change)	0.1	5.0	3.5	-0.3	1.0
Compensation per employee (% change)	1.9	3.1	3.7	3.5	3.5
Labour productivity (% change) (2)	-0.1	1.8	1.5	1.3	1.2
Unit Labour Costs (% change)	1.9	1.2	2.2	2.1	2.2

(1) Total Employment, Resident population concept, Labour Force Survey definition

(2) Real GDP per person employed

The expected recovery in world GDP growth and the expected depreciation of the Euro is set to boost export growth in 2015 and 2016, yet the pick-up in the import-intensive domestic demand will be reflected in a declining contribution of net exports to economic growth for both years.

After reaching a seven-year trough in 2014, HICP inflation is projected to remain relatively low at 1.0 per cent in 2015 and to rebound over the forecast horizon, increasing by 1.8 per cent in 2016 and 2.4 per cent in the outer years of the forecast. Inflationary pressures in 2015 are expected to be driven by the food and services components. At the same time, the reduction in utility tariffs for the commercial sector from March 2015, and subsequent second-round effects, is expected to somewhat dampening inflationary pressures.

Growth in economic activity is expected to be supported by strong labour market developments as gains in employment are set to be coupled with a low unemployment rate. Job creation is set to remain strong in 2015 and 2016, with a projected annual rate of increase in employment of around 2.0 per cent. At the same time, the unemployment rate is projected to remain relatively low at around 5.8 per cent. This is well below the expected EU average unemployment rate and reflects efforts in ongoing active labour market policies.

Following the 1.9 per cent increase in 2014, Unit Labour Costs (ULC) are expected to increase by a subdued growth rate of 1.2 per cent in 2015 reflecting stronger growth in labour productivity. In 2016, ULC are expected to rise modestly by 2.2 per cent as productivity lags average wage growth.

From a sectoral perspective, economic growth is expected to be primarily driven by a positive performance in services. The financial and insurance activity sector is expected to partially recover from the overall decline registered in 2014, whilst the tourism sector is expected to continue performing strongly, supported by a weaker Euro exchange rate, as well as increases in airline and cruise ship seat capacity and investments in the hotel industry. The industrial sector of the economy, including manufacturing, is also expected to contribute, albeit to a lesser extent, to the robust economic growth projected for 2015 and 2016.

## **2.2 Macro Economic Impact of Structural Reforms**

Raising potential output through the structural reform agenda is one of the key policy goals through which Government intends to create more jobs and sustain economic growth. The implementation of structural reforms contributes to raise confidence among households and economic operators and is key to raising productivity and living standards more generally. The Maltese Government is implementing a number of reforms which aim to address the objectives of the Europe 2020 Strategy and Country Specific Recommendations. These include:

- Strengthening fiscal responsibility and long-term sustainability of public finances;
- Encouraging higher labour employment rates, including by making work pay and discouraging dependencies;
- Improving the educational outcomes whilst reducing skills gaps;
- Strengthening efficiency in the use of energy, diversification in the sources of energy



and ensuring security of supply by encouraging greater investment in research and innovation;

- Enhancing the quality of the business environment;
- Reducing poverty whilst strengthening social inclusion.

In the light of the requirement to quantify the economic impact of such reforms, this Programme illustrates the economic impact of structural reforms aimed towards:

1. Addressing skills gaps;
2. Encouraging higher labour employment rates;
3. Raising research and innovation investment.

The results presented in this section are based on modelling generated on the basis of the QUEST III model<sup>1</sup>. The results presented in this Programme are not comparable to those presented in the Programme for 2014 owing to differences in the definition and the magnitude of the policy shocks. In addition, these results are generated using a more updated version of the QUEST model, updated with data up to 2013. These scenarios represent illustrations of the likely economic impact of specific policy shocks; they are not intended to represent the impact of all policy measures being implemented by Government<sup>2</sup>. Indeed, the only policy change being modelled is the one specified clearly below with the other policy parameters assumed to remain constant.

## **2.2.1 Addressing Skill Gaps**

In order to address skills shortages and skills gaps in the labour market, the Maltese Government is unrolling a series of reforms including the reduction of early school leavers (ESL), tackling absenteeism, prioritising learning of mathematics, ICT and science subjects, strengthening Vocation Education and Training, the setting up of a skills bank, incentivising post-graduate studies and other measures as outlined elsewhere in this Programme. The following scenarios model the economic impact of two main reforms: the reduction of the ESL rate and the encouragement of post-graduate studies.

### **2.2.1.1 Reduction of the ESL rate**

The European Union (EU) has set the target of reducing the ESL rate to less than 10 per cent across all its Member States by 2020. At 20.2 per cent, Malta's rate of ESL in 2014 was still the second highest in the EU and well above the EU average of 11.3 per cent. As outlined elsewhere in this document, the Maltese Government has set a strategic plan for the prevention of early school leavers in an attempt to reach the target set by the European Commission. Within this context, this scenario models the economic impact of reaching the agreed 10 per cent ESL target by 2020 reflecting a reduction of around 780 early school leavers per annum till 2020. This means that over the entire period, a total of 4680 persons categorised as low-skilled workers will shift to the medium-skilled category.

Reaching the ESL target by 2020 would be expected to result in an overall increase in total employment of 0.96 per cent (or 1615 workers) by 2020 relative to the baseline scenario. This expected increase reflects a higher employment rate for medium-skilled persons relative to that of lower-skilled persons. This is in line with actual observations in the labour market since persons with a higher level of education attainment are more likely to be active in the labour market relative to persons with lower levels of education

### The estimated economic impact of reaching the ESL target

Table 2.2

Years after shock	1	2	4	6	10
<b>Cumulative Percentage changes (from 2014)</b>	<b>2015</b>	<b>2016</b>	<b>2018</b>	<b>2020</b>	<b>2024</b>
GDP	0.14	0.32	0.62	0.86	0.94
Employment	0.18	0.38	0.70	0.96	1.01
-low	0.24	0.37	0.57	0.81	0.65
-medium	-0.03	-0.03	-0.13	-0.49	-0.25
Real Wage rate	-0.16	-0.17	-0.18	-0.36	-0.21
-low	0.16	0.43	1.08	1.62	1.62
-medium	-0.54	-0.90	-1.65	-2.55	-2.32
<b>Cumulative Actual changes (from 2014)</b>	<b>2015</b>	<b>2016</b>	<b>2018</b>	<b>2020</b>	<b>2024</b>
Employment	399	737	1274	1615	1693
-low	-208	-497	-1134	-1749	-1871
-medium	605	1230	2406	3363	3563

attainment. This increase in employment is expected to boost GDP by 0.86 per cent by 2020. Higher growth reflects also a structural shift in the composition of growth towards higher value added activities. Moreover, the decrease in real wages reflects the fact that QUEST is a general equilibrium model. Consequently, real wages would be expected to decrease to adjust to the disequilibrium created as a consequence of higher employment.

#### 2.2.1.2 Incentivising Post-graduate studies

Postgraduate education plays a role element in sustaining professional development of the labour force and consequently contributes to the broader socio-economic development. Over recent years, the Maltese Government has launched several scholarship opportunities to assist persons to further levels of academic studies and in particular to develop skills in the priority sectors of the Maltese economy. 'Master it!' was one of the most recent scholarship opportunity co-financed through EU funds that was launched by the Maltese Government, which is aimed to incentivise people to further their studies at a Masters level. Four consecutive calls were issued between April 2013 and October 2014 where 651 persons benefited from this opportunity. In 2015, the Maltese Government will be launching further scholarships at level 7 and 8 called ENDEAVOUR which will be also part financed through European funds. In addition the Maltese Government for the first time shall be launching a Post-Doctoral Grant scheme called 'Reach High Scholars Programme'. Within this context, this scenario models the impact of further specialisation at higher levels of education, where it is being assumed that 350 persons will be awarded postgraduate qualifications annually till 2020, reaching a total of 2100 postgraduate qualifications awarded over the entire period. This is modelled through a shift in population from persons categorised as medium-skilled workers to the category of workers who are considered to be high-skilled.

The shift from medium to high skilled is expected to result in an overall increase of 0.18

## The estimated economic impact of incentivising post-graduate studies

Table 2.3

Years after shock	1	2	4	6	10	20
Cumulative Percentage changes (from 2014)	2015	2016	2018	2020	2024	2034
GDP	0.05	0.10	0.18	0.28	0.43	0.53
Employment	0.06	0.10	0.15	0.18	0.16	0.17
-medium	0.05	0.08	0.11	0.25	0.15	0.15
-high	-0.20	-0.28	-0.47	-1.43	-0.76	-0.76
Real Wage rate	-0.06	-0.05	0.01	0.05	0.21	0.29
-medium	0.18	0.41	0.89	1.42	1.51	1.62
-high	-2.59	-4.64	-8.29	-12.18	-11.70	-11.83
R&D intensity	0.37	1.96	6.19	10.22	9.42	8.24
<b>Cumulative Actual changes (from 2014)</b>	<b>2015</b>	<b>2016</b>	<b>2018</b>	<b>2020</b>	<b>2024</b>	<b>2034</b>
Employment	93	167	250	299	275	291
-medium	-243	-502	-1038	-1497	-1575	-1571
-high	291	591	1187	1705	1772	1771

per cent (299 persons) in employment, to stimulate R&I intensity by around 12 per cent and to boost real GDP by 0.3 per cent by 2020. The increase in employment would reflect the higher employment rate associated with higher skills with respect to other categories.

### 2.2.2 Increasing the Employment Rate

The Maltese Government has set the target of increasing the employment rate to 70 per cent by 2020. Preliminary figures indicate that in 2014, Malta's employment rate reached 66.3 per cent, for those aged between 20 and 64 years. As outlined in more detail elsewhere in this document, the Maltese Government has implemented and is planning several measures to improve the labour participation rate, such as the extension of free childcare service, the reduction in income tax rate, the social security reform, the introduction of In-Work Benefits, the introduction of tax exemptions for females joining the labour market and the maternity leave reform. Table 2.4 below summarises the estimated impacts that such measures are expected to have on the Maltese labour market.

The scenario shown in Table 2.5 illustrates the effect that such measures would have on the economy. However, due to the complexity of the modelling, the effect of a long-term increase in employment of around 8,050 was modelled such that the increase in employment of the period 2015-2018 coincides with the projections of the ETC.

This scenario indicates that an increase in employment of 7734 persons by 2020 is expected to boost GDP by around 2.83 per cent relative to the baseline year. Under these

### Estimated Impact of Active Labour Market Measures<sup>3</sup>

Table 2.4

Reform	2015	2016	2017	2018	2019	2020
Free Childcare	350	700	1,050	1,400	1,750	2,100
Tapering	650	1,000	1,300	1,600	1,800	2,000
In-Work	500	800	1,100	1,400	1,700	2,000
Youth Guarantee	400	650	900	1,150	1,400	1,650
Community Work Scheme	700	-	-	-	-	-
Maternity Fund	50	100	200	250	300	-
Work Programme	250	800	1,200	1,500	1,750	2,000
<b>Total</b>	<b>2,900</b>	<b>4,050</b>	<b>5,750</b>	<b>7,300</b>	<b>8,700</b>	<b>9,750</b>

Source: Employment and Training Corporation

conditions, and assuming that all else is kept constant, the employment rate is expected to increase by 3 percentage points by 2020, relative to 2014. It is to be noted that this scenario models the above policy shock and excludes the impact on employment of other measures.

### The estimated economic impact of increasing the employment rate

Table 2.5

Years after shock	1	2	3	4	6	10
Cumulative Percentage changes (from 2014)	2015	2016	2017	2018	2020	2024
GDP	0.66	1.51	2.06	2.30	2.83	3.02
Employment	1.72	2.41	3.42	4.34	4.60	4.78
-low	2.61	4.23	5.88	6.96	7.38	7.67
-medium	0.96	0.75	1.20	2.02	2.13	2.22
-high	0.39	0.70	0.80	1.18	1.26	1.31
R&I expenditure	0.99	1.48	1.65	2.98	3.63	3.38
Cumulative Actual changes (from 2014)	2015	2016	2017	2018	2020	2024
Employment	2900	4050	5750	7300	7734	8035
-low	2100	3399	4727	5595	5931	6160
-medium	767	594	957	1608	1700	1768
-high	32	57	65	97	103	107

## 2.2.3 Raising R&I Investment

The EU has set the target of increasing Malta's expenditure on R&I to 2 per cent of Gross Domestic Product by 2020. In 2013, Malta's expenditure on R&I was 0.85 per cent. The setting up of the Life Sciences Centre, the National Interactive Science Centre and the ICT innovation accelerator are all measures undertaken by the Maltese Government to raise interest in R&I. Moreover, the Maltese Government is developing a rolling R&I Action Plan which seeks to identify measures, timelines, owners and budgets to achieve the 2 per cent target. Within this context, this scenario models the affect of an increase in R&I expenditure of 0.2 per cent of GDP (approximately €15million) through R&I incentives which have become an important policy instrument to encourage firms to invest in R&I.

