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Minister's Foreword

The 24th of February 2022 will be a day that will be remembered for generations. It will not only mark the start of the Russian and Ukrainian conflict, but it will also be the day that, in time, will reshape the fundamentals of the European economy. The fiscal repercussions of all this are yet to be seen.

Years of policy and political positioning on Russia and energy were tossed out, as the impact of a devastating conflict in Europe resurged from what we all presumed was a buried past.



Artillery shells exploded not just homes and livelihoods, but the fields and factories from where Europe's main source of raw materials for food production and construction come from.

Although COVID-19 seems to have faded away from media coverage, its effects are still being felt.

COVID-19 supply-chain struggles and the Ukrainian conflict are posing a serious challenge to the European road to recovery.

To compound matters, this conflict has also forced a redrawing of the European energy policy, further decreasing supply in an already dry market. This will continue to put pressure on the price of energy for the short- and medium-term.

While the international diplomacy is pushing Western countries to cut-off their dependency on Russian energy sources, there seems to be little thought of any fall-back sustainable position to cushion the price crunch for European families and businesses, especially low-income households. This decision could reshape the political landscape in the coming years in Europe and fuel further the politics of amoral populism.

On a local level, the Maltese Government will continue to implement a policy of economic assistance to minimise the impact of inflation, mainly through fuel and energy subsidies as well as direct support to Maltese households.

The Maltese economy has shown remarkable resilience, and the public finances are in a state where the Government can afford to continue to cushion exogeneous negative shocks.

The principled view remains that, a laissez-faire policy or even worse austerity measures negatively shock the Maltese economy and labour market such that a long-lasting impact would derail the economic recovery and have severe consequences on the long-term growth path of the Maltese economy. Ultimately, all this would have a spill-over effect on the social front.

This rationale will be the basis of an ambitious reform programme which will install important and long-term national pillars in areas such as the environment and the digital economy. The Government wants to prepare the country for a future where Maltese and Gozitan families enjoy a better quality of life. In order to achieve this, we need to make a better and more productive use of our resources.

We have seen strong economic growth and record unemployment rates over the past ten years and now it is time to make the next leap.

A handwritten signature in blue ink, appearing to read 'C. Caruana', with a long horizontal flourish extending to the left.

Mr. Clyde Caruana
Minister for Finance and Employment

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1. Introduction

1.1 Malta's Strategy

The Government's priority remains that of securing sustainable economic growth while ensuring the sustainability of public finances in the medium and long-term. Government is effectively addressing the country's main challenges, by undertaking measures targeting the green and digital transition; resilience of the health system; coverage, adequacy and sustainability of social protection system; quality and inclusive education; and improving skills, whilst ensuring fairness. In addition, it will continue implementing measures to enhance the governance framework across all economic sectors, in particular, the independence and effectiveness of the justice system, and addressing issues related to corruption, rule of law, money laundering and features of the tax system that may facilitate aggressive tax planning. The Government continues to also give particular attention to the needs of the Gozitan island by encouraging further investment, connectivity and job creation.

Whilst the impact of the COVID-19 pandemic on the health of the Maltese population is being mitigated by the rigorous and extensive vaccination programme, its economic impact, however, still lingers on in the form of supply chain disruptions, shortages, increasing Government debt and inflation. The economic recovery remains fragile and uncertain, especially in light of the impact of Russia's invasion of Ukraine. In view of the indirect consequences of the war in Ukraine, the Maltese authorities are continuously monitoring price developments for energy and commodities to extend and recalibrate economic support as necessary. This is expected to impact public finances in 2022 and possibly beyond.

The Government's fiscal support has been crucial for the Maltese economy to sustain employment whilst maintaining an unemployment rate at a record low of 3.2 per cent (based on the Labour Force Survey) by December 2021. The Government's fiscal stimulus has also helped economic activity to rebound significantly with a real Gross Domestic Product (GDP) growth rate of 9.4 per cent in 2021.

Whilst these figures show some encouraging signs of resilience, further efforts need to be made to address the four dimensions of competitive sustainability as set out in the 2022 Annual Sustainable Growth Survey (ASGS), namely, Environmental Sustainability, Productivity, Macroeconomic Stability, and Fairness, as well as the Employment Guidelines and Euro Area (EA) recommendations. To tackle these issues, Malta is prioritising sustainable investments which promote energy efficiency, the decarbonisation of the transport sector and improvement in waste management; whilst ensuring macroeconomic stability. Furthermore, strong institutions are essential to uphold the rule of law and ensure good governance. With this comes the challenge of balancing sustainable public finances with effective distributional policies aimed at strengthening social inclusion, promoting social mobility and reducing poverty to create a fairer society.

This overall strategy comes at the backdrop of Malta's Recovery and Resilience Plan (RRP) as assessed by the Commission and approved by the Council in 2021. The overall objective of Malta's RRP is to contribute to a sustainable, equitable, green and digital recovery effort, in a manner that complements and supports the Government's broader policy objectives, the European objectives - such as those emanating from the Green

Deal, as well as the Sustainable Development Goals (SDGs). Malta's RRP identifies six components:

1. Addressing climate neutrality through enhanced energy efficiency, clean energy and a circular economy;
2. Addressing carbon-neutrality by decarbonising transport;
3. Fostering a digital, smart and resilient economy;
4. Strengthening the resilience of the health system;
5. Enhancing quality education and fostering socio-economic sustainability; and
6. Strengthening the institutional framework.

The implementation of the reforms and investments outlined in Malta's RRP, as well as other necessary structural reforms and investments to tackle the above challenges will be directly contributing to several SDGs, as well as all the European pillar of Social Rights, as well as to the relevant CSRs.

1.2 Main Reform and Investment Priorities

1.2.1 Environment

Carbon neutrality serves as a core element of Malta's economic vision. The Government aims to accelerate the ongoing efforts towards increasing energy efficiency in buildings, promoting investment in renewable energy as well as increasing investment in green open spaces. In recent years, the Government increased public investment in transport infrastructure, the arterial and urban roads' networks and other transportation facilities with the scope of addressing existing infrastructural gaps, which should result in less congestion and better air quality. The Government is also continuing to encourage the use of public transportation, as well as the use of alternative modes of transportation, including maritime. Additionally, the Government will continue to conduct further studies on the hydrogen-ready pipeline project and the consolidation and upgrading of the national waste management infrastructure that will allow Malta to move to a more circular economy.

1.2.2 Productivity

Promoting digital, research and innovation investments is a top priority for the Government. In this regard, the Government will continue to encourage innovative, green, and digital investments by businesses to drive the transformation towards more sustainable and digitised operations. This objective is in line with component 3 of the RRP.

The Government is planning several projects to contribute to digital objectives, including through the digitalisation of public services and the adoption of digital technologies in companies, the health sector, and the justice sector.

The National Research and Innovation Strategy post-2020, will be published for consultation later this year, and will seek to promote more investment, address skill gaps, facilitate science-business links and the set-up of more effective governance in the R&I system. Meanwhile, various investment projects are being financed through the National R&I Fund.

1.2.3 Macroeconomic Stability

The Government's fiscal support has been crucial in safeguarding jobs during the pandemic and to provide the necessary fiscal stimulus during the economic recovery. In view of the still fragile and uncertain economic situation, especially in the context of the impact of Russia's invasion of Ukraine, the Government will maintain a supportive budgetary policy in 2022. Nevertheless, once economic conditions allow, the Government remains committed to gradually balance the budget over the economic cycle. It is also committed to ensure coverage, adequacy and sustainability of the social protection system, including that of pensions.

The Government has introduced numerous legislative amendments to improve governance and strengthen institutional capacities. These reforms are being complemented with a strengthening of the relevant institutional capacity, through increased staffing as well as the provision of the necessary training. Reforms in the judiciary system and in the Malta Police Force intended to strengthen governance are underway. Malta also continues to be committed to prevent, detect, and prosecute money laundering and terrorist financing activities in line with component 6 of the RRP.

1.2.4 Fairness

The Government aims to strengthen further the distributional policies enacted in recent years with the objective of enhancing social inclusion, promoting social mobility and reducing poverty, in line with component 5 of Malta's RRP. The Government will seek to incentivise people to work by extending and increasing measures which are aimed at making work pay. Furthermore, increasing resilience in the healthcare system is another priority area, particularly due to the COVID-19 pandemic and the resultant increase in healthcare expenditure.

1.3 The Sustainable Development Goals (SDGs)

Progress has been made in all areas related to the SDGs and the Government is ensuring that the principles outlined in the 2030 agenda are being followed. Furthermore, it was ensured that budgetary measures are aligned with the SDGs and that such initiatives are in line with the 2030 Agenda targets.

2. Macroeconomic Context and Scenario

2. Macroeconomic Context and Scenario

2.1 Macroeconomic outlook for the period covered by the programme

The COVID-19 pandemic has had a strong impact on the Maltese economy, in part owing to its exposure to tourism and the contact-intensive services sectors. This consequently led to an unprecedented drop in output of 8.3 per cent during 2020. In 2021, the Maltese economy started to show signs of recovery as notable progress was made in vaccination rollouts and containment measures were being gradually eased. In fact, in 2021 the Maltese economy recorded a real growth rate of 9.4 per cent. Growth of the Maltese economy was broad-based, with most sectors registering considerably better performance. From the expenditure side, the domestic demand component was the main driver for growth, contributing 8.0 percentage points. This was supported by consistent growth in Government consumption and investment, as well as buoyant labour market developments which generated positive consumption dynamics. Net exports also contributed 1.8 percentage points to growth, while inventories contributed negatively by 0.4 percentage points.

Details on the economic outlook, as well as a sensitivity assessment of the baseline scenario are presented in the Update of the Stability Programme.

2.2 Distributional Impact of Selected 2022 Budget Measures

This section analyses the impact of the selected policy measures announced in the 2022 Budget¹. These measures include: an extension of the in-work benefit, a revised supplementary allowance, a weekly increase in pensions of €3.25, a €50 increase in the grant given to the elderly, a tax rebate to pensioners, a tax refund to employees and the part-time income tax reduction from 15 per cent to 10 per cent. In addition, this section also includes the impact of the measure announced in February 2022 relating to the one-time cash grant to mitigate the impact of inflation, also known as the stimulus cash grant.

To assess the impact of these initiatives, simulations were modelled using EUROMOD. The simulations consisted of a baseline scenario, which reflected the 2021 tax and benefit model and a scenario in which the reform is modelled for estimation. For each measure, the difference between these two scenarios is the impact of that specific policy reform.

EUROMOD is a static model and therefore, the results illustrate the impact of the reform measures presuming that everything else remained unchanged. These results cannot be compared to previous estimations as found in earlier editions of the NRP because of the constant changes in the model which affect the baseline scenario².

2.2.1 Stimulus Cash Grant

In view of increasing inflationary pressures, particularly in food items, in February 2022, the Government announced the disbursement of a one-time cash grant to alleviate the effects of inflation. Workers and students received a cash grant worth €100, while pensioners and individuals on social benefits received €200. This measure also constitutes a fiscal stimulus to the economy to further support the economic recovery, following the increase in the number of positive cases from the Omicron variant during December 2021-January 2022.

This measure is expected to reduce the overall at-risk-of-poverty rate by around 0.61 percentage points, as shown in Table 2.1. This decline is mainly driven by a decrease of 1.66 percentage points in the at-risk-of-poverty rate among elderly households, reflecting the higher cash grant for this category. Moreover, as shown in Chart 2.1 which shows the impact the reform has on the equivalised disposable income by decile, reveals that this policy is expected to bolster the disposable income of all income groups.

2.2.2 Extension of the In-Work Benefit

The In-Work Benefit is aimed to assist couples and single parents who are in a gainful occupation and have children under the age of 23 years, who are still dependent and living within the same household. In 2022, the Government widened the eligibility income thresholds as follows: for gainfully employed couples, the annual income limit increased from €35,000 to €50,000; for couples where only one parent is in gainful employment, the annual income limit increased from €26,000 to €35,000; and for single parents in gainful employment, the annual income limit increased from €23,000 to €35,000. The new minimum rate given to those who will benefit from this extension, is now equal to €200. Also, all existing rates were increased by €100 per annum for each child.

The results from EUROMOD show that this extension of the in-work benefit is expected to have a positive impact in terms of the overall at-risk-of-poverty rate which is estimated to decline by around 0.26 percentage points, as shown in Table 2.1. The results also show a slight drop in the Gini coefficient indicator which means that the measure is estimated to reduce income inequality.

2.2.3 Revised Supplementary Allowance

Another 2022 Budget measure is the increase in the supplementary allowance for all those entitled to this benefit. This benefit targets low-income households which includes pensioners, elderly persons as well as persons who are in employment and do not have children under 16 years of age. The increase in the supplementary allowance ranges from €3.47 to €6.50 per week.

From the EUROMOD simulation, this reform is expected to reduce the overall at-risk-of-poverty rate by 0.32 percentage points. As shown in Table 2.1, this increase is estimated to bring about a decrease of 1.27 percentage points in the at-risk-of-poverty rate among elderly and of 0.11 percentage points in the working age cohort. Furthermore, Chart 2.1 shows that the rise in disposable income is considerably higher by the bottom two deciles, reflecting the targeted nature of this measure. This result is also confirmed by the improvement in the Gini coefficient.

2.2.4 Other measures targeted to the Elderly Cohort

In the 2022 Budget, the Government also announced a set of additional measures targeting pensioners which are simulated together. These measures include the weekly increase of €3.25 in contributory and non-contributory pensions (over and above the increase in the statutory Cost of Living Adjustment (COLA)), the €50 increase in the elderly grant to people aged 80 years and over who are still living in the community or in a private care home, and the increase in the tax rebate on pension income up to a maximum of around €40.

Collectively, as shown in Table 2.1, these measures are expected to result in a decline of 0.76 percentage points in the at-risk-of-poverty rate among the elderly cohort. The Gini coefficient also registered a decline, suggesting that these measures help in alleviating income inequality. Chart 2.1 illustrates that there is a broad positive distributional impact,

Distributional impact of reforms (in percentage points)

Table 2.1

	Stimulus Cash Grant	Extension of In-Work Benefit	Revised Supplementary Allowance	Targeted to Elderly Cohort	Targeted to Working Age Cohort
				Pension increase, Tax rebate to pensioners and Increase in Elderly Grant	Tax refund and Part-time Income tax reduction
Poverty Indicators¹					
Population	-0.61	-0.26	-0.32	-0.15	-0.06
Children	-0.67	-0.62	-0.11	0.00	-0.18
Working Age	-0.31	-0.15	-0.11	-0.03	-0.04
Working Age Economically Active	-0.28	-0.19	-0.10	0.00	-0.06
Elderly	-1.66	-0.34	-1.27	-0.76	0.00
Gini Coefficient					
	-0.002	-0.001	-0.001	-0.001	-0.000

¹ The poverty indicators capture poverty risk of the total population and different sub-population groups. The indicator is based on the at-risk-of poverty (AROP) rate of the baseline scenario. Households are defined as being at risk of poverty (poor) if their equivalised disposable household income is below the poverty line, which is defined as 60% of the median equivalised disposable household income.

Source: Economic Policy Department Workings

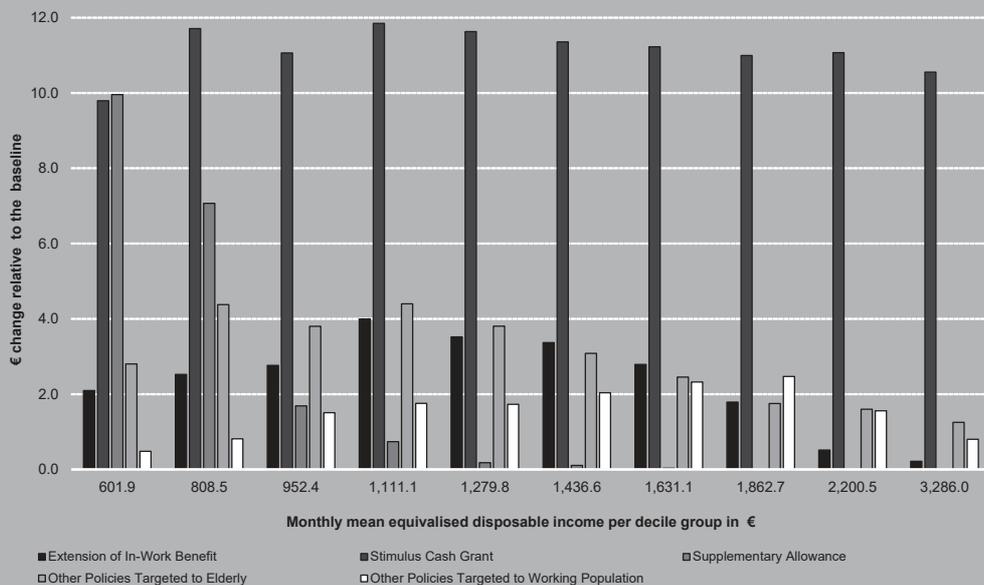
yet those receiving a low to average pension are expected to be the more favoured of the beneficiaries.

2.2.5 Other measures targeting the Working-Age Cohort

As announced in the 2022 Budget, the Government increased the tax refund scheme to employees. Thus, workers will benefit from an additional amount ranging between €15 and €45, whereby the highest refund will be granted to low-income earners. It was also announced that the part-time income tax rate will be reduced from 15 per cent to 10 per cent.

Chart 2.1

Distributional Impact of the Selected 2022 Policy Measures



Source: Economic Policy Department Workings

Jointly, these measures are expected to reduce the overall at-risk-of-poverty rate by 0.06 percentage points. Chart 2.1 shows that there is a positive impact on the disposable income of all income brackets, with the sixth, seventh and eighth deciles experiencing the highest rise in disposable income.

2.3 Macro Economic Impact of Structural Reforms

The Maltese Government continued to introduce a number of reforms targeting higher productivity, increased employment and improved living standards. These reforms, outlined in Chapter 3, are crucial to meet the objectives laid down in the Country Specific Recommendations (CSRs) as they aim to continue:

- strengthening the country's institutions and good governance in line with international standards;
- improving the physical infrastructure related to road transport to reduce traffic congestion;
- supporting the green transition by encouraging investment towards energy efficiency, promoting the use of energy from renewable sources and supporting investment in sustainable transport;
- encouraging greater investment in research and innovation;
- enhancing the digitalisation of several Government services and other segments of the economy;
- strengthening fiscal responsibility and ensuring long-term sustainability of public finances;
- reducing poverty and promoting social inclusion; and
- improving inclusiveness of education and reducing skills gaps.

The following section seeks to illustrate the likely economic impact of two possible scenarios relating to the extension of the free public transport scheme. This measure has been selected since it aims to address different priority objectives, namely addressing traffic congestion, supporting the green transition, and promoting social inclusion.

2.3.1 Free Public Transport Scheme

Malta currently has one of the highest rates of cars per 1,000 inhabitants amongst the EU Member States, with the rate of vehicles registered on the island growing at a faster rate than the growth in the population. In light of this, the Maltese Government announced, in the Budget for 2022, a fare-free public transport scheme to all Personalised Scheduled Public Transport Cards (known as the 'tallinja' card) holders thus becoming the second Member State in EU to do so. The scheme aims at incentivising higher use of public transport thus contributing to lower use of private vehicles, lower road congestion whilst also contributing to keeping climate change targets on track. The measure, which is set to come into force from October 2022, will be an extension of the public-transport schemes already in place which granted free public transport usage to around 80,000 individuals, namely those aged 14 to 20, students aged 21 and over, individuals over 70 years of age and persons with a disability.

Within this context, this sub-section aims at illustrating the economic impact of some of the possible benefits of the free public transport scheme based on modelling generated through the QUEST III model.³ Firstly, it must be noted that this analysis does not capture all impacts of this policy measure. Indeed, the only policy change being modelled is the one relating to some potential benefits of the free public transport scheme, while the other policy parameters are assumed to remain constant. Secondly, the presented analysis only takes into account the impact of the scheme announced in the 2022 Budget and hence does not include the possible benefits of free public transport offered

previously to around 80,000 individuals, some of whom have been enjoying the free service since 2017. In addition, it must be noted that the scenarios presented in Table 2.2 do not aim at modelling the full impact of the free public transport scheme, but only some of the possible benefits of the scheme. Particularly, the scenarios presented in this section only take into account the following impact channels⁴:

- increase in disposable income for currently paying public transport users. These individuals will be saving transportation costs relating to their use of the public transport;
- increase in disposable income for ‘modal shifters’. This includes individuals who will start to opt for public transports for some of their trips, and who will be saving on fuel costs. Moreover, it is expected that there will also be individuals who will completely shift to public transport. Cost savings for this sub-group are even more pronounced and will potentially include cost savings from fuel, licence fee, insurance, as well as maintenance costs for the vehicle. Within our scenarios, it is assumed that only 20 per cent of all ‘modal shifters’ will fully-shift to public transport;
- saving in travelling time due to lower traffic congestions as a result of lower vehicles on the road.

This scheme is expected to reap several other benefits which were not considered within the below presented scenarios due to difficulties in estimating their impact or due to not having the right variable through which the impact could be channelled within the QUEST model. In particular, the scheme is expected to have significant environmental and health benefits because of improved air quality. Particularly, through an increase in the use of public transport, a reduction in the number of cars on the road is expected, leading to lower traffic congestions and consequently, a drop in emissions and pollutants. Other possible benefits of the scheme, which have also not been modelled, include increasing the mobility and consequently promoting social inclusion of socio-economically

Estimated economic impact of some of the benefits of the free public transport scheme using two hypothetical scenarios

Table 2.2

Years after shock	1	2	3	4	5	8	18
Year	2023	2024	2025	2026	2027	2030	2040
GDP*							
Scenario 1	0.09	0.15	0.18	0.19	0.19	0.20	0.20
Scenario 2	0.14	0.22	0.26	0.27	0.28	0.29	0.30
Employment*							
Scenario 1	0.14	0.22	0.25	0.26	0.26	0.27	0.26
Scenario 2	0.21	0.32	0.36	0.38	0.38	0.39	0.38
Employment (Absolute Change)							
Scenario 1	357	549	630	660	672	678	671
Scenario 2	530	812	928	968	981	986	977
* Percentage difference from baseline							

Source: Economic Policy Department Workings

disadvantaged groups. Consequently, as clearly outlined above, the results presented below are an illustration of potential impact and not an exhaustive assessment of the policy measure.

Within the presented analysis in Table 2.2, which aims at highlighting the likely economic impact of some of the benefits of the fare-free public transport scheme, two hypothetical scenarios are considered.⁵ Scenario 1 is associated with the likely economic impact of free public transport in which the modal shifters amount to 4,000 along with a hypothetical 2.1 million hours of saved travelling time every year (which translate into a weekly average of five minutes of saved travelling time for every road user). On the other hand, Scenario 2 is associated with the likely economic impact of the scheme whereby 6,000 individuals are assumed to be modal shifters and with a hypothetical 3.5 million hours of saved travelling time every year (which translate into a weekly average of 8 minutes of saved travelling time for every road user).