This scenario was modelled via a tax credit incentive which results in a permanent reduction of 11 per cent in the rental rate of intangible capital, which in turn stimulates R&I expenditure by 15.3 per cent by 2020. This is expected to heighten the R&I intensity (GERD) as a percentage of GDP to around 1 per cent in 2020 from the current 0.85 per cent. The increase in R&I investment is expected to boost GDP by around 0.25 per cent by 2020 and by 0.43 per cent in the long run. It is worth noting that the employment of the high skilled workers is expected to increase immediately despite the fact that the re-allocation of workers from production to research takes years. This excess demand for workers possessing high skills results in an increase in the real wage rate of the high skilled workers.

**The estimated economic impact of raising R&I investment**

Table 2.6

<b>Years after shock</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>10</b>	<b>20</b>
<b>Cumulative Percentage changes (from 2014)</b>	<b>2015</b>	<b>2016</b>	<b>2018</b>	<b>2020</b>	<b>2024</b>	<b>2034</b>
GDP	0.01	0.03	0.15	0.25	0.36	0.43
Employment	0.09	0.06	-0.01	-0.05	-0.09	-0.08
-low	0.08	0.07	-0.01	-0.08	-0.14	-0.13
-medium	0.06	0.02	-0.01	-0.03	-0.05	-0.05
-high	0.47	0.23	0.13	0.09	0.05	0.04
Real Wage rate	-0.01	0.06	0.21	0.34	0.48	0.53
-low	-0.26	-0.18	0.04	0.22	0.40	0.47
-medium	-0.16	-0.11	0.03	0.18	0.34	0.42
-high	2.69	3.02	2.57	2.24	1.91	1.77
R&I expenditure	11.59	15.47	16.43	15.26	13.47	12.57
<b>Cumulative Percentage Point changes (from 2014)</b>	<b>2015</b>	<b>2016</b>	<b>2018</b>	<b>2020</b>	<b>2024</b>	<b>2034</b>
R&D intensity (% of GDP)	0.25	0.26	0.22	0.18	0.14	0.12

*Footnotes:*

<sup>1</sup> QUEST III with research and development is a Dynamic Stochastic General Equilibrium (DSGE) model developed by the European Commission and adapted specifically to the Maltese economy.

<sup>2</sup> All figures presented in Tables 2.2, 2.3, 2.5 and 2.6 represent the estimated percentage/actual changes from the baseline year (2014).

<sup>3</sup> This represents the estimated number of new persons in employment who otherwise would have either remained inactive or unemployed or joined at a later stage or would have terminated their employment. Figures are cumulative over the years.

The "-" sign indicates that there is no further increase in the number of individuals who enter into the labour market because of the measure.

### **3. Implementation of the Country-Specific Recommendations**

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## 3. Implementation of the Country-Specific Recommendations

This Chapter provides an overview of the progress registered by Government in addressing the Country-Specific Recommendations. Annex Table 1 provides further details on the measures taken to address the Country-Specific Recommendations.

### 3.1 Government Finances

#### 3.1.1 Council's recommendation

***CSR 1: Correct the excessive deficit in a sustainable manner by 2014. In 2015, significantly strengthen the budgetary strategy to ensure the required structural adjustment of 0.6 per cent of GDP towards the medium-term objective. Thereafter, pursue the structural adjustment of at least 0.5 per cent of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. Finalise the adoption of the Fiscal Responsibility Act with a view to putting in place a binding, rule-based multiannual fiscal framework and establishing an independent institution charged with the monitoring of fiscal rules and endorsing macroeconomic forecasts underpinning fiscal planning. Continue improving tax compliance and fighting tax evasion by ensuring the continued roll-out and evaluation of measures taken so far, while taking additional action, in particular by promoting the use of electronic means of payment.***

#### 3.1.2 Polices in response to the recommendation

##### Fiscal Developments

Malta took effective action to bring down the Government deficit below the 3.0 per cent threshold by the end of 2013. Subsequently, Government continued on the path of fiscal consolidation and preliminary estimates indicate that the deficit has declined further to 2.1 per cent of GDP in 2014, which is an improvement in the deficit-to-GDP ratio of 0.5 percentage points. The debt ratio also embarked on a downwards trajectory declining from 69.2 per cent in 2013 to 68.0 per cent in 2014. As a result, Malta met the forward-looking debt reduction benchmark in 2014.

The general Government balance is expected to decline further in 2015. In order to further support fiscal consolidation, a number of measures were outlined in the 2015 Budget, among them a revision in fees on market output and measures to control the public sector wage bill. The fiscal situation in 2015 will be monitored closely along the year, also in line with the new monitoring requirements established by virtue of the Fiscal Responsibility Act and under the scrutiny of the newly established Fiscal Council.

Over the medium-term, Government aims to maintain its efforts to ensure adequate convergence towards the medium-term budgetary objective of a balanced budget and in order to keep the general Government debt ratio on a sustainable downward path.

Further details of Government's medium-term fiscal strategy will be available in the 2015 Update of Malta's Stability Programme.

### **Reforming the National Fiscal Framework**

Government acknowledges the important role that National Fiscal Frameworks may play in sustaining budgetary retrenchment. In this regard, the Fiscal Responsibility Act, which was enacted by Parliament on the 8<sup>th</sup> of August 2014, outlines the main principles of fiscal responsibility and the objectives of fiscal policy. This Act establishes fiscal rules which bind national fiscal authorities in achieving a balanced structural budget, or in its absence, converge towards the medium-term budgetary objective. The Act also establishes the Fiscal Council that is tasked with assessing and endorsing macroeconomic and fiscal forecasts, and securing compliance with fiscal rules according to the provisions of this Act. Moreover, the Act also establishes the medium-term budgetary framework and strengthens the role of the Ministry for Finance in the budgetary process and the multi-annual fiscal planning. It is to be noted, that the Fiscal Council is now operational following the appointment of the Chairperson and its members in January 2015.

### **Improving tax compliance and combating tax evasion**

It is noted, that the 2015 Country Report makes reference to the relatively high level of undisputed tax debt as a proportion of net revenue collection and the gross closing balance of tax arrears as evidence of Malta's challenges in tax collection. However, a significant proportion of the arrears reflect amounts related to estimated assessments. A number of estimations are issued to taxpayers who have left Malta without informing the tax administration. These features of tax administration, alongside the fact that Maltese authorities do not have a policy of writing off unrecoverable tax debt, leads to inflated levels of undisputed tax debt and inflated levels of gross closing balances of tax arrears. In 2014, the Government implemented several measures that sought to establish a fairer tax system, reduce tax evasion and enhance tax efficiency. Two of the initiatives were the investment registration scheme and the 15 per cent rent scheme, the latter coming into effect in 2015. The Government will be implementing other measures to increase tax compliance including the registration of rental property scheme and the oversight of tax interest and penalties remission.

Another important initiative is the merger of revenue departments into a single authority in order to streamline tax collection and improve efficiency. This process is still ongoing under the guidance of IMF Fiscal Department specialists. Furthermore, the 2015 Budget introduced the requirement for those carrying out a commercial activity to be registered for VAT purposes, regardless of annual turnover.

The fight against tax evasion and avoidance is also being addressed by the Employment and Training Corporation (ETC) with the assistance of various Government departments including the Department of Social Security, the Tax Compliance Unit, the VAT Department and the Police Force. These include desk investigations and targeted inspections, so as to ensure that persons registering for employment and employers engaging local and foreign employees abide by their respective legal obligations. A plan of action for the promotion of case reporting systems is expected to be completed in 2015.

Efforts to curb abuse in Social Security benefits also requires the involvement of the Benefit Fraud and Investigations Department (BFID) which carries out investigations

when social security benefit fraud is suspected or is reported. The 2015 Budget also established a four-month period ending February 2015, during which those persons unsure of their entitlement had the possibility to regularise their position.

A series of measures are being implemented with the aim of reducing tax avoidance and evasion related to the property market. Such measures include the replacement of the Capital Gains Tax by a Final Withholding Tax and the requirement to state the main residence according to transparent rules and conditions.

As a further measure against tax evasion and as part of the tax evasion strategy, the Government is setting up a National Strategy for Electronic Payments to draw up a National Strategy for Electronic Payments. The Government's aim is to have a smooth transition towards such means of payment. This steering committee, by the first half of 2015, will be tasked to make recommendations towards increasing electronic payments. Moreover, the 2015 Budget provides a budgetary allocation for a study on limiting the amount of cash for a single transaction.

To further improve public awareness of the use of public funds and hence improve taxpayers' compliance, an educational campaign will be launched; displaying the way money collected from taxes is being used in terms of infrastructure, services, health, education, and social security. In addition, other measures such as the automation of the debt collection process across tax types are to be implemented in the medium-term.

## **3.2 Long-Term Sustainability of Public Finances**

### **3.2.1 Council's recommendation**

***CSR 2: To ensure the long-term sustainability of public finances continue the ongoing pension reform, such as by accelerating the already enacted increase in the statutory retirement age and by consecutively linking it to changes in life expectancy. Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.***

### **3.2.2 Policies in response to the recommendation**

#### **Pension Reform**

##### ***Long-term sustainability and adequacy of pensions***

The sustainability and adequacy of pensions in Malta has been high on the political agenda for the past few years. In particular, the 2006 reform has introduced a number of parametric changes to pensions in Malta leading to an increase in pensionable age, the lengthening in the contribution period, changes in the calculation of pensionable age and the introduction of the Guaranteed National Minimum Pension alongside changes in the indexation of pensionable income and pensions. Indeed, as a result of these changes, increases in the effective retirement age are projected to be consistent with gains in life expectancy by 2030.

The Pension Strategy Group has presented its report to Government on pension reforms and a presentation with the proposals is expected to be delivered shortly to Cabinet, after which it will be published for public consultation. The Prime Minister has also recently announced that the reform process shall be prioritised in the second half of this year. The pensions' reform strategy is expected to be adopted during the third quarter of 2015.

It is to be noted, that on the 19<sup>th</sup> of February 2015, the Prime Minister delivered a policy speech whereby the following reform principles were underscored:

1. A clear definition of the objectives of the Maltese pension system is to be established, in particular, a definition of the exact nature of the poverty alleviation function of the system and optimisation of the effectiveness of the current social assistance programmes.
2. A strong active employment policy which is already being addressed through increasing female participation in the labour market, reducing dependency on social benefits and youth training.
3. An adequate state pension that is not necessarily the only source of retirement income. Individuals should be provided with the opportunity to improve their situation, while at the same time those less able to do so are to be provided with the necessary means to secure an adequate standard of living.
4. A fair balance needs to be sought between contributions and benefits across generations.
5. An evolving pension system that responds to long-term developments.

### ***Third pillar pensions***

In principle, the Government is not in favour of forced saving, especially with regards to low-income families. The Government is implementing a multi-tier strategy with the state Pay As You Go (PAYG) and the voluntary third pillar pensions which aim to address the poverty relief, insurance and consumption smoothing objectives.

Following the entry into force of the Retirement Pensions Act on 1<sup>st</sup> January 2015, fiscal incentives were introduced with the aim of sustaining the policy objective of diversifying retirement income through the take up of voluntary third pillar pensions.

Furthermore, the Ministry for Finance has been studying the possibility of home equity release. Most pensioners are home owners and have invested most of their incomes to acquire this rather illiquid asset. The Government wants to ensure that pensioners will be able to access this form of wealth, without necessarily losing ownership completely.

### ***Adequacy of Pensions***

In terms of adequacy, the Budget for 2015 announced that individuals who are currently in employment and by the time they reach their retirement age would not have enough contributions to qualify for a Contributory Retirement Pension, will be given the opportunity to pay back a maximum of five years of contributions to qualify for a pension once they retire.