Table 2.2 shows that shorter journey times due to reduced traffic, along with an increase in household's disposable income as a result of the fare-free public transport scheme, are expected to reap considerable economic benefits. Indeed, relative to the baseline, output within 5 years is expected to increase by 0.19 per cent under Scenario 1 and by 0.28 per cent under Scenario 2, with both figures being close to the long-term impact. In addition, savings in travelling time are expected to have significant improvements on working time and hence expected to boost employment levels. Specifically, employment by the fourth year of the scheme is expected to increase by around 0.26 per cent under Scenario 1 and by 0.38 per cent under Scenario 2 relative to the baseline, which increase is expected to be sustained in the long-term.

Footnotes:

¹ The measures are selected based on what can be modelled within EUROMOD using the EU-SILC micro-data.

² EUROMOD is a tax-benefit microsimulation model for the EU that enables researchers and policy analysts to calculate, in a comparable manner, the effect of taxes and benefits on household incomes and work incentives for the population of each country and for the EU. The simulations are based on the 2021 tax and benefit system of Malta using EUROMOD version I4.0 and the 2019 EU-SILC microdata.

³ 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.

⁴ The scenarios modelled in this section also take into account the financing cost of the scheme incurred by the Government. The financing cost refers to expense emerging solely from the sale of public transport tickets and does not include any investment within the public transport sector.

⁵ Information on the currently paying public transport users and estimates of the 'modal shifters' were provided by Transport Malta. The latter estimates are surrounded by uncertainty as a result of the change in behaviour arising from the COVID-19 pandemic. On the other hand, estimates of time savings are hypothetical. Thus, this analysis focuses on estimating the likely impacts expected from this scheme if either of these scenarios take place.

3. Key policy response to major economic, employment and social developments and challenges

3. Key policy response to major economic, employment and social developments and challenges

3.1 Introduction

The European Commission's new growth strategy, the European Green Deal, brings together four complementary dimensions to competitive sustainability: environment, productivity, macroeconomic stability, and fairness. Malta has its own set of challenges in these aspects, as also identified in the Commission Staff Working Document accompanying the approval of the assessment of Malta's Recovery and Resilience Plan (RRP).

In this context, this document sets out an ambitious policy action plan to address Malta's response to major economic, employment and social developments and challenges, grouped, to the extent possible, to the four dimensions mentioned above.

3.2 Addressing the Challenges

3.2.1 Environment

Related CSRs:

- ***focus investment on the green transition (CSR 3 2020), in particular on clean and efficient production and resource and energy efficiency (CSR 3 2019, CSR 3 2020) and natural resources management (CSR 3 2019).***
- ***focus investment on sustainable transport (CSR 3 2019 and CSR 3 2020) and reducing traffic congestion (CSR 3 2019) and waste management (CSR 3 2020).***

Achieving carbon neutrality by 2050 is at the heart of Malta's economic vision. To this effect, the Government has developed its Low Carbon Development Strategy (LCDS), which maps a set of measures targeting the decarbonisation of the economy and which will lead to carbon neutrality by 2050. The strategy, in combination with other national strategies and plans such as the National Energy and Climate Plan (NECP), the Long-Term Renovation Strategy (LTRS), the Long-Term Waste Management Plan (WMP), the National Strategy for the Environment (NSE), the National Transport Strategy 2050 (NTS) and the Transport Master Plan (TMP) will reduce carbon emissions across the main sectors of the Maltese economy.

Measures supporting the green transition, especially those focusing on energy efficiency and renewable energy, contribute towards ensuring access to affordable and clean energy (SDG 7) and towards taking climate action (SDG 13). Further to contributing to SDG 13, measures aimed at achieving sustainable mobility and at decarbonising transport, contribute towards the following: building resilient infrastructure, promoting inclusive and sustainable industrialisation, and fostering innovation (SDG 9), access to

transport and expanded public transport which, in turn, contributes towards sustainable cities and communities (SDG 11) and sustainable consumption and production (SDG 12). Government's efforts in natural resources management (SDG 14 and SDG 15) aim to contribute directly towards clean water and sanitation (SDG 6), while the policy response with regards to waste management contributes directly towards ensuring sustainable waste services (SDG 11).

3.2.1.1 RRP related measures

The RRP contributes to environmentally stable economic growth, especially in supporting the green transition. Its measures relate to energy efficiency, renewable energy, sustainable transport, and waste management.

i) Milestones and targets for reforms and investments completed by 31 December 2021

Malta has delivered reform and investment milestones and targets in this thematic area. As part of the Long-Term Renovation Strategy, the Building and Construction Authority Act has entered into force forming the institutional framework.

In waste management, the updated Environmental Protection Act addressing single-use plastics has been brought into force. In addition, the adoption of Construction and Demolition Waste Strategy for Malta shifts the treatment of such waste away from disposal to the preparation for re-use and recycling. These enactments strengthen governance and eventually the circular economy.

Energy efficiency in public education spaces has continued through the completion of the Energy Performance Audit of two public schools. This lays the groundwork for the investment in renovation, deep retrofitting, and renewable energy in these buildings.

In addressing the challenges of decarbonising transport, a National Household Travel Survey has been completed. This forms the basis for policy options to promote the sustainability of the transport sector and encourages the use of collective and multi-modal transport. The Local Councils Association and the Transport Malta agency have entered into an agreement on the regeneration potential in urban areas to reduce the socio-economic and environmental impact of vehicles therein. The public administration has also put into operation 15 office facilities that enable remote work for public service employees in Malta, as well as an associated Remote Working Policy. These actions contribute towards the reduction of traffic congestion and associated emissions apart from promoting better work-life balance.

ii) Milestones and targets expected to be fulfilled between 1 January and 31 December 2022

Further action will continue to be implemented in this area during 2022. Actions related to the Long-Term Renovation Strategy include training and certification of professionals in the construction industry. Tackling the skills aspect of renovation, increases the availability of qualified staff whilst better supporting such projects.

In the area of waste management, action is being taken to create and conclude adoption of standards for the construction industry.

3.2.1.2 Additional Measures

i. The Green Transition

The green transition refers to the transformation of an economy into a more sustainable, resource-efficient, and competitive one through the implementation of measures that mitigate and adapt to climate change and combat environmental degradation. The European Green Deal puts forth several goals that European Union (EU) Member States need to work towards, such as achieving carbon neutrality by 2050, so that the green transition gets underway. This green transition requires reforms in various areas of the economy: from sustainable finance to green careers to cleaner energy sources, as better explained in the sub-sections below. R&I efforts supporting the green transition are being elaborated in Section 3.2.2.

Sustainable finance

Following the launch of the Green Market in 2021, the Malta Stock Exchange (MSE) continues to promote green bonds while also contributing to the discussions at national and regulatory level around sustainable finance. Furthermore, the Malta Financial Services Authority (MFSA), through its participation in the Network for the Greening of the Financial Services (NGFS), the European Securities and Markets Authority (ESMA), Coordination Network on Sustainability (CNS) and other fora, is seeking to align with international and European policy frameworks whilst taking strategic steps towards the integration of sustainable finance regulation into its supervisory remit.

Green careers

Jobsplus has launched the INTERCEPT programme aiming to motivate, mobilise and support persons who are not in education, employment, or training (NEETs) through a Green Career Pathway. The project is set to be fully implemented by 2024. Furthermore, together with several foreign partners, Jobsplus, in 2021, launched the SMARTLY – NEETs' Employability in the Green and Digital Economy programme.

Energy efficiency

Over the recent years, the Government has launched several schemes aimed at increasing energy efficiency for both households and enterprises. The roof insulation and double-glazing scheme will be relaunched in mid-2022. Home visits, whereby households are given advice on how to consume less energy and water continue to take place. Furthermore, circa 700 inefficient appliances have been replaced following house visits targeting low income and vulnerable households.

The Promotion of Energy Audits in Small and Medium Enterprises scheme, on the other hand, encourages small and medium enterprises (SMEs) to register for energy audits to identify actions within the enterprise's operation that can lead to energy efficiency improvement. Through the Investment Aid for Energy Efficiency Projects scheme, Malta Enterprise has facilitated investments in technological solutions that provide improved energy efficiency and contribute directly towards a reduction in the energy requirements of the beneficiaries.

Moreover, the scheme to Sustain Energy and Water Efficiency within Voluntary Organisations will be launched in the second quarter of 2022.

Alternative sources of energy

Currently, there are a number of grant schemes in place for households promoting the use of renewable energy, mainly the use of photovoltaic (PV) panels as well as the use of battery storage systems. These schemes are complemented by the feed-in tariff scheme which further encourages the use of renewable energy. Grant schemes for the purchase of heat pump water heaters and solar water heaters are also ongoing. Additionally, the Government is also providing support schemes for medium- and large-scale renewable energy installations through a competitive process, whereby investors are invited to bid for support in the form of operating aid to electricity from renewable energy sources (RES) with a capacity equal or larger than 40kW but less than 1,000kW. Eight calls have been launched since June 2021, and two remaining calls are scheduled for June 2022.

Moreover, in February 2022, a scheme to promote the installation of PV panels on Government buildings has been launched with the Energy and Water Agency (EWA) and is currently receiving expressions of interest from ministries, departments, and public entities.

ii. Sustainable transport and road congestion

In line with Malta's 2017 national transport strategic vision for 2050 and operational plan to 2025, the Government is improving the road network (particularly the TEN-T roads) by removing traffic bottlenecks and introducing measures aimed at achieving more sustainability in the way we travel. Together with Transport Malta and the National Statistics Office, the Government has been carrying out the National Household Travel Survey towards the end of last year. This would help in the better understanding of Maltese residents' daily travel patterns and hence, in the formulation of more targeted measures and incentives.

The removal of traffic bottlenecks aims to reduce traffic congestion in urban areas; thus, enabling more sustainable transport, by promoting other modes of transport including cycling and pedestrian facilities. To address congestion and pollution, the Government has committed an investment of €700 million over 7 years to upgrade the road network, starting in 2019. By 2021, more than €400 million worth of works have been completed. Furthermore, road infrastructure works are ongoing at the Airport Intersection and Luqa Junction Projects and on the Mrieħel underpass project (Node WA7). In order to contribute towards the finalisation of the TEN-T network and to ensure safe, climate resilient roads, TEN-T road investments are also foreseen as part of potential investment under the Cohesion Policy for the 2021-2027 programming period.

Through €12.4 million in incentive grants in 2021, the Government strengthened its efforts to reduce the transport sector's carbon footprint via the electrification of vehicles. The Government has continued to offer grants on the purchasing of bicycles/pedelecs. As a result, 1,079 EVs and 2,917 pedelecs/motorcycles were registered until the end of December 2021.

The shift towards decarbonisation of the transport sector is being also supported through the Government's commitment towards the gradual introduction of charging pillars. As at the end of January 2022, 105 charging pillars have been commissioned and are operational.

As part of its budget measures for 2022, the Government will extend the measures relating to the purchase of EVs including relief from registration tax and exemption from the annual road licence fee for a period of five years from the date of first registration, for EVs and electric plug-in vehicles. In addition, the shift towards EVs is also being incentivised through lower cost per unit of electricity consumed for owners of electric cars during off-peak hours. Furthermore, as from 2023, the relief from registration tax on plug-in hybrids will start to be applicable to plug-in hybrid vehicles of 50 kilometres autonomy on the battery, up from the current electric autonomy of 30 kilometres.

A new grant has also been launched for the installation of PV panels on minibuses, coaches, and trucks. Another two new schemes encourage the operators of these vehicles to reduce exhaust from their vehicles through the installation of diesel particulate filters (DPF) and selective catalytic reduction (SCR) systems, whilst another scheme promotes the repowering of vehicles with an electric drive train.