### ***Active Ageing***

The Active Ageing Unit, set-up on the 25<sup>th</sup> of February 2014 is focusing in making all policy recommendations listed in the National Strategic Policy for Active Ageing:

Malta 2014-2020 into concrete deliverables. In this regard, an agreement has also been reached between the Parliamentary Secretariat for Rights of Persons with Disability and Active Ageing and the University of Malta to sign a Memorandum of Understanding that will result in the opening of a new University of the Third Age centre in Mosta. The University of Malta and Parliamentary Secretariat will also collaborate to deliver training programmes in dementia care for all nurses working in care homes for older persons and in the community. The training programmes will be held in the period May to July 2015.

## **Public Health Care Reform**

The implementation of comprehensive reforms in the public health care system to ensure the delivery of a cost-effective service and sustainable use of available resources has been high on the political agenda over the past few years. This has been mainly driven by strategic investments to underpin the revision of existing processes whilst shifting the focus of care away from hospital and towards the primary health care setting.

Reforms in primary health care mainly focused on improving the provision of services in a primary health care setting. These services included minor orthopaedic and other minor surgical interventions, the setting up of a new anticoagulant clinic, the Chronic Kidney Disease Protection Clinic, the Orthopaedic outpatient outreach clinic, the new Chronic Disease Management Clinic, the new Ophthalmology clinic and the back slab centre.

Progress has also been registered with respect to strengthening health promotion and disease prevention. In this regard, it is to be noted that a number of strategy and policy documents addressing determinants of health, risk factors and specific disease groups are being implemented. These include: A National Sexual Health Strategy and Policy; the National Cancer Plan 2011-2015; A Strategy for the Prevention and Control of Non-Communicable Disease in Malta; A Healthy Weight for Life: A National Obesity Strategy for Malta 2012-2020; Prevention, Control and Management of Tuberculosis: A National Strategy for Malta the Communicable Disease Strategy; the Health Systems Strategy and the Food and Nutrition Policy and Action Plan 2015-2020.

The Government is also committed to strengthen the cancer prevention programme and has therefore increased investment in cancer treatment services in recent years, including investment in specialized equipment, such as PET scanners and, innovative cancer drugs. Over the coming four years, the Government is planning to expand the free breast cancer screening to women over 60, to consolidate the colorectal cancer screening programme (currently in its first cycle) and to launch cervical cancer screening.

The adoption and implementation of comprehensive reforms with respect to medicines and medical devices procurement and distribution processes have led to minimal stock holding and hence efficiency gains of circa €5 million for 2014 when compared to the average stock holding in 2013. Furthermore, the fast track procurement approach has facilitated the procurement cycle of medicines to one week and the ageing of out of stock items to less than 10 days. In addition, the fast track procurement approach has been instrumental in acquiring efficiency gains by achieving savings of over €700,000 in acquisition costs. The goal for 2015 is now to capture the gains and the process changes that have been made into an IT system that will ensure sustainability of the results gained.

Investment in ICT systems and technologies reflect Government's commitment in strengthening the e-Health platform. The e-Health Project aims to develop a comprehensive national e-Health infrastructure and integrated portfolio of e-Health systems with the aim of increasing the efficiency and sustainability of Malta's healthcare system and improving the health of the Maltese and Gozitan citizens. The deliverables of the Project are important for the cost-effective and sustainable use of available resources and to meet strategic objectives such as the strengthening of primary care, as envisaged in the National Health Systems Strategy.

These developments reflect the adoption of a new National Health Systems Strategy covering 2014-2020 focusing on three pillars: Improving Governance; Health promotion and Disease Prevention; and Strengthening of Primary Care. The strategy aims to achieve four overarching objectives namely:

- To respond to the increasing demand and challenges posed by the demographic changes and epidemiological trends focusing on course of life, children, elders and vulnerable groups;
- To increase equitable access, availability and timeliness of health and social services, medicines and health technologies;
- To improve the quality of care by ensuring consistency of care delivered by competent health workers supported by robust information systems, and
- To ensure the sustainability of the Maltese Health System.

In this respect, an action plan has been drawn up. An Implementation Monitoring Committee is being set up to closely follow up the actions and address the measures included therein. Tying in with the above is the economic analysis presented in the Budgetary Framework which shows how the comprehensive set of reforms of the public health system further lead towards increased cost effective utilisation of resources and a net economic benefit. A Health System Performance Assessment framework has been set up to monitor the progress achieved in these areas with periodic assessments. The first assessment has been drawn up and sent to WHO for review.

An economic analysis carried out by the Ministry for Energy and Health suggests that investment along the principles outlined above, as guided by the National Health Systems Strategy, is likely to result in an economic rate of return (ERR) that exceeds 30 per cent over a period of fifteen years and a benefit to cost ratio of around 1.03.

## **3.3 Employment, Education and Training**

### **3.3.1 Council's recommendation**

***CSR 3: Continue policy efforts to address the labour-market relevance of education and training and by stepping up on the reform of the apprenticeship system. Further improve basic skills attainment and reduce early school leaving, in particular by finalising and implementing the announced national literacy strategy. Further improve the labour-market participation of women, in particular those wishing to re-enter the labour market by promoting flexible working arrangements.***

### **3.3.2 Policies in response to the recommendation**

#### **Addressing the labour-market relevance of education and training**

In order to address the labour market relevance of education and training, educational entities are continuously offering courses that are attractive and relevant. In this regard, the Malta College for Arts, Science and Technology (MCAST) in collaboration with Malta Enterprise are offering new courses on aviation<sup>1</sup>. The Institute of Tourism Studies (ITS), in collaboration with Malta Enterprise and the Employment and Training Corporation (ETC), launched the 'Foundation in Tourism Studies' course that will train students in the necessary skills to open their own business or become employed in the tourism sector, and provide weekly placements in the tourism industry.

Furthermore, the Government has continued to offer a number of traineeship programmes with the aim of promoting the training of persons who are actively participating in the labour market. This is expected to increase productivity and enhance adaptability. Two programmes offering such training courses include the Enhancing Employability through Training (EET) Programme and the Training Aid Framework<sup>2</sup>.

The ETC is seeking to address the labour market needs and skills mismatches through various collaborations with education providers and other entities. It has implemented new measures aimed at providing focused attention to the particular needs of various target groups, including youth and Early School Leavers (ESLs). These measures mainly include information sessions, career workshops, and advisory seminars. It has also introduced other measures aimed at addressing ESLs and youths who are not in education, neither in employment nor in training (NEETs). One of the initiatives includes the development of an Employability Index, which will offer more guidance to students on the choices of jobs that are available for the various lines of studies. Furthermore, MCAST has implemented the National Apprenticeship Scheme<sup>3</sup>, which is based on a combination of on-the-job and off-the-job training. In addition, the Government has also allocated funds for a Youth Guarantee project which will provide traineeships and work trials during 2015<sup>4</sup>. This initiative launched by Jobs+ Committee seeks to primarily address NEETs.

In order to encourage more students to undertake a career in priority sectors in the Maltese economy, the Government has issued calls under the Malta Government Scholarship Schemes (MGSS), both at undergraduate and postgraduate level, as well as under the 'Master it!' scholarship scheme. In 2015, the Maltese Government will be launching further scholarships at levels 7 and 8 called ENDEAVOUR which will be also partly financed through European funds. In addition, the Maltese Government for the first time shall be launching a Post-Doctoral Grant scheme called 'Reach High Scholars Programme'. The Government has also introduced the provision of Sabbatical Leave, which will provide a paid study leave to officers within the teaching class.

In addressing the skills gap, the Government recognises the importance of lifelong learning and training over the lifecycle. In this regard, the National Lifelong Learning Strategy for Malta 2020 was launched with a focus on adult learning. The main measures to promote lifelong learning are the national implementation of the European Agenda for Adult Learning and the European Platform for Adult Learning, and adult classes. Moreover, 'Breaking Barriers', a three-year project, was initiated to tackle the needs of low-skilled literate adults aged between 25 and 65, and to help them learn and build

new skills and improve career prospects.

### **Improving basic skills attainment and reducing ESL**

The Government's aim is to develop policies that motivate ESLs to continue with their studies under the Strategic Plan for Early School Leaving. The plan will include preventative, intervention, and compensation measures.

The National Literacy Strategy for All also fits in with the implementation of the National Curriculum Framework (NCF). The Strategy includes early educational programmes, the national literacy reading campaign, and the 'One Tablet per Child' scheme. In addition, the Government launched Secondary Education Certificate (SEC) revision classes, free of charge, for students who failed their exams as well for those who were absent for their examination. There was also the launch of the Alternative Learning programme, which started providing an alternative learning programme in conjunction with the Education Directorates, MCAST, and Government-run entities including Foundation of Educational Services and Aġenzija Żgħażaġħ through the Youth.Inc Programme.

Following the launch of the Framework for the Education Strategy for Malta 2014–2024, a draft public comprehensive plan of action was completed and will be published in the near future for public consultation. This is a coherent strategy for lifelong learning opportunities from early childhood education and care to adult learning, including both general and vocational education and training, and encompassing formal, informal and non-formal learning. During the first quarter of 2015, a Strategy Steering Committee was also set up. Its members include various experts and it will be led by the Permanent Secretary within the Ministry for Education and Employment. The Government also announced investment projects focusing on the construction and modernisation of schools with the aim to improve staying-on rates and consequently reduce absenteeism levels.

Furthermore, in 2014 the University of Malta also started to run a 'Broadening Access to Education' initiative to increase participation in post-secondary and tertiary education in regions with low levels of participation.

### **Improving the labour market participation**

The Government is committed to raising labour market participation amongst all groups including females, youths, older workers and long-term unemployed. Towards this end, the last two budgets were focused on increasing employment and reducing unemployment through making work pay, creating opportunities and reducing unnecessary dependencies.

Various measures were implemented with the aim of increasing the labour market participation of women, in particular through the promotion of flexible working arrangements. These include free early- and after-school care services to bridge the gap between day school and regular working hours of parents in employment, the provision of free childcare and out-of-school centres, as well as income tax deductions for the use of private childcare centres, and tax exemption for females joining the labour market. Furthermore, free childcare centres are also provided to parents who are in education or part-time work, hence increasing the likelihood of mothers actually getting into sustainable employment.



Other policy measures that incentivise people to work include the implementation of the final stage of the reduction in income tax from 29 per cent to 25 per cent, providing full pension for employed widows, tax deduction to employers to hire unemployed persons between 45 and 65 years, and promotion of labour activation programmes, being the Employment Aid Programme and the Enhancing Employability through Training (EET) Programme.

Planned initiatives to help the integration of people who are at a distance from the labour market include wage subsidies for employing long-term unemployed, inactive persons, unskilled youths, persons with a disability, and older workers. The Government also plans to introduce fiscal incentives for employers employing disabled persons, and to provide disadvantaged persons with employability skills. Indeed, the Government will ensure the implementation and enforcement of the 1967 law requiring companies with 20 or more persons employed, to employ persons with disabilities. The 2 per cent rule will continue to apply to these employers across all sectors of the economy.

The benefit design of the labour market will also be sustained and strengthened through the removal of a cap on employment income earned by persons in receipt of non-contributory income replacement programmes, following the introduction of the tapering of benefits when entering the labour market. In the 2015 Budget, the Government has also launched the in-work benefit scheme whereby low-to-medium income families where both spouses are in employment and have dependent children up to 23 years of age as well as single parents in employment will get a maximum monetary benefit of €1,000 and €1,200 per child, respectively. This should further encourage the uptake of more work-hours.

The Government has also announced an increase in the maternity leave to women in self-employment and the maternity benefit rate. The Government is also committed to promote gender equality through the setting up of a special fund to finance maternity leave in the private sector

## 3.4 Energy

### 3.4.1 Council's recommendation

***CSR 4: Diversify the energy mix in the economy, including by increasing the share of energy produced from renewable sources.***

### 3.4.2 Policies in response to the recommendation

#### **Diversify the Energy mix and Energy Sources**

The Government is committed to switch from heavy fuel to natural gas for the generation of electricity. The ElectroGas Malta Consortium will be building and operating a Combined Cycle Gas Turbine (CCGT) plant and a Liquefied Natural Gas (LNG) facility. The CCGT (approx 215 MW) is a high-efficiency power plant powered by natural gas which will be sourced from the LNG plant. The LNG facilities will also supply gas to the existing 144 MW Diesel-operated power plant, known as the BWSC plant, which will be converted to run on natural gas. It is expected that Enemalta shall start receiving its first gas-fired electricity by June 2016. In its entirety, the project is estimated to cost around €470 million and will be fully financed by the private operator. This new energy source is expected to reduce Malta's dependency on electricity generated through oil-fired sources.