Finally, to reduce air pollution from transport, maritime transport is also being targeted. The Government is in the process of acquiring a new ferry to permanently join the current fleet which operate the Malta-Gozo Channel, using cleaner energy. Moreover, through the Grand Harbour Clean Air Project, the Government is also committed to provide shore supply in the Grand Harbour to enable berthed vessels to switch off their gas- or heavy-fuel-oil-fired engines and plug in to shore side electricity to power their on-board systems. This project will considerably improve air quality particularly in the highly urbanised areas surrounding the Grand Harbour. The first phase of the project is currently expected to be completed by end 2023.

iii. Waste management

The Long-Term Waste Management Plan (WMP) 2021-2030 was adopted in December 2021 and includes policy measures targeting recycling and diversion of waste from landfills, as well as supporting the transition to a more circular and resource-efficient economy.

The ECOHIVE project will modernise and upgrade the current waste management infrastructure. It is made up of four facilities: the Waste to Energy Facility, the Material Recovery Facility, the Organic Processing Facility, and the Thermal Treatment Facility for hazardous waste.

Some permits for the setting up of a Waste to Energy Facility in Malta have been obtained and the tendering process for the designing, building and operation of the facility will soon be launched. This facility will manage non-recyclable waste from several waste streams.

Preparations related to the design of the Organic Processing Plant, which will use the heat generated to convert organic waste into high quality agriculture compost as well as the production of biogas, and relevant studies for the design of the Material Recovery Facility, which will sort recyclable waste such as paper, plastic and metals and direct them for export for recycling, will continue this year.

Further studies will be carried out during 2022 in preparation for the tender of the Thermal Treatment Facility, including the feasibility study, the cost-benefit analysis, the basic design and cost estimates. This Facility shall treat a range of hazardous

waste fractions that may not be landfilled, including abattoir waste, clinical waste, and pharmaceutical waste amongst others.

As part of the ECOHIVE Project, WasteServ is also building a Skip Management Facility aimed at streamlining the waste received in skips to specific plants and thus increase the amount of waste directed for recycling and away from the landfill. Tenders will be issued in 2022, with this facility expected to start operating in 2024.

As an expansion to WasteServ's current infrastructure, an advanced Multi-Material Recovery Facility (MMRF) and storage facility are being built. The MMRF which will be inaugurated in 2022, will be open to all commercial entities who wish to dispose of bulky waste. The existing Civic Amenity Sites will continue to operate as per current practice for the disposal of bulky waste, coming from the domestic sector only.

Besides these investments in the waste management infrastructure, the Encouraging Sustainable Waste Practices in Households and Beyond Project, an investment of around €8 million part-financed through Cohesion Funds, seeks to increase the amount of recycling and to divert organic waste away from landfills by focusing on waste separation at source. The project provided households, schools, and the public sector with different facilities to encourage waste separation at source. The Government is also seeking to lengthen the lifetime of products through the opening of four Reuse Centres during 2022.

Moreover, to incentivise the circular economy in the public sector, the second National Action Plan on Green Public procurement, which introduced several criteria to promote circularity in the purchasing of items by the public sector, was also adopted in 2021.

The Government shall also be launching a Beverage Container Refund Scheme in 2022, with the aim of enhancing the collection and recycling of single-use plastics (SUPs), metal, and glass beverage containers, increasing national recycling efforts and reducing litter. As at end of 2022, 70 per cent of the single-use containers registered in terms of the Scheme as having been placed on the market during the same period, need to be collected by the operator. This target will gradually increase to 90 per cent by 2026.

As regards wastewater, in April 2021, the Water Services Corporation (WSC) commissioned a farm waste dewatering facility at Sant' Antnin Urban Wastewater Treatment plant in Marsascala to alleviate the impact of farm waste discharges on the urban wastewater treatment plants until complete disconnection of this waste stream is realised through a permanent solution.

3.2.2 Productivity

Related CSRs:

- ***focus investment on research and innovation (CSR 3 2019 and CSR 3 2020).***
- ***focus investment on the digital transition (CSR 3 2020).***
- ***promote private investment to foster the economic recovery (CSR 3 2020).***

The Maltese Government is cognisant of the fact that research and innovation (R&I) plays a crucial role in supporting economic growth. New knowledge means new products and new ways of carrying out tasks, which in turn leads to smart job creation and more efficient resource allocation in line with SDG 8 (decent work and economic growth). The different measures that are being taken and strategies that have been launched, such as, Malta's Research and Innovation Smart Specialisation Strategy (RIS3) 2021-2027 all aim to improve the country's industry, innovation and infrastructure (SDG 9). R&I is also key in enabling the green transition, and other strategies like the National Strategy for Research and Innovation in Energy and Water (2021-2030) contribute greatly towards the provision of affordable and clean energy (SDG 7).

Through the digitalisation of several Government services and other segments of the economy, such as transportation, healthcare, and education, efficiency is expected to improve. Productivity is expected to be enhanced, which would also lead to positive effects on economic growth (SDG 8).

The following sub-sections outline Malta's key policy responses to these challenges.

3.2.2.1 RRP related measures

The RRP includes select measures contributing to national productivity through digitalisation and research and innovation (R&I).

i) Milestones and targets for reforms and investments completed by 31 December 2021

Malta has delivered reform and investment milestones and targets in this thematic area. In R&I, Malta has adopted the Smart Specialisation Strategy which provides, amongst others, a particular focus on fostering business R&I, strengthening public-private cooperation, inter-agency collaboration, raising awareness of R&I funding, and simplification of related procedures. The anticipated benefits of this strategy are expected to be the better targeting of holistic efforts, increased transformation of research findings into marketable solutions as well as building competitive advantage in the selected niches.

ii) Milestones and targets expected to be fulfilled between 1 January and 31 December 2022

Further work along the above is expected in 2022. Specifically in digitalisation and continuing on the remote working policy for the public administration will see the Modern Digital Workplace, a remote work platform, being strengthened further with part of the investment envisaged for the provision of the necessary hardware and software to enable remote work for public officers.

A scholarship scheme for students to become ICT professionals will also be launched. This will deepen the digital transformation by promoting advanced digital skills, generating more human resource capacity in this key sector.

3.2.2.2 Additional Measures

i. Digital Transition

Following the launch of the National Artificial Intelligence Strategy in 2019, six public sector pilot projects targeting traffic management, healthcare, education, customer service, tourism and utilities have been initiated, with the aim to enhance the digitalisation

of these various areas within the public sector in Malta. The education and customer service pilot projects are at an advanced stage and are expected to be finalised by the end of 2023. The pilot projects related to transport, tourism, and utilities are at tendering stage, while the pilot project related to healthcare is yet to start.

Malta has recently made advancements in the digitalisation of spatial data use as emanating from the SIntegraM project. This data relates to billions of points of locations that generate information and which can be integrated in various cross-thematic systems such as security, health, transport, social, physical and the natural environment constructs.

The National Statistics Office (NSO) and the Malta Statistics Authority (MSA) are switching to digital methods, such as the digitalisation of the 2021 Census and new surveys like the Skills Register. Moreover, the statistical production architecture project will focus on the setting-up of a single platform for statistical production across the various statistical domains in addition to a centralised data warehouse and a revamped data dissemination portal.

Tourism

The Maltese Government has developed a holistic digital strategic roadmap covering a period of five years, to ensure that any investment in the local tourism attractions is stimulated by advanced technologies and reliable data to maximise the potential of aligning the attractions to the ever-changing customer needs. The Digital Tourism Roadmap has been drafted and a working document was presented for public consultation to a number of key stakeholders in March 2022.

In 2021, the Malta Tourism Authority (MTA) has also embarked upon a project that will provide data to several different tourist policy stakeholders to help them make better informed decisions and plan different policies according to their needs. The MTA has also initiated the procurement process for the creation and maintenance of an AI Platform for policy and product development. Another initiative was the launch of a virtual 3D citizen using AI, whereby tourists will receive customised information such as places of interest.

Further measures in 2021, amongst others, include the setting up of a Digitisation Unit at Heritage Malta to start digitising its collections and sites, making these available online for the public. Moreover, in Gozo, a virtual reality project at Ċittadella (Victoria) is also underway.

Enterprise

The Government is also encouraging, through various measures, the digitalisation of private enterprises, especially SMEs, which form the backbone of the Maltese economy.

Tech.mt aims to position Malta as a quality, creative, tech-savvy country, and promote Malta as a suitable set-up for foreign direct investment, whilst also promoting the local technological industries abroad.

In 2021, Tech.mt spearheaded an initiative to assist micro businesses and small and medium enterprises (SMEs) with limited to no digital presence, in digitalising their business. Tech.mt also helps businesses to apply for the incentives available for digitalisation so as to maximise, as much as possible, the chance of getting awarded funding.

In December 2021, the Government has also launched a Smart and Sustainable Investment Grant aimed at providing financial assistance to spur the transformation towards more sustainable and digital operations. Further detail on this grant is provided below.

Government services

Despite Malta ranking first out of 36 European countries in the provision of eGovernment Services, the Government continued with its efforts to improve its performance in this area. In particular, it has sought support to further increase the use of its e-services through the DigIT-X project, which is expected to be finalised in May 2022. 19 public services have undergone business process re-engineering and are now in the final phase in which recommendations are being put forward for their improvement. Discussions have begun with business owners regarding the implementation of the recommendations. The second part of the project, the setting up of a Digital Transformation Hub, is also well underway and will be instrumental in ensuring that improvement projects and business process re-engineering can continue to be undertaken following the conclusion of this project. Finally, the creation of a consent management portal will also support the Public Service Strategy which places great emphasis on citizen empowerment through the correct and ethical use of data for the purpose of public service provision.

The Connected eGovernment (CONvErGE) project, which will be finalised by Q1 2023, aims to create several eService applications in the areas of Government to Business (G2B), Government to Customers (G2C) and Government to Government (G2G).

ii. Research and Innovation

Malta's R&I policy is currently steered by the National Research and Innovation Strategy 2020, developed by the MCST. The National R&I Strategy 2020 sought to achieve the establishment of a comprehensive R&I support eco-system by way of a direct contribution towards a stronger knowledge-base economy, by prioritising the build-up of capacity and scientific excellence in the earlier stages of the R&D process, thus consolidating existing research capabilities. Work on the development of the National R&I Strategic Plan post-2020 is ongoing and this is expected to be launched for public consultation by the end of Q2 2022.

Under the EU Framework Programme Horizon 2020, 257 Maltese entities participated in a total of 192 projects and received €37.2 million in EU funding. Proposal submissions to the new Framework Programme, Horizon Europe (2021-2027), are still being evaluated. In addition, the MCST is implementing several support schemes funded through national funds, aimed at strengthening the Maltese participation in Horizon Europe.

As of February 2022, the MCST has implemented other investment projects through FUSION, the National R&I Fund. Five new projects for an applied research programme between consortia of around €295,000 each were added, bringing the number of projects under the Technology Development Programme (TDP) to 59 projects since its launch in 2015. The TDP-Lite Programme is also supporting five new projects with a €664,000 budget allocation. In 2021, MCST awarded 11 new Research Excellence Programme (REP) projects with a €540,000 budget allocation. In Q1 2022, a new FUSION REP call was launched, and 34 applications were received. Projects are currently at external independent evaluation. The MCST R&I Unit launched a new IPAS+ programme and FUSION CVP programme. The Unit will also launch a competitive call for the Space Research Fund and a new thematic programme called "Smart Cities" in Q2 2022.

Maltese entities are participants in consortia of four projects under activities managed by Partnership for Research and Innovation in the Mediterranean Area (PRIMA) with EU funds. The initiative implemented between Malta and Turkey under PRIMA, the MCST-TÜBITAK Joint Call for R&I Proposals, will be awarding €200,000 of national funds to two projects in Q1 2022 - these having an overall budget of around €400,000. MCST opened another competitive MCST-TÜBITAK Joint Call in March 2022 to support cooperation in science, technology, and innovation in areas related to water management, sustainable farming systems and agro-food value chain.