The Government has taken a number of measures to diversify the energy mix and the energy sources. Malta was connected to the European energy grid on the 24<sup>th</sup> March 2015, as the electricity interconnector was put in operation and the Maltese grid was synchronised with the Italian grid for the first time. The project was officially inaugurated on the 9<sup>th</sup> April 2015. On the same date, the Marsa Power Station was taken out of service.

Government is also working on a connection to the trans-European Natural Gas Network via an approximately 155 kilometre pipeline in Sicily to deliver natural gas for the generation of electrical power and addressing the needs of a future Mediterranean Gas Hub. A comprehensive feasibility study that includes a cost-benefit analysis to determine the commercial and technical viability of the Project, including a high-level risk impact assessment, has reached its final review stage and will be completed in April 2015. A financial and economic assessment has also been undertaken to determine the size of the pipeline, taking into account the future demand for gas. The study looks into other aspects, such as security of supply, competitiveness, sustainability, and identifies those aspects that qualify it as a Project of Common Interest (PCI). In October 2013, this project was favourably considered by the European Commission and was designated as a PCI. The second PCI selection process is currently underway. The next phase of the project shall consist of further detailed studies for optimal route identification including; a marine survey, an Environmental Impact Assessment for permit granting process and preparation of tender for detailed engineering design.

## **Renewable Energy and Energy Efficiency**

A review of Malta's National Renewable Energy Action Plan (NREAP) is at an advanced stage and will soon be subject to public consultation. According to the formal NREAP submitted in 2010, Malta had planned to achieve its 2020 renewable energy targets through a number of identified major projects of solar, wind and waste to energy combined heat and power plants. However, studies highlighted significant environmental concerns surrounding the proposed wind farm projects. Furthermore, attempts to tap NER300 funds for the development of a floating wind farm were also unsuccessful. As a result, renewable energy will be generated from a higher number, but smaller capacity sources of renewable energy distributed across the Maltese Islands. Priority is given to deployed technologies, mainly solar photovoltaic systems and solar water heating.

Investment in PVs is being incentivised through grants and attractive feed-in tariffs. Schemes financed through national and ERDF funds have been launched to assist domestic households. The scheme launched in May 2013 was taken up by March 2014 and resulted in the installation of circa 23MWp of PV systems, generating around 37GWh/year. By the end of February 2015, 8331 households benefitted from this grant. The industrial and commercial sectors as well as non-profit organisations have been assisted through ERDF funds, whilst Local Councils could tap national funds. The Government is banking on tapping new ERDF funds to further incentivise the deployment of PVs within the domestic and commercial sector.

A public consultation on a draft solar farm policy was held until the 13<sup>th</sup> February 2015. This policy aims to provide the definition of a solar farm in the local context and to set out the fundamental criteria to guide the planning and consideration of solar farm development.

In the last Renewable Energy Progress Report (2012), Malta reported a 2.7 per cent share of total energy, of which 0.99 per cent was RES electricity. This is estimated to reach 3.8 per cent (pending audit) by 2013 and circa 4 per cent by the end of 2014.

Smart meters are being installed for every electricity consumer, with the aim of changing consumer behaviour through information on energy consumption. By the end of February 2015, nearly 94 per cent of meters were installed.

Energy efficiency results have been mainly achieved from the industrial sector (including early actions in the water sector), the domestic sector (due to schemes to replace appliances, change lighting systems and install solar water heaters), as well as in the transport sector (circulation tax and scrappage schemes). In this regard, grants towards the capital cost incurred through the installation of solar water heaters, roof insulation and double glazing were extended.

In order to promote the use of biofuels, a biofuel substitution obligation has been imposed on importers/wholesalers of fuel for the transport sector. The obligatory share for 2014 is equal to 4.5 per cent. Biofuels are an important tool for Malta to reach the aim of increasing the share of energy from renewable sources in the transport sector. In 2013, the RES share in road transport was 4.04 per cent (pending audit) and the provisional figure for 2014 is 4.54 per cent.

In April 2014, Malta submitted its National Energy Efficiency Action Plan. The Indicative National Energy Efficiency Target for 2020 (relative to a BAU<sup>5</sup> scenario) was updated to 27 per cent<sup>6</sup> (from 22 per cent). This positive update reflected a marked increase in the projected electricity generation efficiency and savings to be achieved as a result of proposed measures in accordance with Article 7 of the Energy Efficiency Directive.

The cost-optimality studies for setting Energy Performance requirements, commissioned by the Building Regulation Office, have been completed and submitted to the Commission. These studies will be used to update the existing national minimum requirements of buildings as regards to energy efficiency. The revision of the minimum requirements is established through LN 376 of 2012 and shall be completed by January 2016.

A draft national plan for increasing the number of nearly zero-energy buildings is completed and consultations are currently underway. The cost-optimal report relating to dwellings forms an important part of the draft national, while the cost-optimal report relating to non-dwellings is being seen by the Commission with feedback expected by April 2015.

The Government is also setting up of a framework for Energy Auditor Certification, guidance for the implementation of Energy Audits by non-SMEs and a quality verification system for Energy Audits by non-SMEs. This measure will also contribute towards the promotion of Energy Audits in SMEs. Thus, it is expected that all enterprises will carry out quality energy audits.

Following temporary ownership and management of the public transport by the Government, a new contract for the provision of scheduled public transport service was awarded in January 2015. The new contract contemplates the introduction of fare incentives aimed at reducing boarding time, thus making journey times shorter and reducing the impact of aligning and boarding passenger on traffic as a whole. During 2015, an optimised route network is expected to be rolled out in phases. Apart from the introduction of 32 Euro V standard buses during the first three months of 2015, a further 142 Euro VI buses will be introduced this year. The new buses will be either replacing part of the existing fleet or supplement the fleet to meet the increased needs of the network. In addition, the Government is evaluating and analysing the potential for other complementary passenger transport systems, including the possibility of introducing a monorail and strengthening passenger sea transport.

A holistic strategy that includes both fiscal incentives and investment in infrastructure has been put forward in the Malta National Electromobility Action Plan (MNEAP), which aims to accelerate the uptake of electromobility. Furthermore, to improve energy efficiency in transport and reduce emissions, Government is providing individuals who purchase electric vehicles with a grant of up to €4,000. This scheme has been also extended to NGOs and businesses. As at end 2014, 95 charging points were installed throughout Malta and Gozo, with an additional 12 charging points and three solar car ports deployed early this year. A target of 5,000 electric cars and a total of 500 charging points need to be installed by 2020.

The Government has extended the autogas conversion scheme, with the aim of converting 250 cars in 2015 currently running on petrol/diesel to autogas by means of a €200 rebate per car. This should make it more attractive to owners to convert their

cars to autogas. During 2014, 306 vehicles were converted.

The Government is also promoting the use of bicycles and pedelec bicycles, through a once-only grant of 15.25 per cent on the purchase price of the bicycle subject to a maximum grant of €70, in the case of a non-mechanised bicycle, and a maximum grant of €150 in the case of a pedelec bicycle.

Moreover, a new measure introduced in 2015 encourages parents to make use of school transport, rather than taking their children to school themselves, thus reducing road-traffic. Parents, whose children attend private or church schools will be eligible for a tax rebate of up to €150, if they make use of school transport.

The Government has launched another car scrappage scheme to incentivise the purchase of new M1 motor vehicles whilst at the same time reducing the number of old motor vehicles from the road.

During 2014, an additional 1km of the TEN-T road network was constructed. Access network upgrading for two of Malta's sea ports as well as the upgrading and refurbishing of international port infrastructures is planned with a view to improve cargo and passenger capacity. Government aims to conclude the National Transport Strategy and a Master Plan by the end of 2015 which aims at identify policy and infrastructure options to alleviate road traffic bottlenecks on the TEN-T and other strategic roads. In conjunction with other intelligent traffic management systems, the introduction of Intelligent Closed Circuit Television (CCTV) and 5 Automatic Number Plate Recognition Cameras should further improve the mobility across the road network.

Maritime infrastructure upgrades designed to maximise both capacity and safety within the Mġarr harbour and Ċirkewwa terminal, are providing a crucial maritime link between the TEN-T road networks on each island. With the completion of the Marsaxlokk breakwater refurbishment, other planned maritime infrastructure measures shall include the improvement of existing facilities for cruise liners and the development of new cruise liner facilities in Gozo.

## **Addressing Climate Change**

Progress has been registered on a number of fronts with regard to the National Strategy for Policy and Abatement Measures relating to the Reduction of Greenhouse Gas Emissions that was launched by Government in 2009.

With the extension of the Delimara Power Station, the local electricity production is moving towards lower emissions/kWh. The installation of new efficient generation capacity, the closing down of inefficient and more polluting plants (Marsa and Delimara 1), the switch to natural gas and interconnection with the European grid, will ensure an increasingly efficient supply in terms of emissions. It is estimated that the interconnector and natural gas projects will result in CO<sub>2</sub> emission reductions of over 1100Gg<sup>7</sup> per annum relative to 2012 emission levels.

The efficiency of reverse osmosis plants is essential to achieve high quality water with a low emission footprint. The continuous review of technology and reduction in losses by the Water Services Corporation has decreased the carbon footprint of each m<sup>3</sup> of

water delivered such that emissions are reduced by 42GWh/year, i.e. circa 36.8GgCO<sub>2</sub> equivalent. Projects related to waste and agriculture (capping and extraction of gases from Magħtab and other landfills, Sant'Antnin Waste Treatment Plant and the implementation of the Nitrates Action Plan) are also contributing further to a reduction of emissions from this sector.

The Strategy also earmarked the public transport reform as a key contributor to reduce emissions. This process led to the utilisation of a more efficient bus fleet. Efforts are now targeted at encouraging an effective modal shift from private to public transport, which should bring about a perceptible contribution to the reduction of greenhouse gas emissions from passenger transport.

Government action to increase the uptake of renewable energy infrastructure in Government buildings coupled with incentives to finance installation of renewable energy infrastructure within the domestic sphere over the past year is considered to have led to a significant contribution towards a shift in increasing awareness on renewable energy systems and the need for mitigation action.

A fully-fledged comprehensive medium to long-term strategy that covers all sectors contributing to national greenhouse gas emissions is in the pipeline in order to bring Malta's mitigation strategy in line with current and future commitments in respect of greenhouse gas emission limitation or reductions.

Malta is currently in the process of adopting a Climate Action Act to streamline Malta's commitments on climate change on both main fronts of climate action, namely mitigation and adaptation in a legally binding framework. This Act aims to instil ownership amongst stakeholders with a view to ensure effective climate action within an overarching governance framework.

Malta is working on the development of a Low Carbon Development Strategy (LCDS). Various sectors are already undertaking studies that will feed into the LCDS, including an 'Energy Roadmap 2050' study that will determine a cost-effective path towards decarbonisation of the energy sector by 2050. In the transport sector, a modelling system is being developed to assist in the formulation and assessment of transport-related policy.

### **Infrastructural Projects funded by the European Fund for Strategic Investments**

Malta has submitted a number of proposals for funding through the European Fund for Strategic Investments. The proposals are in line with the declared objectives of the Investment Plan for Europe, which recommends projects mainly with transport, energy and digital networks, as well as research and development.

In this regard, Malta has proposed five infrastructural projects to benefit from EU funding in terms of an EU-wide infrastructural plan. They are a monorail system, a breakwater in Marsamxett, a grass airstrip in Gozo, a mechanism for the procurement storage and distribution of medicines and social housing.