Through MCST's active participation in the Joint Programming Initiative Healthy and Productive Seas and Oceans (JPI Oceans), two projects with Maltese beneficiaries have been selected for funding under each of the MartTERA 2021 programme and the BlueBio 2020 programme. The outcomes of the BlueBio 2021 call shall be made available in Q2 2022.

iii. Supporting the acceleration of the Green Transition

Malta is also recognising the enabling role of R&I in providing much-needed innovative and green policies, services and products, thus pushing forward the green transition in the sectors of energy and water. For this reason, a National Strategy for R&I in Energy and Water (2021-2030) was developed by the Energy and Water Agency (EWA), to provide a support framework with the aim of financing R&I projects that are tailored to local specificities and national priorities. Five projects led by local researchers and industries have already been awarded a research grant in Q1 2021 following a competitive Call for Proposals in 2020. This was followed by a second call for projects launched in March 2021, whereby the 15 applications received were reviewed, and beneficiaries were notified accordingly. The 2022 EWA R&I Scheme is to be launched by Q2 2022.

A second electrical cable interconnection between Malta and Sicily is planned to be commissioned by the end of 2025 in order to cater for the increased demand in electricity resulting from the electrification of the road transport and economic growth. Moreover, during 2022, Malta shall conduct further studies on the Melita TransGas hydrogen-ready Pipeline Project of Common Interest (PCI 5.19) to upgrade the design of the pipeline infrastructure to accommodate pure hydrogen.

iv. Promoting private investment to foster the economic recovery

In December 2021, the Government, through Malta Enterprise, has launched a new Smart and Sustainable Investment grant scheme which will support businesses undertaking investments that lead to sustainable and digitalised processes that enhance competitiveness. This includes measures to improve energy efficiency, water efficiency, waste minimisation, use of sustainable materials and sustainable digitalisation.

Furthermore, in 2021, to further incentivise the private sector to invest more in green projects, the Malta Development Bank (MDB)'s SME Tailored Facility was expanded to include financing for sustainable and environmental projects. The SME Tailored Facility assists businesses in accessing finance and overcoming major barriers to lending.

On a similar premise, the SME Invest has supported close to 60 projects undertaken by local SMEs during 2021. As at the end of 2021, the SME Invest scheme has injected a cumulative €45.3 million in new investments in the local economy, supporting 150 projects undertaken by local SMEs. The sanctioned projects supported by this scheme

include a wide array of capital investments, such as projects related to childcare centres, refurbishment of retail outlets, including hotels and the upgrading of the tourism product, digitalisation, renovation of factories and investment in health-related ventures.

In Q1 2021, Tech.mt started to assist start-ups and students who have an innovative concept with pro-bono, unbiased feedback to reach the next stage of their entrepreneurial journey. Tech.mt will offer their consultancy services free of charge to eligible beneficiaries in a number of key areas ranging from concept validation, emerging technology, market assessment and go-to-market strategies, digital strategies and digital transformation, e-commerce and digital marketing, and internationalisation.

3.2.3 Macroeconomic Stability

Related CSRs:

- **ensure the fiscal sustainability of the pension systems, including by restricting early retirement and adjusting the statutory retirement age in view of expected gains in life expectancy (CSR 1 2019).**
- **take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment (CSR 1 2020).**
- **ensure effective implementation of liquidity support to affected businesses, including the self-employed (CSR 3 2020).**
- **strengthen the overall governance framework, including by continuing efforts to detect and prosecute corruption (CSR 2 2019).**
- **complete reforms addressing current shortcomings in institutional capacity and governance to enhance judicial independence, in particular the safeguards for judicial appointments and dismissals, and establish a separate prosecution service (CSR 2 2019 and CSR 4 2020).**
- **continue efforts to adequately assess and mitigate money laundering risks and to ensure effective enforcement of the anti-money laundering framework (CSR 2 2019 and CSR 4 2020).**
- **address features of the tax system that may facilitate aggressive tax planning (ATP) by individuals and multinationals, in particular by means of outbound payments (CSR 2 2019 and CSR 4 2020).**

The consistent improvement in the fiscal position in the years preceding the pandemic, allowed Malta to gain fiscal headroom. The Government remains committed to address the projected increase in age-related expenditure, notably by strengthening the labour market, raising potential output and the continuation of the pension reform process. All these measures will contribute towards SDG 1, aiming to reduce the risk of poverty and social exclusion, especially among old-age persons; this also corresponds to SDG 10, aiming to reduce inequalities; and European Pillar of Social Rights (EPSR) 12, aiming to provide adequate social protection. The Government's commitment also contributes

toward SDG 8, and hence towards sustained and inclusive economic growth and the associated job creation.

In addition, Malta remains committed to prevent, detect and prosecute money laundering and terrorist financing activities by making the necessary prosecution procedural changes. Such measures are in line with SDG 16 which is about Peace, Justice and Strong institutions. These measures will have a positive impact on the quality of prosecution service carried out and reduce delays in the criminal justice system. Also contributing towards SDG 16 in building effective, accountable and inclusive institutions at all levels is the strengthening of the functioning of Office of the Attorney General and the Office of the State Advocate.

3.2.3.1 RRP related measures

Through the RRP, Malta continues to progress in reforms (mostly but not exclusively of a legislative nature) that address several institutional and governance challenges in justice; the fight against corruption and money laundering; the adequacy, sustainability and solidarity of the pension system; and aggressive tax planning (ATP).

i) Milestones and targets for reforms and investments completed by 31 December 2021

Reforms to improve the justice system include changes to the method of appointment and dismissal of the judiciary as well as the additional members of the judiciary appointed. Public calls for vacancies in the judiciary have been published where eligible persons may express their interest before the Judicial Appointments Committee. This procedure has been put into effect for the appointment of four judges and four magistrates in 2021. These actions contribute to improving the independence, capacity and governance of the justice system. On the prosecution front, the RRP pledges: (a) the creation of a separate prosecution service, and (b) a judicial review of decisions not to prosecute by the Attorney General. Both milestones have been implemented. In addition, the way the Commissioner of Police is appointed has also been changed. These actions contribute to strengthen prosecution and investigation of crimes (including corruption and money laundering) in the justice sector.

Malta has also brought into force legal acts - Act No. 53 of 2020 (Amendment No. 4) and Act No. 3 of 2021 (Amendment No. 2) - on the digitalisation of the Law Courts to make it possible for civil proceedings to be held via live video conferencing facilities and for criminal judicial acts to be filed electronically. These form the basis for additional ICT investment in the justice sector leading to further improvements in better accessibility and efficiency of the law courts. The reform of the Permanent Commission against Corruption (PCAC) proceeded through the enactment of a specific Act and the updating of the 2008 National Anti-Fraud and Corruption Strategy, both completed in 2021. These are key milestones in reinforcing the institutional framework capacity to fight against corruption.

Regarding anti-money laundering (AML), the Asset Recovery Bureau has been reformed through legislation. The powers and capacity of this office have been increased to reinforce the role of law enforcement authorities in the fight against money laundering and financial crime. As part of ATP, Malta brought into force the relevant enabling legal provision for the introduction of transfer pricing rules. This is an important measure to prevent loss of public revenues through international tax arbitrage.

ii) Milestones and targets expected to be fulfilled between 1 January and 31 December 2022

Further RRP work during 2022 continues in the justice system, prosecution, anti-corruption, AML and ATP areas, as well as in strengthening the adequacy and sustainability of pensions.

The Office of the Attorney General will sustain capacity building with the recruitment of additional staff required to take on the increased and phased prosecution responsibility. Training in AML/CFT/TFS (anti-money laundering/combating terrorist financing/targeted financial sanctions) for the relevant members of NCC (the National Coordinating Committee on this subject area) will continue. This will ensure a sustainable, proactive, responsive and effective AML framework and capacity that may respond to dynamic risks. The area of aggressive tax planning will see several initiatives in 2022. These include a revised corporate tax return to collect better information on dividends, assigning dedicated staff for the scrutiny of taxpayers in this area of taxation, and the bringing into force of spontaneous exchange of information (SEOI) as a mitigation measure against ATP risks by individuals. A study concerning measures relating to inbound and outbound dividend, interest, and royalty payments will also be carried out to inform future decision-making.

3.2.3.2 Additional Measures

i. Public finances: supportive fiscal policy and medium- and long-term fiscal sustainability

Prior to the pandemic, the Government succeeded in considerably improving the public finance situation, registering budget surpluses and reducing the debt ratio to GDP. Further to enabling the provision of timely and adequate healthcare (including for the COVID-19 vaccination programme), this fiscal space allowed the Government to take unprecedented steps to support jobs, livelihoods, and businesses throughout the pandemic, having delivered a package of targeted, temporary support worth over €1.3 billion over 2020 and 2021, mainly in respect of the Malta Enterprise sustainable enterprise schemes, including the Wage Supplement Scheme, reduced taxation on the transfer of immovable property for both buyers and sellers, and the Economic Regeneration Voucher Scheme. In addition, the Government supported corporate liquidity by means of tax deferrals and the allocation of a €350 million fund to the MDB to set up and manage the MDB COVID-19 guarantee scheme with the purpose of guaranteeing loans granted by commercial banks to businesses facing cash flow disruptions. As a result, the general Government deficit increased significantly. However, in spite of the extraordinary economic challenge posed by the pandemic, the fiscal action taken by the Government over the past two years was crucial to support the economy when strict public health restrictions were in place and to provide the necessary fiscal stimulus to sustain the economic recovery.

As the economic recovery remains fragile and uncertain, especially in light of the impact of Russia's invasion of Ukraine, the Maltese Government is set to maintain a supportive budgetary policy in 2022. The assumed economic recovery is expected to boost taxation receipts over the course of this year, while general Government expenditure is estimated to decline in 2022, as the temporary support is expected to be phased out, in line with the Government's commitment to contain expenditure as the public health situation improves and the economy recovers. Nationally financed investments are expected to remain elevated in 2022 and 2023. This expenditure is further sustained by additional

funds from the RRF towards high-quality investment projects and structural reforms as well as projects funded from the Multiannual Financial Framework (MFF) for the period 2021-2027. This high level of investment is expected to boost Malta's growth potential. In recent years, the Government's investment efforts were targeting public infrastructure, in particular the arterial and urban roads' networks and other transportation facilities. In the coming years, the focus will shift to fiscal incentives to encourage innovative, green and digital investments by businesses. Through the Low Carbon Development Strategy (LCDS), the Government will also accelerate the ongoing efforts towards environmental sustainability, as further elaborated under the Environment dimension of this Chapter.

In view of the indirect consequences of the war in Ukraine, the Maltese authorities have intervened to shield households and businesses from the increases in the international price of oil which affects both the cost of energy as well as fuel for transportations purposes. In addition, Government intervened to ensure stability in the price of cereals (including wheat) as well as security of supply. The authorities are continuously monitoring price developments for energy and commodities to extend and recalibrate economic support as necessary. This is expected to impact public finances in 2022 and possibly beyond.