## 3.5 Business Environment

### 3.5.1 Council's recommendation

***CSR 5: Continue efforts to increase the efficiency and reduce the length of public procurement procedures; encourage alternatives to debt-financing of companies through facilitating access to capital markets and developing venture capital funds; and increase the efficiency of the judicial system by ensuring a timely and efficient implementation of the planned judicial reform.***

### 3.5.2 Policies in response to the recommendation

#### **Continue efforts to increase the efficiency and reduce the length of public procurement procedures**

The Government is pushing for a full transition to e-procurement that will, over a number of years, result in a procurement cycle which will make the process more efficient and effective, both for economic operators and for contracting authorities. In particular, the system is expected to increase accessibility and visibility across the Government and economic operators, whilst also decreasing costs related to procurement. Effectively through these benefits, the Government would be able to perform strategic decisions in order to attain the best value for money.

This strategy is already providing concrete results. Data, as at end of January 2015, shows that considerable improvements have been made relative to the length of the procurement cycle. In fact, the average tendering period in Malta decreased from 57 days in March 2011 to 46.04 days in the beginning of 2015, whilst the average adjudication period declined from 185 days in March 2011 to 121.87 days in 2015.

In February 2015, it was agreed that the Government's training arm, the Centre for Development, Research and Training (CDRT) will offer training courses to public employees covering several aspects of the procurement cycle. Also, the Department of Contracts, in collaboration with CDRT and the Malta College for Arts Science and Technology (MCAST), is offering a Diploma in Procurement and Supply.

#### **Encourage alternatives to debt-financing of companies through facilitating access to capital markets and developing venture capital funds**

The JEREMIE scheme, which is a financial engineering instrument set up with the aim of providing increased access to finance for micro, small and medium sized firms in Malta, will continue to service existing loans up till their maturity in 2020.

Furthermore, the Managed Seed Capital Fund which aims at supporting early stage technologies and knowledge/technology-based start-ups is still operational.

Moreover, a number of measures with regard to easing access to capital markets and venture capital funds are being developed. Most notably, Malta Enterprise is currently reviewing the start-up scheme where beneficiaries from this programme will receive

financing, part of which may be repayable according to the success achieved by businesses.

Government is currently evaluating the proposal by the Malta Stock Exchange to develop a National Capital Markets Plan (NCMP). The objective of the NCMP is to bring together all related stakeholders' interests and aims for a coordinated strategy to achieve improved economic growth at a lower cost of capital by developing the Maltese Capital Markets. Nevertheless, in order for the plan to be successful, the stakeholders need to create and deliver an NCMP which will help transform Capital Markets in Malta over a ten-year period, making Capital Markets a cornerstone of the Government policy through tax and legal developments. The development of the NCMP will also facilitate the introduction of an SME market which will improve the access to capital for growth and young companies.

The MSE is working on the development of a new product called PROSPECTS, which is designed around SME needs and complements the current financing options that serve the industry. PROSPECTS is targeted at SMEs which might want to raise between €1 million and €5 million and are currently facing challenges in light of the costs involved in issuing equity and bonds for amounts lower than €5 million. The new market would not set a minimum threshold of equities in public hands, so SMEs would be able to raise equity capital without relinquishing a significant percentage of their shareholding. In addition, the new market will address the SMEs' challenge of getting investors interested in their products and raise finance by branding the relevant company through its robust infrastructure for admission thus overcoming the constraints associated with the absence of an instantly recognisable brand name.

The Venture Capital Malta is an initiative aimed at facilitating the provision of venture capital. In line with Government's commitment to facilitate access to finance for SMEs, this initiative will ensure that the right conditions, incentives and a venture capital ecosystem in general are in place.

*Increase the efficiency of the judicial system by ensuring a timely and efficient implementation of the planned judicial reform*

Government is currently implementing the reform measures as proposed by the Commission for the Holistic Reform of the Justice System, which are structured over a projected three-year period (2014-2016). The recommendations, which in part have been implemented during 2014, include legal amendments to the Criminal Code in areas concerning: freezing of assets, and new procedures in minor criminal cases. Amongst others, the following have been introduced:

1. Right of disclosure during arrest;
2. Extension of plea bargaining in criminal procedures even in front of the Courts of Magistrates;
3. New incentives for whistle blowing in criminal matters;
4. New rules in cases when two persons or more are accused with the same charge in order to facilitate proceedings;
5. The possibility of requesting a guilty plea even at compilation of evidence stage and being given judgement within one month.

Moreover, legislation has also been introduced to depenalise minor offences regarding



possession of small quantities of prohibited drugs for personal use and assist users to rehabilitate from drug abuse in aggrieved possession cases.

In the second half of 2014, a number of IT measures have been introduced for the benefit of legal practitioners and to the general public at large in the Civil Field in order to reduce undue bureaucracy and make the legal process where possible more efficient. Notable improvements relate to submitting certain written applications electronically and introducing electronic notifications to both lawyers and legal procurators with regard to court deferrals and as to whether witnesses have been duly notified or otherwise regarding civil cases.

Another measure which shall be introduced in the near future and on which the Ministry of Justice is currently working, is the planned introduction of full time lawyers, attached to Judges tasked with the aim of alleviating the work load of the members of the judiciary. The Judiciary in Malta have been complaining for many years that their work load is far too onerous, and they require proper supporting staff in order to assist them in the conduct of Court proceedings. The Court Attorneys will 'inter alia' carry out the important functions towards their assigned Magistrate/Judge whereby they will collect the requisite legal research and help in the drafting of Court Judgements. The Court Attorneys may also be involved in drafting research reports for their respective Magistrate/Judge.

On the 26<sup>th</sup> October 2014, the St. Thomas Moore Building in Strait Street Valletta was inaugurated, enabling the housing of new offices of some of the members of the Judiciary and their staff. Such premises will enable the possibility of increasing the number of Judges due to the increased space in the main court building. This is expected to decrease the workload per Judge, and hence improve the efficiency in court cases.

Plans are in the pipeline to construct a new premises for the Law Courts in Gozo to better cater for the present and foreseeable needs of Malta's sister Island. This edifice shall take into consideration the recommendations of the Justice Reform Commission. The new building once finished, is aimed at increasing the number of judicial halls from the present situation in Gozo, increasing the number of administrative offices within the Gozo Courts so that the work can be better assigned and distributed, resolving problems with respect to lack of space, addressing problems as regard to physical accessibility to the Gozo Courts, and introducing required health and safety measures which current building sorely lacks.

A Justice Reform Implementation Committee (JuRIC) has been set up and is composed of senior officials from key stakeholder organisations to work on the areas of the reform process with a view to monitor progress in judicial proceedings, outline difficulties and come up with solutions. During 2014, the JuRIC Courts Administration sub-committee was convened wherein the implementation of the transition from a department to a public corporation was also discussed. In this regard, a Business Re-organisation review will first have to be carried out and further in-depth studies need to be collected before taking further steps in this direction.

As part of the implementation of the Justice Reform, the legislative framework for the setting up of a Legal Aid Agency was enacted in November 2014. This Agency should improve the legal aid system by providing a one-stop shop to the customers requiring

such service, leading to a more efficient and effective system. The setting up of this agency is envisaged to be concluded by the third quarter of 2015.

The Ministry is working on the legal drafting of an extensive Bill regulating the administration of justice which has been finalised and is currently being studied internally. This exercise will be followed by a period for consultations by all interested parties, including members of the judiciary, legal professionals, the Chamber of Advocates, and the public in general. The draft Bill 'inter alia' provides for a holistic reform across the board namely reforms in the way the Judiciary is appointed, the establishment of the Office of the Court Attorney and the establishment of an Asset Management Bureau.

As from January 2015, the Directorate General (Strategy and Support) has embarked upon the project of data collection and data analysis in connection with court cases. Through such data collection it is evident that Malta has made significant improvements in expediting the process of adjudication in cases regarding commercial cases, administrative claims and civil cases before the Small Claims Tribunal.

The Ministry for Justice, Culture and Local Government (MJCL) has set in motion the process of eventually leading to the establishment of an International Arbitration Centre in Malta. Informal consultations have been carried out with various entities and the first draft of a request proposal has been prepared and is being reviewed by stakeholders. MJCL is not ruling out having a compulsory Alternative Dispute Resolution (ADR) applied in areas other than family and traffic collisions.

*Footnotes:*

<sup>1</sup> <http://www.mcast.edu.mt/MainMenu/Industry/MCASTGatewaytoIndustryLtd.aspx>

<sup>2</sup> <http://etc.gov.mt/Page/94/tss-tssa.aspx>

<sup>3</sup> <http://www.mcast.edu.mt/MainMenu/Full-TimeCourses/Apprenticeships.aspx>

<sup>4</sup> [http://etc.gov.mt/Category/4/96/youth\\_guarantee\\_programme.aspx](http://etc.gov.mt/Category/4/96/youth_guarantee_programme.aspx)

<sup>5</sup> Business As Usual.

<sup>6</sup> Aviation is capped at 4.12 per cent in line with Directive 2009/28/EC, Generation efficiency for BAU scenario assumed at 30.31 per cent (2009 level), GDP at constant 2000 prices - with reference to "Projecting Energy Demand: Electricity & Transport - Economic Policy Department - Ministry for Finance, the Economy and Investments December 2012".

<sup>7</sup> It is projected that 1135.6Gg CO<sub>2</sub> savings shall be achieved (relative to 2012 emission factor). A further 387.2Gg CO<sub>2</sub> reduction is expected to be achieved as a result of RES deployment.

#### **4. Progress towards national Europe 2020 targets**

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## **4. Progress towards national Europe 2020 targets**

The structural reform agenda of the Maltese Government takes full cognisance of the targets set under the Europe 2020 Strategy for a smart and competitive European economy. The Government considers the achievement of the targets set under this Strategy as an important contributor towards raising potential output, as well as enhancing competitiveness and living standards. Annex Table 2 provides further details on the measures taken to meet the 2020 National targets.

### **4.1 Employment**

#### **4.1.1 National Target**

The positive labour market results registered during the past months reflect the Government's determination to further encourage the increase in the rate of employment of all groups, especially of females and older workers. Government has revised upward its target for the employment rate (among 20 to 64 year olds) to 70 per cent by 2020. The employment rate stood at 64.8 per cent in 2013, which exceeded the previous national target of 62.9 per cent.

#### **4.1.2 Policies to achieve the target**

The Government has launched various legislative and policy programmes aimed at increasing labour participation, which, in combination with a relatively low and stable unemployment rate, is resulting in an increase in the target employment rate. As explained under the CSR 3, Government's aim is to create opportunities and reduce as much as possible unnecessary dependencies.

Government also implemented the final stage in the reduction of income tax from 29 per cent to 25 per cent for person earnings up to €60,000. This has the aim of encouraging further effort for those already in employment.

Measures seeking to eliminate the obstacles faced by parents entering the labour market were announced. The measures included the provision of free childcare centres, the income tax deduction for the use of private childcare centres, Breakfast Club and the provision of afternoon school services. Another important measure was the provision of in-work benefits for low-income parents who are working or willing to work. Other initiatives included, extending parental income tax computation for parents with children under the age of 23 who are still in tertiary education, as well as, encouraging increased use of family-friendly measures in the public and private sector.

Various other measures were directed towards the female population seeking to increase the female participation rate. These included an increase in the maternity benefit rate and an increase in the maternity leave to women in self-employment. A special fund to finance maternity leave in the private sector was also set-up, which aims to make recruitment gender-neutral. Other initiatives included the tax exemption for females joining the labour market and the provision of a full pension to employed widows.

The Government is also committed to continue strengthening job creation and flexibility in working arrangements through the promotion of apprenticeship and entrepreneurship schemes, continuation of labour activation programmes, supported and sheltered employment training for disadvantaged groups, extension of the Youth Guarantee programme to youngsters on social assistance benefits, and reduction in income tax for unemployed women who are over 40 years of age. Government is also offering tax deduction as an incentive to employers to hire persons between 45 and 65 years who have been unemployed.

The benefit design of the labour market will also be sustained and strengthened through the tapering of benefits for single parents and married couples. These measures complement the tapering of benefits for long-term unemployed. Other planned initiatives to help the integration of people currently not in employment include wage subsidies for employing long-term unemployed, inactive persons, unskilled youths, persons with a disability and older workers. The Government also plans to introduce fiscal incentives for employers employing disabled persons and is planning to revise, in conjunction with social partners, the law regulating industrial and employment relations to avoid any equivocations in respect of basic employment rights, obligations and procedures.

Moreover, in order to address skills shortages and skills gaps in the labour market, the Government announced the setting up of a skills bank which will contain information about skills possessed by youths. An Employability Index is also being proposed with the scope of enhancing matching between job vacancies and young jobseekers.

## **4.2 Education**

### **4.2.1 National target**

The Government is geared towards improving the educational level in Malta. The main objective is to reduce the rate of early school leavers (ESL) to 10 per cent by 2020. Provisional figures for 2014 indicate that the rate for ESL in Malta stood at 20.2 per cent down from 20.5 per cent recorded in 2013. In addition, the share of the 30-34 year old population having completed tertiary education is to be increased to 33 per cent by 2020. The rate recorded for 2014 stood at 26.9 per cent.

### **4.2.2 Progress on the Implementation of Ongoing Measures**

Initiatives aimed at addressing ESLs remained one of the key priorities for Government in the field of education. Government continued to tackle absenteeism by strengthening student services, as well as by monitoring root causes at the community level in conjunction with the ongoing work of the task force set up with the aim of reviewing the relevant legislative framework and where appropriate, propose amendments. Through the Alternative Learning Programme, Government is introducing other vocational pathways and student support services to all the current fifth formers who were habitual absentees, were not sitting for any Secondary Education Certificate (SEC) examinations or were likely to fail to attain SEC standard in any subject. The project will be re-run from September 2014 to June 2015. Plans are being made in order to improve this service in the next scholastic year (2015-2016).

During 2014, the ESL Unit was integrated within the Directorate for Lifelong Learning, at the Ministry for Education and Employment to create better synergy between the two complementary areas. The latter, together with the Department for Local Government, continued to collaborate on the scheme called 'Lifelong Learning in the Community' which was first launched in 2010.

Government is also implementing the Learning Outcomes Framework for the six main learning areas identified in the National Curriculum Framework document that will be developed through an international tender and in collaboration with local curriculum development experts. Learning and assessment programmes for all the subjects in compulsory education will also be developed through this project. The tender has been published and evaluated in the second quarter of 2014. The project is presently underway and is expected to be completed by 2015. Furthermore, the existing Personal and Social Development programme has been revamped to cover Career Education and shall also be eligible for certification as a Malta Qualifications Framework (MQF) Level 3, 2, 1 qualification.

At the primary level of education, a higher priority is being given to subjects related to Mathematics, Science and Information and Communication Technology (ICT). In addition, a pilot project for Year 4 students is currently being held to assess the introduction of tablet computing devices in all primary schools with the scope of increasing literacy, numeracy skills and digital literacy.

The Government also set up an independent Quality Assurance Committee acting as a review mechanism for quality assurance-related measures arising from accreditation processes. Trained members within the Network of Quality Assurance Professionals in Further and Higher Education (Net-QAPE) are following a Malta Qualifications Framework (MQF) pegged Quality Assurance for Continuing Professional Development (QA CPD) Award where external quality assurance (EQA) procedures and tools, as well as dedicated software will be developed. The first three pilot internal quality assurance audits and the three pilot EQA audits will also be undertaken in the first half of 2015, with a closure conference for all documentation scheduled for July 2015.

Human resource development of the teaching personnel within the Directorate for Lifelong Learning and Early School Leavers has also been prioritised during 2014 through a number of in-service training and staff development sessions, whilst training for adult educators included the National Diploma in Teaching Adults (Level 5).

During the scholastic year 2013-2014, the Business and Technology Education Council qualification (BTEC) vocational project started its third year of implementation, whilst a Vocational Education and Training (VET) Unit has been set up within the Office of the Permanent Secretary within the Ministry for Education and Employment. This unit's role includes the overseeing of the completion of the BTEC Pilot, the piloting of the home-grown qualifications and the eventual implementation of the planned national roll-out of vocational education in secondary schools in the third quarter of 2015. In the second quarter of 2014, consensus was reached on the recognition of vocational subjects, such as agribusiness, engineering technology, Information Technology, Health and Social Care and hospitality, being piloted in State and non-State schools as Secondary Education

Certificates at MQF Level 3.

Government extended the 'Get Qualified' scheme to raise participation in tertiary education, especially in specialised areas where Malta might face skill gaps. Upon successful completion of the course, students will benefit from a tax credit. In addition, this goal is also being addressed through the 'Master it!' programme outlined under CSR 3.

In line with Government's policy to raise participation in tertiary education, stipends will also be granted to students who are repeating one year in their course. In addition, financial support in the form of a stipend was also provided to students undertaking a veterinary career.

### **Planned New and Extended Measures in Education**

As of January 2015, Government introduced a reduced VAT rate on e-books sold on magnetic media. Furthermore in April 2015, a Malta Book Fund will be set-up with the scope of encouraging the publication of books of a literary, historical and artistic nature covering local issues. This Fund will help to maintain the quality of these publications and encourage further contributions. Government has also announced that work will commence on the construction of two new secondary schools. These are expected to receive their first intake of students in time for the scholastic year 2016-2017.

A sabbatical leave scheme, consisting of paid study leave, was launched for teaching staff wishing to pursue opportunities to further their professional development.

Aġenzija Żgħażaġh (AŻ) is planning the development of a youth village with the aim of housing all services of the agency. The Youth Village is intended to create a physical space where the agency may conduct its administrative functions whilst enabling a learning environment and a cultural milieu that will attract both young people and persons that represent or work with young people. Therefore, the Youth Village aims to help youths meet their needs and fulfill their aspirations. Moreover, AŻ published a Draft National Youth Policy Framework (2015-2020) and since January 2015 this is being implemented under a new National Youth Policy.

## **4.3 Energy Targets**

### **4.3.1 National Targets**

The Maltese Government is committed to sustainable development and to a path of growth which enhances the living standards of the population whilst safeguarding the environment. In particular, Government committed itself to raise the share of energy from renewable sources in gross final energy consumption to 10 per cent (estimated at 3.8 per cent in 2013). In addition, under the scope of the Effort Sharing Decision, Malta agreed to a target of +5 per cent relative to its 2005 Greenhouse Gas (GHG) emissions by 2020 (estimated at 2.95 per cent in 2012). The Government is also committed to raise the proportion of renewable energy used in all forms of transport to 10 per cent by 2020 (estimated at 3.3 per cent in 2013).



### **4.3.2 Policies to achieve the targets**

A number of initiatives have been implemented so as to achieve the targeted share of energy from renewable sources. These include a review of National Renewable Energy Action Plan, aiming to define a new roadmap on how renewable energy will be generated, drafting of a solar farm policy, which shall set out the fundamental criteria to guide the planning and consideration of solar farm development; and measures, intended to encourage private investment in renewable energy sources (mainly photovoltaic (PV) systems and solar water heaters).

Furthermore, several initiatives have been implemented so as to achieve the target pertinent to Greenhouse Gas Emissions not falling within the scope of the Emissions Trading Scheme. These measures include the switching off of the old inefficient Marsa power station, the commissioning of the Malta-Italy electricity interconnector, the efficiency improvement at the Delimara Power Station to be achieved by switching from the use of heavy fuel oil to natural gas and the construction of a new 205MW gas fired plant, and the improvements in the distribution network. Meanwhile, Malta's National Strategy for Policy and Abatement Measures Relating to the Reduction of Greenhouse Gas Emissions, includes measures encouraging investment in renewable energy sources.

Steps to promote energy efficiency through the renovation of present building stock and the use of insulation were undertaken. Government is also renovating public buildings to increase energy efficiency.

The public transport reform is leading to the utilisation of a more efficient bus fleet and increased usage of this service. Government is also evaluating and analysing the potential for other complementary mass passenger transport systems. Retrofitting road and street lighting by smart lighting were also launched.

To achieve the target to raise the proportion of energy consumed in all forms of transport derived from renewable sources, initiatives to encourage the uptake of electromobility through the provision of a grant on new electric vehicles and the planned installation of a network of charging points were implemented. Other measures addressing the same objective included the encouragement of the conversion of fuel cars to autogas and the imposition of obligations with respect to biofuels substitution.

## **4.4 Research and Innovation**

### **4.4.1 National targets**

In 2013, Malta's national gross domestic expenditure on the R&D (GERD) target envisaged within the Europe 2020 Strategy was revised from 0.67 per cent to 2 per cent of its Gross Domestic Product by 2020. According to provisional figures by Eurostat, Malta recorded a GERD of 0.85 per cent of GDP during 2013.

### **4.4.2 Policies to achieve the targets**

The Malta Council for Science and Technology (MCST) national R&I funding unit has focused on two programmes under the FUSION branding: the Commercialisation Voucher

Programme and the Technology Development Programme. The FUSION programme offers support with the aim of assisting researchers or micro and small and medium sized enterprises (SMEs) in assessing the commercial and market potential of their ideas.

In order to identify the tactical implementation aspects of the National R&I Strategy 2020 over the shorter-term, MCST, in collaboration with all relevant stakeholders, will be developing a rolling R&I Action Plan which is expected to be finalised by mid-2015. Their work involves identifying measures, timelines, owners and budgets to achieve the objectives and targets specified in the National R&I Strategy 2020.

The Malta Life Sciences Park, formerly known as the BioMalta Campus, is expected to be finalised by mid-2015. The project will seek to attract foreign direct investment into Research, Technological Development and Innovation (RTDI) in the bio-technology and life sciences sectors.

In addition, the National Interactive Science Centre (NISC) at the Villa Bighi Complex is expected to start operating by the end of 2015. The area will become a hub for science communication and is intended to instil an active interest in science, research and innovation in youth and encourage them to pursue a career in science and technology. The NISC will also serve as a research facility by offering a research base which will be set up as a live lab, where research may be carried out in the fields of Social Science and Humanities.

In May 2014, the Government inaugurated the MITA Innovation Hub, which focuses on ICT-driven R&I through the engagement of students and start-up founders in proof-of-concept projects aimed to solve problems within civil society using incremental innovation and experimental approaches. Public administration has an important role to fulfil through the provision of public data and by acting as an initial test bed for the solutions created. Work is underway to develop an accelerator programme that will support the start-ups from the stage of initial customer discovery to business sustainability.

In order to address the societal challenge of a progressively ageing population in Europe and beyond, a proposal for a Knowledge and Innovation Community on healthy living and active ageing was submitted in September 2014. In the eventuality that this proposal is accepted, such measure would increase Malta's visibility and improve prospects for international R&I cooperation in a thematic area of priority for Malta as identified in Malta's National R&I Strategy 2020.

## **4.5 Promoting Social Inclusion in particular through the Reduction of Poverty**

### **4.5.1 National Targets**

Poverty and social exclusion are important challenges within Malta's changing political, cultural, social and economic landscape. Malta's target is to lift around 6,560 people out of the risk of poverty and exclusion by 2020. Poverty reduction is one of the political

priorities of this Government and in this regard, it has implemented a number of specific programmes and launched a series of initiatives over the past twelve months.

## **4.5.2 Policies to achieve the targets Progress on the Implementation of Ongoing Measures**

### **Progress on the implementation of Ongoing Measures**

#### **Children and Youth**

Combating child poverty is one of the linchpins of Government's poverty strategy. In this regard, a child supplement was granted to parents who earn less than €11,000 annually. With the aim of improving children's education and psychosocial health, the award of this child supplement is paid against the condition that children register at least 95 per cent of school attendance, undergo regular medical check-ups and participate in sport and cultural activities. For the first three children in a household, the allowance will amount to €400 a year, while the supplement for every subsequent child will be of €200. It is estimated that 22,000 children in 9,000 families will benefit from this measure. Meanwhile, parents will continue to benefit from the successful free childcare centre initiative since the Government is committed to maintain this service.

The Government remains committed to ensure that all young people aged between 16 and 23 years enter employment, education or training. In this regard, the Government is committed to enrol persons under 23 years of age and single parents who claim for social assistance benefits in the Youth Guarantee Scheme. Single parents will be exempted from entering this scheme until their youngest child is one year old. This scheme involves an 18-week training period in which the person has to undertake various work placements and vocational training at the Malta College of Arts, Science and Technology (MCAST), among others. During 2015, 700 Traineeships and 200 Work Trials will be financed.

Progress is also being registered with respect to assistance to adolescents who are under either Care Order, Court Order or who seek help on a voluntary basis. In this respect, the capacity at the adolescent girl residential home is being expanded. Additionally, the introduction of social support workers within Aġenzija Appoġġ is enabling social workers to focus more on direct contact with children and young people.