Nevertheless, once the recovery is firmly established and economic conditions allow, the Government remains committed to gradually balance the budget over the economic cycle and to put the debt-to-GDP ratio back on a declining path to below 60 per cent of GDP. Further details on the Government's fiscal strategy are outlined in the 2022 Update of the Stability Programme.

ii. Coverage, adequacy, and sustainability of the social protection system

In July 2021, the Pensions Strategy Group (PSG) presented to the Government its post-consultation 2020 Strategic Review report on the Adequacy, Sustainability and Solidarity of the Pension System (as mandated by Article 64(b) of the Social Security Act). A follow-up of the Pensions Review Report with policy proposals is currently ongoing for this year too, to keep assessing the sustainability and offering of Malta's pension system. Over recent years, the Government has introduced numerous measures intended to lengthen the duration of working lives. Specifically, in addition to the introduction of stricter rules on the access of the 'early exit' option and the incentive-deferral mechanism, new tax parameters were introduced for pensioners over the age of 61 years where any income from pension up to the maximum rate of contributory pension is not taxable. Furthermore, new exemptions were also introduced for pensioners over the age of 61 years where income is derived from more than one pension, which is over the maximum rate of the contributory pension.

Diversifying retirement income

The Government's policy efforts have also focused on diversifying retirement income and reducing the sole dependency on state pensions. In the 2020 and 2021 Budgets, the tax benefits for the Third Pillar Pension Scheme were strengthened. As a result, there are now several providers offering personal pension plans. These tax credits were also made available for employers implementing a Voluntary Occupational Pensions Scheme. In 2020, the tax credit was increased from 15 per cent (up to a maximum of €150) to 25 per cent (up to a maximum of €500) with the amount of contributions subject to tax credit capped at €2,000. In 2021, the maximum threshold was increased further to €750 with the capped contributions increased to €3,000.

Other social protection measures

Over the years, the Government has consistently improved the financial situation of vulnerable households through reforms in the social protection system.

In particular, since 2018, both contributory and non-contributory pension rates were further increased over and above the cost-of-living adjustment, and reforms were introduced such as the enhancement of pensions targeting 12,000 survivors with a low income and the introduction of an annual adjustment, as from 2022 for pensioners who retired after 2008.

In 2022, the Government also increased the supplementary allowance, whereby all the beneficiaries with a low income will benefit from this reform including pensioners, elderly persons and also persons who are in employment as long as they do not have children under 16 years of age. Married persons or couples whose income does not exceed €14,318 will be receiving an increase in their benefit ranging from €3.47 to €6.50 per week depending on their income whilst single persons, including widowed persons, whose income does not exceed €10,221 will receive an increase ranging between €4.10 to €5.00 per week. Also, as from this year, beneficiaries of the supplementary allowance who are 80 years old and over will be automatically eligible for free medical assistance - also known as the Pink Card.

Furthermore, the Government increased the carer grant to parents who provide care to their severely disabled children of over 16 years of age by an additional €300 in 2022 and increased the carer allowance to €7,000 per year for individuals taking care of a relative with low dependency on a full-time basis living within the same household; thus helping elderly persons remain in the community, while at the same time supporting informal carers to remain active in the workforce. These schemes are in addition to the Increased Severe Disability Allowance which is granted to persons who are certified as having severe disability and amounts to the net National Minimum Wage.

Introduced with the aim of strengthening the incentive to work, the Government continued extending the in-work benefit by widening the income thresholds and increasing the benefit rates. Moreover, as from 2022, the part-time income tax rate decreased from 15 per cent to 10 per cent and overtime income is taxed at 15 per cent up to a maximum of €10,000 for people earning a basic income of less than €20,000. Also, from this year, over the period of five years, pension income of pensioners who have other sources of income, will gradually no longer be considered as part of the taxable income.

Social protection is also being extended in the context of housing. Current schemes are being extended with a view to encourage home ownership, such as the extension of the equity sharing scheme. Through this scheme the Government will fund up to half of the purchase price of the property, to low-income individuals over the age of 40 who are unable to secure a bank loan. Furthermore, with the New Hope Guarantee Scheme, the Government will act as a guarantor for a life insurance, which is a requirement for home loan, to enable individuals with medical issues or disabilities to become homeowners. As from 2022, the Housing Authority will also be rolling out care plans for persons in need of social housing. These care plans are currently being drafted by the Faculty for Social Wellbeing as part of a wider study on the core needs of past, present, and prospective beneficiaries of social accommodation units. Through this study, the Government would be able to continue addressing such specific needs, while fighting dependence

and promoting social mobility. Moreover, households residing in pre-1995 rent housing valued at up to €250,000 requiring structural repairs will now be eligible for subsidies of up to €25,000.

iii. The independence and effectiveness of the justice system

During the past few years, the Maltese Government has introduced several legislative amendments to improve governance and strengthen the relevant institutional capacities. These reforms were introduced following expert assistance from the European Commission for Democracy through Law of the Council of Europe - known as the Venice Commission - whilst also maintaining a constant open channel of communication with the European Commission on progress registered at national level.

In particular, in July 2020, the House of Representatives unanimously agreed with Bills dealing with the appointment of judges and magistrates (Act 43 of 2020); the appointment of the President of Malta; the removal from Office of judges and magistrates (Act 45 of 2020); the procedure by which appointments to the Permanent Commission Against Corruption (PCAC) are made (Act 46 of 2020); the judicial review of decisions by the Attorney General not to prosecute; and the amending laws regulating the Office of the Ombudsman.

During the same year, an amendment in the Constitution of Malta has been approved, which provides that the appointment of the Chief Justice requires the approval of two-thirds of the Members of the House of Representatives. Changes were also made in the composition of the Judicial Appointments Committee (JAC) so that more than half of its members are members of the judiciary. The procedure for judicial appointments has been reformed so that there are public calls for vacancies registered within the judiciary, with eligible persons expressing their interest before the JAC. This procedure has already been put into effect for the appointment of four Judges and four Magistrates in 2021.

In terms of prosecution, the Offices of the State Advocate and of the Attorney General have already been separated legally, physically and operationally. Meanwhile, the transfer of prosecutions of the more serious crimes before the Court of Magistrates from the Malta Police Force (MPF) to the Office of the Attorney General is following a phased transition, which will be fully completed in 2025. In Q2 2021, there has been the entry into force of Act No. 28 of 2021 entitled Criminal Code (Amendment No.5) Act as part of the taking over of prosecutions of serious offences by the Attorney General.

In order to ensure that the Office of the Attorney General has the required capacity to manage the increased workload, during 2021, eleven new prosecutors were externally recruited so that the Office of the Attorney General is now composed of 36 prosecutors. Moreover, new and continuous training of prosecutors within the Office of the Attorney General is ongoing.

Through the amendment of the Prosecution of Offences Regulations, effective from October 2021, the Office of the Attorney General became empowered to take the decision to prosecute in front of the inferior courts offences dealing with trafficking of persons; piracy; rape, abduction, defilement of minors and instigation, encouragement or facilitation of defilement of minors; causing or permitting an elderly or a dependent adult to suffer under circumstances likely to produce bodily harm or death; offences

relating to crimes against property and public safety; computer misuse; wilful damage or destruction of cultural property and; endangering safety at airports.

As part of the Structural Reform Support Programme, World Bank experts are also assisting the Government to strengthen the functioning of the Office of the Attorney General and the Office of the State Advocate. The project was kick-started in June 2021 and during its 18-month lifetime, the World Bank experts will identify and make recommendations to improve the operational efficiency of both Offices.

Corruption

The Anti-Fraud & Corruption Policy, introduced in November 2020, provides the framework for identifying and preventing corruption within the MPF and assists individuals and their supervisors in ensuring that their actions can withstand scrutiny. Additionally, it provides a framework for identifying and preventing corruption and details what actions should be taken by an individual where corruption and/or fraud is suspected or has been committed by colleagues.

The Permanent Commission Against Corruption (PCAC) will retain its role in, inter alia, investigating complaints of corruption made to it. However, if in the PCAC's view, the conduct investigated is corrupt or connected with or conducive to corrupt practices, amendments passed to the PCAC Act in August 2020 provide for the possibility of transmitting the report of the results of an investigation by the PCAC directly to the Attorney General. This report is referred to the Police for a criminal investigation to be conducted. These provisions represent a marked change and improvement on the previous reporting possibilities of the Commission and is intended to provide synergy between the Commission and the prosecution service.

Rule of law

In line with the MPF's Transformation Strategy of 2020, significant resources are being invested into the police force in order to increase the efficiency of the MPF by transforming the current police organisation into a flexible, efficient and data driven police force. This Strategy is being implemented under the scrutiny of the Board of Governors of the MPF as well as the European Commission. The Key objectives of this Strategy include:

1. communicating with the public in a clear, consistent and transparent manner including frequent and open consultation with public interest bodies, holding periodic press briefings and listening to feedback from the public about the service by the Police. Periodic press briefings will be starting in 2022. A feedback-gathering exercise about the service given by the Police is also planned in 2022. This exercise will be conducted with the general public by the NSO;
2. holding the Force accountable at all times by drawing up internal performance targets, publishing key indicators on its performance and implementing operational internal audit (IA) and quality control measures. During 2021, the IA function within the MPF has been strengthened. While various ad-hoc audits were embarked upon and concluded in 2021, as of 2022 the IA Office is deployed to an approved annual audit plan;
3. strengthening anti-corruption measures and safeguards through the continuous screening of police officers, offering adequate protection to whistleblowers, and conducting regular drug testing of personnel. During 2021, the continuous screening

of police officers through the EU Security Clearance programme has continued. Furthermore, the Drugs Misuse Policy has now been implemented and regular random drug testing is being carried out on all police officers.

In Q2 2020, Act 19 of 2020 amending the Police Act entered into force. This amendment involved the new appointment procedure of the Police Commissioner. The Police Commissioner will be chosen following a public call for applications and a subsequent hearing by the Parliamentary Committee for Public Appointments. A revised Code of Ethics was also introduced within the MPF in 2020, which should help to improve the levels of public confidence and trust in the Police. The Code will be reviewed at least every five years.

iv. Money laundering

In April 2021, Malta was assigned by Moneyval a re-rating from “partially compliant” to “largely compliant” and “compliant” for nine Financial Action Task Force (FATF) Recommendations on technical compliance. Though this improvement is encouraging, the Government will continue to emphasise its commitment towards implementing the necessary reforms to address issues related to money laundering. Amongst the improvements made towards achieving such an objective, Malta has made efforts in the sharing of intelligence, the collection of statistics and the analysis of the intelligence gathered. This meant that several sectoral risk assessments were completed and presented to the FATF evaluators. These tools are presently being used to help the competent authorities to prioritise efforts and resources, as well as to address better the private sector through appropriate outreach techniques.

Moreover, in June 2021, Malta made a high-level political commitment to work with the FATF and Moneyval in order to strengthen the effectiveness of its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. Malta committed itself to implement its FATF action plan by:

- continuing to demonstrate that beneficial ownership information is accurate and that, where appropriate, effective, proportionate, and dissuasive sanctions, commensurate with the money laundering/terrorism financing (ML/TF) risks, are applied to legal persons if information provided is found to be inaccurate; and ensuring that effective, proportionate, and dissuasive sanctions are applied to gatekeepers when they do not comply with their obligations to obtain accurate and up-to-date beneficial ownership information;
- enhancing the use of the FIAU’s financial intelligence to support authorities pursuing criminal tax and related money laundering cases, including by clarifying the roles and responsibilities of the CfR and the FIAU;
- increasing the focus of the FIAU’s analysis on named type of offences, to produce intelligence that helps Maltese law enforcement detect and investigate cases in line with Malta’s identified money laundering risks related to tax evasion.

In order to address the FATF action plan, during 2021 the NCC has coordinated further to the intelligence shared by other entities, the risk assessment on commercial partnerships with a specific emphasis on Beneficial Ownership, and the national risk assessment on tax offences and related money laundering. This assessment was coordinated by the NCC and with intelligence shared from the Financial Intelligence Analysis Unit (FIAU), the Malta Business Registry (MBR), the Office of the Commissioner for Revenue (OCfR),

the Office of the Attorney General, the Financial Crimes Investigations Department (FCID), Komunita' Malta, the Department of Customs and the Central Bank of Malta. This risk assessment will feed into the Update of the National Risk Assessment (NRA) for 2021/2022.