#### **Elderly and Disabled Persons**

Government is sustaining its efforts to ensure adequate and sustainable pensions for current and future pensioners, as addressed in the ongoing pension reform process outlined under CSR 2. Furthermore, around 5,650 pensioners benefitted from the increase in the total amount of service pension not taken into consideration for social security pension assessment purposes by another €200 to €1,666. As from January 2015, pensioners whose pension does not exceed the minimum wage will not be taxed, while the Cost of Living Adjustment is now tax exempt for minimum wage earners and pensioners alike.

The Government is enabling elderly persons and persons with a disability to continue living in the community through the extension of the Home Help Service Scheme. Extra weekly domiciliary service hours have been provided during September and December

2014. The formulation of a new tender for the provision of Home Help Service is also in progress. In 2014, the Housing Authority continued to operate the Scheme for Persons with Disability, while undertaking a revision of the conditions and grants. The tax on transfer “causa mortis” for property inherited by disabled persons has been eliminated. Additionally, more persons with intellectual disabilities started residing in Day Centres by the end of December 2014, reducing the waiting list to 68 persons.

## **Families**

A Positive Parenting Policy, which was drafted and issued for public consultation in 2014, will be finalised in 2015. Additionally, the Government has committed to grant a full pension to employed widows, irrespective of whether they have children or not, and irrespective of the wage earned from employment.

Renewing investment in social housing is another social policy priority for Government. In view of the increasing demand for subsidised private rental residences, the Housing Authority allocated €1 million for this purpose in 2014, thus resulting in an increase of around 26 per cent over 2013. During January 2015, 1,029 applicants benefitted from this measure.

The Housing Authority continued to carry out repair and embellishment works in housing estates. Following the reactivation of Scheme 1 and Scheme 2 related to the regeneration and maintenance of housing estates, agreements were drawn up with 6 Local Councils for the upgrading of 50 blocks in mid-2014. In 2015, works on another 102 blocks will be carried out.

Additionally, first-time home buyers will continue being exempt from paying duty until the 30<sup>th</sup> June 2015.

## **Planned New Measures**

### **Elderly**

The Government is committed to rectify the situation of persons currently in employment and who will not have enough contributions to qualify for a contributory retirement pension by the time they reach pension age. In this regard, persons born between 1950 and 1956, who are still in employment but by the time they reach their retirement age will not have made enough contributions to qualify for a contributory retirement pension, will be given the opportunity to pay back a maximum of five years contributions. Additionally, persons born between 1941 and 1953 who have paid social security contributions but did not qualify for a contributory or non-contributory pension will receive a yearly lump sum of money.

In addition, by the end of 2016, the Government will also be opening a new retirement home in Gozo for the elderly.

### **Disabled Persons**

The Neuro Myelitis Optica disease is now included in the list of disabilities and thus persons suffering from this condition are entitled to the disability pension. As from this

year, disabled persons in employment who earn more than the National Minimum Wage will still receive a full disability pension. Additionally, a number of fiscal incentives for Trusts and Foundations were also set up to help disabled persons. Such incentives include the exemption of capital gains taxes and the elimination of stamp duty on documents as well as the transfer of the parents' residential property, which is initially transferred to the Trust or Foundation for disabled children and is subsequently inherited by siblings or heirs on the decease of the disabled person.

To encourage companies to donate funds to the Malta Community Chest Fund, taxable income of such companies will be deducted by 50 per cent of the amount donated, when donating €2,000 and more.

Seven residences for persons with disabilities of Aġenzija Sapport will be upgraded and improved by December 2015. This measure has an allocated budget of €100,000. Furthermore, by May 2018, ten residential homes for disabled persons will be developed in the community so as to ensure proper care for disabled people following the decease of parents.

So as to integrate and promote activism amongst disabled persons, fiscal incentives for employers employing disabled persons were introduced in the 2015 Budget. Employers are eligible to claim a tax deduction on profits equivalent to the disabled person's wage and are exempted from paying social security contributions. The maximum credit will not exceed €4,500 for each disabled employee.

Furthermore, the Government will also enforce the 1967 law regarding the recruitment of disabled persons whereby every firm, employing more than 20 employees, is required to have at least 2 per cent of its workforce consisting of persons registered as disabled. Companies that will not employ the legal minimum of disabled persons will be asked to make an annual contribution of €2,400 for each disabled person he or she should be employing. The maximum contribution will be of €10,000 for each company. For the year 2015, employers will contribute one-third of the amount due, two-thirds of the amount due in 2016 and the full amount in 2017. Moreover, the contributions generated by this initiative will go towards a National Fund for the Integration of Disabled Persons, which will be managed by the Employment and Training Corporation. This fund will be used to finance training programmes and work for disabled persons.

Additionally, the Government has adopted the concept of user involvement. Every public institution and, in particular, those that provide direct services to persons with a disability, need to have a structure in place that engages the users of the respective services in the design, planning, implementation and evaluation of the programmes provided. Through this measure, the involvement of disabled persons in the country's governance will be strengthened while at the same time concrete activism is promoted among disabled persons. This measure is to be implemented across all ministries.

## **Families**

Conscious of its social obligation towards certain groups in society, in March 2015 Government gave a one-time non taxable additional annual bonus of €35 to all persons in

receipt of social security benefits, all low income earners, pensioners and all those income tax payers working full-time and not benefitting from the 2015 income tax reductions. This bonus was also given on a pro-rata basis to students and part-time workers.

Furthermore, as from 2015, a single parent who is receiving social benefits and gets married or enters into a civil union with a person in employment, will no longer lose entitlement to social benefits immediately after the union, but such benefits will be tapered over a period of three years.

The Government is also investing in the upgrading and enhancement of three housing estates. A budget of €600,000 has been allocated for such project where 83 units will be embellished.

### **Other Measures**

Government is working on an integration policy which should lead to a reduction in the difficulties posed by social exclusion, while also improving the relationship between Maltese and foreign communities. An EU-funded project 'Mind the Gap: Together we can make a difference' has been launched so as to assist in the publication of a National Report for an Integration Strategy, which will primarily identify the gap in the current admission procedure of Third Country Nationals (TCNs) in Malta and the need for stronger coordination between the authorities acting as front liners in this process. The National Report should re-assess from a legislative, policy and practical perspective the current processes existing in Malta for TCNs and will pave the way to the development of an Integration Strategy. The Policy Framework Document will be published by end of June 2015. Moreover, a Directorate for Integration will be set up to develop strategies to achieve Government's objectives in respect of civil liberties and equality, anti-discrimination policy and integration of immigrants.

## **5. Additional Reform Measures and the use of Structural Funds**

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## **5. Additional Reform Measures and the use of Structural Funds**

This Chapter outlines additional reform measures mainly as part of the Euro Plus Pact and the Flagship Initiatives. Further details on the main reform commitments for the next 12 months can be found in Annex Table 3.

### **5.1 Euro Plus Pact Measures**

#### **5.1.1 Progress on the Implementation of Ongoing Measures**

##### **Establish the eSkills Alliance as a Purpose Foundation**

The newly established eSkills Malta Foundation provides advice to the Government and stakeholders on matters related to e-skills policy. The Foundation has been established as a Purpose Foundation with the aim of contributing towards the expansion of ICT educational programmes and related formative initiatives, the creation of an ICT professionalism development programme, and the promotion of the Maltese eSkills potential, both locally and internationally. It also acts, as a driver to further reforms in the ICT educational offerings and contributor to capacity building in the ICT education community. The Foundation will reflect the principles of the EU's Grand Coalition for Digital Jobs and will contribute to the expansion of ICT educational programmes and related formative initiatives.

In its first months of operation, the eSkills Malta Foundation delivered a range of public engagement activities promoting the importance of ICT skills for jobs. These activities targeted policy makers, industry, students and employment agencies as well as the general public. The Foundation provided consolidated policy positions on the National Education Strategy and other national policy frameworks with a bearing on ICT skills. It also adopted the EU eCompetence Framework as the basis of its actions on promoting ICT careers and professions.

##### **ICT Competencies for better employability and workforce adaptability**

The project aims to expose non-computer users to the benefits of ICT. This will strengthen Malta Communication Authority's (MCA) efforts in achieving widespread ICT literacy and digital inclusion. It will also encourage the use of ICT as a tool to improve the quality of life for all citizens, in particular disadvantaged groups. Following an awareness campaign, the MCA received slightly over 5,000 applications for one or both of the training sessions. The training is currently being delivered through various training centres operated by NGOs, Local Councils and public agencies. Originally, the training for the general public was scheduled to come to an end by February 2015; however, this programme is now being extended until the end of September 2015. The MCA will also be targeting individuals in specific industries and unemployed people.

##### **Facilitating the complete transition to e-procurement for all Contracting Authorities publishing tenders below the EU thresholds**

During 2014, the Department of Contracts received feedback from a number of Ministries on the invitation to set out a plan for the transition to e-procurement for tenders below

the EU threshold within all Ministries. Accordingly, ad hoc training was delivered to staff from all departments and organisations within the respective Ministry's portfolio. Such training was focused on the main principles and procedures in public procurement and on the use of the e-procurement system.

During 2015, there will be a renewed effort by the Department of Contracts to get the remaining Ministries and Contracting Authorities falling within their portfolio, on board. Through Contracts Circular No. 1 of 2015, the Department of Contracts asked the remaining Ministries to submit a plan for the transition to e-procurement for departmental tenders. The advanced stage of the transition to e-procurement on a national scale is well on track and further progress is expected.

### **Initiative to reduce precarious work**

The main intent of this measure is to ensure that contractors, who are awarded contracts by Government Departments or public sector organisations, observe employment laws. Any companies which do not observe employment laws will be disqualified from participating in Government and public sector tendering processes. In the 2015 Budget, the Government announced further measures regarding the payments to workers engaged in contracts providing services to Government Departments or public sector organisations. These measures seek to ensure that such workers are paid at least the basic minimum rate for the same employment payable to public administration employees.

### **Shop Opening Hours**

The scope of this measure is to provide a more flexible approach for retail outlets to open in hours and on days which diverge from the standard business hours. In this respect, the Trading Licensing Regulations needs to be amended accordingly. These amendments are expected to stimulate the retail sector whilst facilitating shopping opportunities for both tourists and local residents. The proposed recommendations regarding changes to the Trading Licensing Regulations have been discussed and agreed upon internally amongst the relevant Government stakeholders. The finalised proposals have also been published for consultation with constituted bodies, the private sector and the general public.

## **5.1.2 Planned New and Extended Measures**

### **New Shops Scheme**

The Government Property Department will give tenants of Government-owned shops the opportunity of an emphyteutical concession instead of a lease in order to have a more solid title which can enable them to invest in property. This scheme will be in place by end of May 2015. The new shops scheme shall first target Government-owned shops in Valletta and will then also be introduced to other towns and villages in Malta and Gozo at a later stage.

### **Setting Up of Conventions Malta**

Conferences and congresses organised by/for associations are a specialised sector within the Meetings, Incentives, Conferencing, Exhibitions (MICE) industry, requiring market focus and specialisation. This is even more relevant in Malta's case, given that this sector has the potential to increase business during the tourism industry's shoulder months. To tap this particular market, a strong structure is required and the Ministry for

Tourism (MoT), Malta Tourism Authority (MTA), Malta Hotels & Restaurant Association (MHRA) and other industry stakeholders agreed to establish Malta's first Conventions Bureau to cater for the sector's needs and address its challenges.

### **Training for the Film Industry**

The Film Commission drives the vision of the local indigenous film industry and offers training and grants to further develop local talent. Through the acquired skills from this training, local crew will give a better service to foreign productions, while local film makers will get the know-how to start producing their own films.

## **5.2 Flagship Initiatives**

### **A Digital Agenda for Europe**

The Digital Agenda for Europe represents the EU's objective leading towards the maximisation of the social and economic potential of ICT through high-speed internet and interoperable applications. At this stage, EU funds have been secured for a feasibility study on the need for a submarine cable to mainland Europe. Malta also intends to apply for further funding for the BeSmartOnline Project.