In its February 2022 Plenary, the FATF made the initial determination that Malta has substantially completed its action plan and has conducted an on-site visit in the first week of April to verify that the implementation of Malta's AML/CFT reforms has begun and is being sustained, and that the necessary political commitment remains in place to sustain implementation and improvement in the future.

Over the past four years, the FIAU stepped up its efforts to increase human resources. As a result, the FIAU managed to carry out a record number of on-site and off-site AML/CFT supervisory examinations on subject persons (i.e. obliged entities) across different industry sectors to monitor compliance with AML/CFT obligations. The FIAU has also been active in taking the necessary enforcement action against subject persons found to be in breach of their AML/CFT obligations. The FIAU's analytical (FIU) function also saw an increase in submissions of Suspicious Transaction Reports or Suspicious Activity Reports (STRs/SARs), which led to increasing disseminations to competent authorities and foreign FIU counterparts. The FIAU also dedicated resources to carry out strategic analyses with the aim to achieve a better understanding of ML/FT threats and vulnerabilities affecting the Maltese jurisdiction.

During 2021, the FIAU carried out a strategic analysis on the misuse of Maltese-registered companies, focusing on beneficial ownership concealment. Along with other Maltese authorities, the FIAU also carried out other strategic analyses and a risk assessment focused on tax evasion and tax related money laundering.

Following proposals by the FIAU to prevent money laundering through the use of high value cash payments, the Use of Cash (Restriction) Regulations came into force in March 2021. This new set of regulations prohibits any person from making or receiving payments, or from carrying out transactions in cash, equivalent to or exceeding €10,000 in relation to specific high-risk goods. Over the past three years, various reforms have been ongoing at the MFSA, including organisational restructuring, a significant increase in staffing and in training provided to staff, investments in technological systems, an overhaul of most supervisory procedures, including a complete shift towards risk-based methodology, and an increased focus on AML/CFT. These measures were taken on board in parallel with reviews and subsequent recommendations submitted by Moneyval, the European Banking Authority (EBA) and the International Monetary Fund (IMF).

In 2021, the Malta Gaming Authority (MGA) carried out prudential and conduct supervision audits which integrated elements pertinent to AML/CFT. This includes supervision over Know Your Client (KYC) procedures and adherence, registration data, identity and verification statuses, KYC documentation, player due diligence, conformity with the risk-based approach, and other applicable measures.

v. Aggressive tax planning

Over the recent years, Malta has been implementing measures to address features of the country's taxation system of corporate profits which may facilitate aggressive tax planning. These include: the Anti-Tax Avoidance Directive (ATAD) 1; the ATAD 2; the

ratification of the OECD Multilateral Instrument, introducing inter alia the Principal Purpose Test; the implementation of the Council Directive (EU) 2018/822 concerning Mandatory Disclosure Rules.

More recently, in October 2021, a Memorandum of Understanding (MOU) was signed between the CfR and the CEO of Community Malta Agency (CMA) with respect to the sharing of information. Through this MOU, the CMA, which is responsible for administering all Maltese citizenship-related matters, will be assisting the Office of the CfR in meeting its international obligations regarding Spontaneous Exchange of Information in relation to Residence by Investment (RBI)/Citizenship by Investment (CBI). Additionally, measures in relation to the Code of Conduct (Business Taxation) list of non-cooperative jurisdictions include enhanced scrutiny on companies having commercial relations with entities established in those jurisdictions and legislative changes to limit the Participation Exemption on profits received from such jurisdictions. Specifically, the Budget Measures Implementation Act (Act 18 of 2021) has introduced limitations to the participation exemption with respect to certain inbound payments from bodies of persons resident in jurisdictions included in the EU list of non-cooperative jurisdictions for a period of at least three months.

Towards the end of 2021, Malta entered into a competent authority agreement with the United States wherein both jurisdictions confirmed their understanding of the meaning of the term “pension fund” for the purposes of the US-MT income tax treaty. This agreement was entered into to address tax avoidance for US taxpayers from personal retirement schemes established in Malta.

At the moment, Malta is in the process of entering into force a revised corporate tax return in order to collect information on dividends that are derived from bodies of persons resident in those jurisdictions that fall within the Code of Conduct Group list of non-cooperative jurisdictions. This measure should be finalised by Q2 2022. Furthermore, Malta is working on assigning dedicated staff for the scrutiny of this type of taxpayers, that is taxpayers that emanate from the Code of Conduct Group list of non-cooperative jurisdictions. This measure is to be completed by Q3 2022.

3.2.4 Fairness

Related CSRs:

- ***ensure the fiscal sustainability of the healthcare system whilst strengthening the resilience of the health system with regard to the health workforce, critical medical products and primary care (CSR1 2019 and CSR 1 2020).***
- ***consolidate short-time work arrangements and ensure the adequacy of unemployment protection for all workers (CSR 2 2020).***
- ***strengthen the quality and inclusiveness of education, training and skills development (CSR 3 2019 and CSR 2 2020).***

The Government's investment in the national health system has helped to cope with the demand for hospital services during the COVID-19 pandemic, while the launch of a holistic strategy to address its impacts on the labour market has definitely been crucial to mitigate unemployment as much as possible. Labour market policy continues to tackle skills mismatch to ensure that individuals are equipped with the necessary skills to enter gainful and sustainable employment, whilst also aiming to improve gender equality in the labour market.

Measures supporting the resilience of the health care system contribute towards ensuring everyone has access to affordable, preventive and curative health care of good quality (SDG 3 and EPSR 16).

Meanwhile, measures supporting the labour market and social policies contribute towards the reduction of poverty (SDG 1). More specifically, measures aimed at increasing the female labour participation rate and reducing the gender employment gap, namely the National Employment Policy, Equality Mark and directory for professional women collectively aim towards gender equality (SDG 5) and reducing inequalities (SDG 10), augmenting education, training and life-long learning (EPSR 1), as well as childcare and support to children (EPSR 11). The Government's work in raising awareness on the gender pay also contribute towards SDG 5. The Government's policies, schemes and initiatives aimed towards the provision of quality education contribute towards SDG 4. The Government's efforts in promoting and providing training and life-long learning opportunities contribute to EPSR 1, whilst active support towards employment contribute towards the EPSR 4. Moreover, the Government's measures towards ensuring inclusive employment and education aim towards the provision of quality education (SDG 4), the promotion of decent work for all (SDG 8), the reduction of inequalities (SDG 10), the active support towards employment (EPSR 4) and the overall inclusion of people with disabilities in every aspect of life (EPSR 17).

3.2.4.1 RRP related measures

RRP measures related to fairness contribute towards the sustainability and resilience of the healthcare system, the labour market, and inclusiveness of quality education.

i) Milestones and targets for reforms and investments completed by 31 December 2021

Malta has delivered on milestones and targets in this thematic area. In particular, two autism units in middle schools, together with continuous training in inclusive pedagogy for teachers have been finalised in 2021. This project provides for the further integration of pupils with special needs into the mainstream school environment contributing towards an inclusive and quality education system.

ii) Milestones and targets expected to be fulfilled between 1 January and 31 December 2022

The Government will seek to strengthen skills development and recognition, with a focus on low-skilled adults particularly with the launch of the e-College. The e-college will be offering, amongst others, comprehensive online courses, online coaches, and help desk to assist learners. An assessment of unemployment benefits contributing to reinforce the resilience of the labour market and to enhance gender equality at large is also underway.

More work in this thematic area will focus also on strengthening the resilience and sustainability of the healthcare system, as well as the coverage, adequacy and sustainability of social protection systems for all.

3.2.4.2 Additional Measures

i. Healthcare system: resilience and provision of health

The COVID-19 pandemic has created numerous challenges for the national health system. The investment in COVID testing and in public health services, including the vaccination programme, have increased health expenditure extensively. The policy response to the pandemic during the past two years, with the aim of lowering the number of infections and limiting the spread of the virus, has avoided overloading the acute healthcare system and has limited the number of hospital admissions.

As part of its pandemic management strategy, Malta prioritised the continuity of its preventive, elective and emergency health services, thus minimising future healthcare expenditure, which could potentially be incurred in treating a higher proportion of chronic disease patients presenting late with complications, because of missed elective healthcare during these two years. Moreover, Malta's strategy and policy response has kept waiting lists in check and limited backlog in most clinical care among non-communicable disease, such as cancer and diabetic patients, as the activity in these services is back to pre-COVID levels.

Nevertheless, ageing and population growth poses challenges to the health system in Malta. These challenges are further pronounced by an inflation rate on medicines which is triple that of the rest of the economy, and increasingly expensive new drugs which puts Malta at a disadvantage when it comes to price negotiations in view of the small size of the market. In this regard, in order to improve and enhance the accessibility of health care, the Government continued to expand the Formulary List, which provides free medicine and treatments to citizens, particularly expended to include medicines for cancer, osteoporosis, fibromyalgia, circulatory conditions, inflammatory conditions, rare diseases, and certain rare and extreme allergies, as well as new medicines for diabetes, cystic fibrosis and IVF patients.

An integral part of the Government's plans to address a sustainable healthcare system is the investment in primary care, both in terms of the health workforce with a focus on specialised clinics and in terms of new infrastructure. As part of the health prevention programme, the Government will also be launching a number of measures including a Congenital Deafness Screening Programme and a remote patient glucose monitoring system for patients with diabetes Type 1 aged 16 years and over.

The Government will continue working with the World Health Organisation (WHO) to draw up a Health Workforce Plan, which will guide capacity building over the coming years. The Government has continued with the recruitment of specialists in primary care, in line with the plan to shift from outpatients to primary care. The Institute for the Public Services (IPS), through EU-funded schemes, is also supporting young specialists and trainees in taking on sub-speciality training in Europe.

The pandemic has also involved new requirements in the health IT capacity due to the development of the COVID-19 certificate and vaccination scheduling. At the same time, the Government invested in teleconsultation measures at both primary and secondary

care levels, which provided a means to connect patients with health professionals, even when in isolation. Thus, despite its challenges, the pandemic has created an opportunity to enhance digitalisation capabilities of healthcare services, which will strengthen the resilience of the health system in the future. In this regard, by the end of 2022, the Ministry responsible for health intends to invest in the National Electronic Health Record and the Electronic Patient Record, to create a patient-centric ecosystem where data may be collated, correlated, and analysed in a central repository.

Furthermore, the network infrastructure at Mater Dei Hospital (MDH) is currently being updated and the ICT system will be enhanced through the refurbishment of the e-Health infrastructure by Q2 2024.

ii. Labour market and social policies

Short-time work arrangements

The high levels of economic growth in the years prior to the COVID-19 pandemic were linked with sustained employment growth - the highest recorded in the EU - while the unemployment rate remained at a record low. In fact, Malta's employment rate in 2020, at 77.3 per cent, stood higher than the EU average and exceeded both the national and headline targets for Europe 2020.

In view of COVID-19 and the sudden economic halts which this has brought upon labour markets and economic systems, Malta has launched a holistic strategy to address the impacts of the pandemic and ensure that the labour market remains resilient. One of the most prominent schemes was the Wage Supplement Scheme, which has been extended until April 2022 for worst-hit companies (as per the tapering system in place since August 2021). Since the launch of the Wage Supplement Scheme in March 2020 until the end of December 2021, Malta Enterprise had disbursed around €648.0 million and assisted 17,576 business entities which together covered 90,454 full-time employees, 13,088 part-time jobs and 1,900 casual workers.