The Digital Malta Strategy was launched by the Prime Minister on the 24th of March 2014. The strategy will guide the country towards attaining the 2020 Vision that, *'Malta will prosper as a digitally-enabled nation in all sectors of society'*. Digital Malta provides policy direction for 3 main strategic themes, namely: Digital Citizen; Digital Business; and Digital Government. The Digital Government strategic theme identifies a number of aims and objectives related to the provision and take-up of e-Government services which include the simplification of existing digital public services, the promotion of higher take-up of e-Government services, and accessibility of Government services through mobile devices. In this regard and as part of the Digital Malta strategy, a number of Digital Government initiatives are currently in progress<sup>1</sup>. In particular, the simplification of existing digital public services introduced a number of new online services in the justice sector, with the aim of providing the legal profession with comprehensive court case information on multiple devices. Furthermore, in order to improve the accessibility of Government services, a number of mobile apps and services were launched in the energy, environment and justice sectors. Together with the Digital Malta Strategy, a Programme of Initiatives was launched for 2014. Similarly, a Programme of Initiatives will be published on a yearly basis.

In October 2014, the Digital Malta Governing Body was set-up in order to provide leadership and support to stakeholders for successful implementation of the strategy. During 2014, a number of national eSkills initiatives were implemented with the aim of addressing the shortage and mismatch of ICT skills. The eSkills Malta Foundation was also set up as a multi-stakeholder initiative that recognises synergy of action between Government, education and industry, as a key enabler of the human capital outcomes, identified in the Digital Malta strategy.

### **European Platform against Poverty**

A National Strategic Policy for Poverty Reduction and for Social Inclusion was launched by the Ministry for the Family and Social Solidarity on 19<sup>th</sup> December 2014. The National Strategic Policy is based on six dimensions: income and social benefits; employment;

education; health and environment; social services; and culture. These dimensions are considered to be key contributors to promoting the prospects of people who are either living in poverty or social exclusion or are at risk thereof. The strategic policy document presents objectives for addressing overarching challenges in increasing Malta's sustainable development, promoting empowerment and social solidarity, and consolidating social services.

In addition, the Ministry for the Family and Social Solidarity set up an Action Committee to draw up an Action Plan to monitor the implementation progress of the measures arising from this national strategic policy. The Action Committee will also, analyse the effectiveness of such measures in relation to the SMART objectives set out by the strategic policy.

### **Innovation Union**

Malta has continued with the implementation of initiatives which aim to drive growth through innovation by strengthening its knowledge base, supporting good ideas to reach the market, making good use of Structural Funds for research and innovation as well as joining efforts nationally and internationally. Malta continues to prioritise the building of human resource capacity through a series of initiatives, such as increasing awareness and interest in science and technology in young children through the construction of a National Interactive Science Centre and post-graduate and doctoral support schemes. Agreements with international research organisations are also enabling Maltese students to embark on training opportunities in these organisations.

Malta's approach to R&I remains strongly business oriented and focused on market research and transition to innovation. A dedicated suite of R&I incentives for industry, involving both grants and fiscal benefits, is in place. This incentive package is currently under review in view of the new State Aid guidelines regulating these incentives. The Structural Funds programmed for 2007-2013 for research and innovation have been indispensable to finance many major projects including, the construction of a Life Sciences Park<sup>2</sup>, new or upgraded research infrastructures and facilities at the University of Malta and post-graduate, as well as industry grant schemes. Malta has also finalised the Innovation Strategy for Smart Specialisation (RIS3). This is included as the third goal in the new National R&I Strategy 2020 and will guide investments over the 2014-2020 period. This year, Malta will finalise the Research and Innovation Action Plan, which will focus on how the public sector will be implementing each action line of the National R&I Strategy.

### **New Skills for New Jobs**

Through this EU flagship initiative, Malta has set out to develop a better match between skills and labour market needs. Indeed, the National Commission for Higher Education (NCFHE) has worked out an information package with the aim of attracting young people to vocational studies and thus, establishing better synergy between training providers and job suppliers.

The Employment and Training Corporation (ETC) is managing the implementation of the ESF 2.201 project, *Enhancing Employability through Training* (EET), which is targeted at all actively employed, inactive, early school leavers, and registered unemployed individuals who are eligible to work. An overall objective of this project is the reintegration of

individuals into the labour market, through training programmes. Other objectives include the provision of assistance to employed persons in order to secure and advance their position within the labour market, as well as facilitating the reintegration to employment for men and women who have been absent from the formal economy for a relatively long period of time.

The delivery of short courses has been extended until June 2015, while the Training Subsidy Scheme (TSS) for short accredited training and for Academic Training (TSSA) was launched. The TSS has been extended until end July 2015. Furthermore, four traineeship programmes were completed. In addition, the Training Services Division has also started work on the launching of the Work Exposure Scheme and Traineeship Schemes in eight different callings.

The ETC was entrusted with the setting up of a Skills Bank containing information on youth's skills, while a Legal Notice (LN 19/15) was issued providing a legal framework for the processing of data in the education sector. ETC is also designing a survey to forecast Labour Market Demand which will be distributed to the employers in the third quarter of 2015.

### **Youth on the Move**

The EU flagship initiative 'Youth on the Move' offers work experience abroad to apprentices in vocational training and university students. Through this initiative, Malta is aiming to improve education and training systems, at all levels. This initiative also facilitates local youth mobility, both for learning purposes and work experiences. The National Employment Policy, launched in May 2014, also provides a way forward to address the needs of youth falling under the Not in Education, Employment or Training (NEETs) category.

Following the endorsement by all EU Members States on establishing a Youth Guarantee in April 2013, the Government started to work on diverse initiatives to provide support measures in order to ensure that all young people up to the age of 25 years, receive a good-quality offer of employment, continued education, apprenticeship or traineeship, within four months of becoming unemployed or leaving formal education. Malta submitted its Youth Guarantee Implementation Plan on 28<sup>th</sup> February 2014. The Government decided to deliver the Youth Guarantee National Plan by means of a dual approach. The first approach is a preventive approach which identifies, at an early stage, those youths who are at risk of becoming early school leavers. The second approach is the reactionary response, through which youths falling under the NEETs category, will be encouraged to first enter the vocational path or alternatively are offered work exposure experience. In addition, the Jobs+ initiative was set-up to advice and co-ordinate with Government issues relating to the labour market.

### **Industrial Policy Flagship**

This Government confirms its determination in ensuring conditions conducive to sustainable industrial growth, within the framework of a diversified and balanced economy. Malta Enterprise (ME), the key industrial strategy driver, will focus on its core business, namely the promotion of direct investment. Foreign direct investment will absorb a very significant part of ME's resources but the promotion of local investment in productive activities will not be neglected. Employment, higher added value and export

orientation will be the critical priorities determining ME's operational choices. Conscious of the importance of innovation and quality as vital components of international competitiveness, ME will initiate and support initiatives aimed at upgrading new and advanced industrial competences and ensuring a dynamic link between education and training institutions, and the industry. It will, therefore, also upgrade its assistance to research and development. Life sciences, aviation services, marine industries, innovative information and communications industries including bioinformatics and the production of digital games, as well as a broad range of engineering industries will feature as priority sectors. ME will also be heavily involved in attracting to Malta foreign investment in education and training services including in the medical and health care sectors, with a view to further development of regional markets.

### **Resource Efficiency Initiative**

Resource efficiency is a Government priority, particularly given Malta's limited land-based natural resources and its inclusion as a European goal for a sustainable economy by 2050.

Key measures outlined in the updated Waste Management Plan include studies regarding the most effective and efficient waste treatment options in order to reduce further landfilling, the handling of particular waste streams and the introduction of a separate waste collection bag which will cater for the collection of household organic waste. The latter is anticipated to help increase source separation and recycling, quality of waste received at the treatment plants, and energy generation. It is also expected to yield a more refined output. This project is intended to be piloted during the early months of 2015, before being rolled-out nation-wide in advance of the launching of the North Mechanical Biological Treatment (MBT) plant. In addition, during 2014, the Ministry for Sustainable Development, the Environment and Climate Change (MSDEC) launched an education and communications campaign addressing the key priorities outlined in the Waste Prevention Plan, thus including the prevention, handling and management of food waste.

Green Public Procurement (GPP) facilitates the shift in consumption patterns towards resource efficiency while the National GPP Action Plan (NAP for GPP) provides targets and guidelines in respect of a number of product and service groups. In 2014, around 2,300 public authority tenders were screened for compliance with GPP. During the same year, in recognition of the increasing importance of the impact of public expenditure on the environment, the Government embarked on a review and comprehensive assessment of the current NAP for GPP. This, with a view to developing the second NAP for the coming three years. The review process kick started in 2015 with a target publication date of the last quarter of 2015.

Furthermore, a Circular (22/2014) issued in December 2014 outlines a decentralisation of administrative responsibilities to all line ministries with respect to GPP. In this respect, MSDEC and the Centre for Development Research and Training (CDRT) developed a training programme for each ministry. In 2014, Malta Enterprise continued providing assistance to firms for acquiring environmental certification via the Business Advisory scheme and Quality+. While the former is ongoing and is to be completed in 2017, in Q1 2015 Malta Enterprise announced a new scheme to replace the Quality+ initiative (which had been completed in 2014) called 'Certify'<sup>3</sup>. Further details relating to the initiative as well as the acceptance of the first applications will occur in the second half of 2015. In addition, the Ministry for the Economy, Investment and Small Businesses (MEIB),

in collaboration with the Cleaner Technology Centre at the University of Malta, will this year launch the Sustainable Enterprise Awards to recognise, promote and reward organisations that made a significant contribution to sustainable development.

**2014 - 2020 Common Strategic Framework**

Over the past years, EU funds contributed significantly towards the development of Malta and Gozo, both in terms of competitiveness and investment in human capital and also in terms of a better quality of life for Maltese citizens. The Government is committed towards building upon the results achieved to date and is determined to address its EU2020 targets whilst also taking into account the specific characteristics of Malta. In this regard, the European Structural and Investment (ESI) Funds are a critical instrument to achieve European and National objectives over the programming period.

Through its Partnership Agreement, Malta intends to set out its strategy towards the EU2020 targets taking into account the relevant elements that are considered pertinent within the Country Specific Recommendations (CSR). The following Table illustrates how Malta’s strategic direction will result in the meeting of these headline targets.

**Malta’s Strategic Orientation for meeting the Europe 2020 Targets across the 2014-2020 Programming Period**

**Table 5.1**

**Funding Priority 01: Fostering competitiveness through innovation and the creation of a business-friendly environment**

3% of EU’s GDP to be invested in R&D

**Funding Priority 02: Sustaining environmentally-friendly and resource-efficient economy**

20% of GHG emissions reduction compared to 1990

20% of energy from RES

20% in energy efficiency

**Funding Priority 03: Creating opportunities through investment in human capital and improving health and well-being**

75% of the population aged 20-64 should be employed

Reducing early school-leaving to less than 10%

At least 40% of 30-34 years old completing tertiary or equivalent education

At least 20 million fewer people in or at risk of poverty compared with 2008 levels

*Footnotes:*

<sup>1</sup> <https://digitalmalta.gov.mt/en/Pages/Content/DMPprogrammeOfInit.aspx#DG>

<sup>2</sup> More information can be found at: <http://www.lifesciencespark.com/>

<sup>3</sup> <http://www.maltaenterprise.com/en/support/certify-tax-credits>



## **6. Involvement of stakeholders**

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## 6. Involvement of stakeholders

In order to implement the country-specific recommendations and attain the Europe 2020 targets, the commitment of the Government as well as that of social partners, local Government and non-governmental organisations, is required. As done in previous years, the Government has actively consulted the Malta-EU Steering Action Committee (MEUSAC) and the Malta Council for Economic and Social Development (MCESD), two forums which bring together many of the social partners in the Maltese islands.

The Minister for Finance, whose Ministry is responsible for drafting the NRP and co-ordinating the required input from the relevant key stakeholders, participated in seminars and discussions on issues concerning EU 2020 whilst providing updates on the progress achieved in the NRP. In addition, a mid-year and end-of year assessment of the implementation of the NRP is also carried out.

Similar to last year, in this year's NRP, the need was felt to rationalise the input received from line Ministries and entities in order to have an end-product which is more focused, concise and readable.

A number of measures featured in the NRP will be co-funded using the Structural Funds (ERDF and ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund.

The Governance model based on the active participation of all relevant ministries and an extensive consultation with stakeholders used for the reporting of the previous NRP, will in principle be retained, as it has proved to be successful not only in terms of policy integration but also in increasing the line ministries' ownership of the NRP.