The issuing of permits under Article 42 of the Employment and Industrial Relations Act (Cap. 452), allowing employers to implement different working conditions on a temporary basis to avoid redundancies, has also proven useful. It has been estimated that these permits could have potentially saved around 25,000 jobs.

Through such measures, Malta has managed to maintain a low unemployment rate, which is one of the lowest among its European peers. In fact in December 2021, Malta's unemployment rate based on the Labour Force Survey stood at 3.2 per cent, which is comparable to pre-COVID levels.

Adequate unemployment protection for all workers

The Government has also ensured inclusion and equality through specific interventions aimed at supporting households that were unable to work due to the pandemic.

In particular, four COVID-19-related social benefits were introduced in mid-March 2020, offering temporary assistance through the provision of €800 per month (€500 per month for part-timers) to a number of groups of individuals who would otherwise have been at an increased risk of poverty and social exclusion. These measures include the Disability and Medical benefits which was granted up to 5 June 2020 and Parent and Additional unemployment benefits which was granted up to 3 July 2020.

The targeted cohorts include:

- i. unemployed persons;
- ii. persons with disabilities who had to stay at home due to health concerns that arose as a consequence of the pandemic and could not work from home;
- iii. parents working in the private sector who took additional unpaid leave to take care of their children while schools were physically closed; and
- iv. persons employed in the private sector who had been ordered by the Superintendence of Public Health not to leave their home, were unable to work from home, and were not being paid by their employer while absent from work.

Collectively, the amount disbursed for the four benefits totalled €14.5 million in 2020. Furthermore, the Parent Benefit was re-activated for the period between 15 March 2021 and 11 April 2021, as schools were physically closed again during this period.

Women labour participation rate and gender employment gap

Malta has registered significant gains in female employment rates over the past decade because of active labour market policies targeted to ease the entry of women (in particular mothers) into the workforce. As per Eurostat data, the female employment rate (20-64 years) in Malta shot from 43.8 per cent in 2011 to 67.8 per cent in 2020 whereby, the female employment rate in 2020 surpassed the EU27 rate by 1.6 percentage points. This strong increase in female participation in the labour market in particular follows the introduction of the Free Childcare Scheme. This scheme, offered to children aged between three months and three years, has assisted parents/guardians in finding a better work-life balance whilst promoting female participation in the labour market. Since its introduction in April 2014, the scheme has been further widened in scope so that parents who were in education were also eligible to participate. Since the start-up of the scheme in April 2014 until December 2021, over 25,825 children have benefitted from the service at one point in time.

To continue addressing the gender employment gap, the Maltese Government, through the newly launched National Employment Policy (2021-2030) will seek to develop incentives and enhance current initiatives targeting women. Moreover, flexible working solutions are high on the Government's agenda and as such it will be developing guidance to facilitate employers to offer more family-friendly working options, promoting the adoption of flexible and/or remote working solutions.

To enhance equality at the workplace, the National Commission for the Promotion of Equality (NCPE) awards the Equality Mark certification to organisations that demonstrate a pro-active commitment towards gender equality in the work policies and practices. By 2021, there were 123 certified organisations employing around 25,250 employees.

To increase the number of women in decision-making positions, the NCPE has also developed the Directory of Professional Women. This free online database provides profiles of professional women to give them visibility and more opportunities for appointment on boards and committees, and/or to assume decision-making positions in the labour market. Additionally, the Government is further promoting gender equality through the Gender Corrective Mechanism in Parliament which ensures that at least 40.0 per cent of representatives in the House are women.

Equal pay and gender pay gap

Malta's gender pay gap in 2020 amounts to 10.0 per cent, which is slightly below the EU average of 13.0 per cent. Nevertheless, eradicating this inequality has increasingly been a priority for the Government, since besides being an obvious manifestation of gender inequality, it is also a contributing factor to poverty risk. This risk is not limited to the working-age period but widens with age: with less disposable income to save and invest, the gap accumulates over time, exposing women to poverty and social exclusion at an older age. Thus, the main issue in relation to the gender pay gap relates to its potential persistence.

To this effect, the NCPE works to raise awareness on the gender pay gap, its causes and consequences in order to sensitise various stakeholders on the importance of equal pay for equal work and work of equal value for women and men. In particular, during 2021, the NCPE continued disseminating information on the gender pay gap through media and information campaigns, and also organised an online conference to mark the Equal Pay Day, where discussions were held with various stakeholders, including Government authorities, NGOs, unions and employers' associations. Furthermore, the NCPE enhanced and re-launched the Equality Mark by developing an Equal Pay Tool (EPT) in 2020 through the Prepare the Ground for Economic Independence (PGEI) EU co-funded project. This is currently being finetuned for easier interpretation of results and the enhanced tool will soon be piloted with Equality Certified companies. The EPT is a tool tailored to particular entity size which allows for the identification of gender pay gap or unequal pay between women and men within the entity, which can produce comparisons of salaries between genders (filtered by qualification, job designation, etc.) and which can show potential cases of gender discrimination based on work value.

iii. Education and skills: Training outcomes, quality, access, inclusiveness

Addressing training outcomes, quality and access

Tertiary education attainment in 2019 reached 38.1 per cent, increasing by 9.5 percentage points since 2014, while the employment rate of recent graduates (MQF1-8) stood at 92.0 per cent in 2020, the highest in the EU. Additionally, the percentage of NEETs in 2020 stood at 10.1 per cent. Whilst recognising that Early School Leaving (ESL) in Malta is still high compared to the EU average, there has been a steady decline in Early School Leaving (ESL) from 21.4 per cent in 2010 to 12.6 per cent in 2020, such that since 2017, Malta has registered the highest percentage decrease in the EU.

Malta's education strategy aims to provide present and future generations with opportunities to develop the necessary values, skills and attitudes for active citizenship and employability in the 21st century and close the gap between the worlds of education and employment. This is highlighted in the Framework for Education Strategy for Malta 2014-2024, which underpins all Malta's education policies and measures. In 2019, this Framework was updated to reflect ongoing developments both locally and abroad and discussions have been initiated in mid-2021 with interested stakeholders on the new Strategic Framework for Education and Training 2030.

The National Literacy Strategy 2021-2030 (NLS) seeks to reduce the number of individuals who are socially excluded because of low literacy skills. With a specific focus on adult learning, the 2021 Lifelong Learning Prospectus included synchronous online learning for the first time and online classes are now part of the Prospectus. Additionally, in December 2021, blended learning and asynchronous online courses have also been

introduced, enabling people to study at their own pace. Furthermore, learners without the technology or the ability to use it for online learning are receiving personal mentoring and access to online courses without any additional charges. Similarly, learners in need of basic literacy, numeracy and digital literacy are also being assisted through basic skills programmes.

Recognising the importance of early childhood education, a consultation exercise on the National Standards for Early Childhood Education and Care Services (0-3 years) was launched in May 2021. Furthermore, in October 2021, the Early Childhood Education and Care (0-7) National Policy Framework for Malta and Gozo was published, which identifies the areas critical for a child's development. To ensure that all individuals are fully benefitting from such policies, a class Learning Support Educator (LSE) has been introduced in Kinder 1 classes (ages 3 to 4 years old).

My Journey reflects a move from a 'one size fits all' system to a more inclusive and comprehensive learning system which equitably supports all children's individual talents and needs through quality academic, vocational, and applied learning programmes, offered at MQF1-3.

Furthermore, with the aim of identifying and analysing present and future sector- or industry-specific skills gaps, the Government is implementing the Ultimate AI Launchpad - A Strategy and Vision for Artificial Intelligence in Malta 2030. Furthermore, the CITO Skills Checker, available in both English and Maltese, was launched to enable people with basic skills to carry out an initial assessment of their literacy, numeracy and digital skills, and find out about learning opportunities available to them. The total number of users making use of this tool totalled 783 users, of which about one fourth were returning visitors.

Lastly, third country nationals are being provided with basic skills, and Maltese and English as foreign languages courses.

Inclusive education and employment

The inclusivity of people with a disability in the labour force was a key policy measure over the past few years. Several achievements were reached however challenges remain and the area is still a key policy focus.

According to the Commission for the Rights of Persons with Disability (CRPD), around 35,000 people with disabilities are estimated to live in Malta, with 21,392 registered as such with the Commission as at December 2021. This includes people of all abilities and ages, and therefore includes persons with disabilities who are not actively seeking employment. As of September 2021, 4,279 are employed while 253 were registered unemployed (as at January 2022). The disability employment gap for Malta exhibited a consistent downward trend, falling from 41.1 per cent in 2015 to 28.2 per cent in 2019, but it increased to 29.4 per cent in 2020 with the onset of the COVID-19 pandemic. This gap measures the difference between labour market participation of persons with disabilities and that of persons without a disability.

In terms of active legislative employment instruments, employers who employ 20 or more persons must ensure that a minimum of 2.0 per cent of their workforce is made up of employees with disabilities. Employers who fail to adhere to this legislation are

requested to make an annual contribution for every person with disability they should be employing. This has contributed to the registered doubling of employment of persons with registered disabilities over a five-year period. In 2021, amendments have been proposed to strengthen the enforcement of this legislation. Furthermore, inclusiveness is also being encouraged as the Employment and Training Services Act (Cap. 594), which regulates Jobsplus, mandates that at least one person with disability is always represented on this entity's Board.

The employment of persons with disability has also been supported through training placements, which have also been provided through EU-funded projects, such as the INK project, run by Aġenzija Sapport. Such projects combine further training for both prospective employees with disabilities, as well as employers, while carrying out job matching, and providing job coaching and job mentoring. Several vocational training schemes have also been provided by Jobsplus to actively integrate persons from vulnerable households within the labour market. In particular, the VASTE Programme, a €13 million project part financed by the European Social Fund (ESF) implemented by Jobsplus in partnership with the Lino Spiteri Foundation, prepares vulnerable individuals for employment by providing occupational therapy, professional support, job carving, job coaching and mentoring. Furthermore, the six-month Head Start Programme aims to assist individuals with registered disabilities in enhancing their competences related to employment, whilst the Bridging the Gap scheme supports registered persons with disabilities and people in disadvantaged situations in the transition period from unemployment to employment.

In June 2021, Malta's 2021-2030 National Strategy on the Rights of Disabled Persons, Freedom to Live was launched, which establishes 13 objectives, with each objective linked to several actions aimed towards enhancing awareness of disability, training on disability awareness in both public and private sectors, and augmented media representation. The Freedom to Live Community Grant Scheme 2021 was launched to encourage community leaders to implement in practice projects and initiatives, which tie in with the ethos of the Strategy and of the United Nations Convention on the Rights of Persons with Disabilities.

Inclusive education is another key Government priority. In May 2021, a set of guidelines for primary schools were issued so that they become Dyslexia Friendly. Furthermore, school leavers with a disability continue to be given the necessary support to bridge the gap between school and the workplace and close collaboration between schools and post-secondary institutions ensures that they are supported in their transition to post-secondary education.

Another aspect of inclusive education reflects the fact that just under half of the student population in recent years has been non-Maltese. An induction hub for secondary school students has been set up and outreach by community liaison workers at compulsory education level has continued to strengthen the provision for inclusive support for children from a migrant background. Furthermore, through the LLAPSI+ project, a summer intensive language course is also being provided to support newly arrived learners who are still struggling with learning the languages of schooling.

The 2030 Strategic Vision for Further and Higher Education in Malta aims towards ensuring a timely response to a dynamic world. It builds upon the Further and Higher

Education Strategy 2020 and identifies the national priority areas, objectives and targets in line with the European Union's policies for education.

In 2021, MCAST concluded a consultation process about its Strategic Plan for 2022-2027. The Strategic Objectives MCAST's plan targets infrastructure (both digital and physical), quality and relevance of the programmes offered, work-based learning, image and esteem of Vocational and Professional Programmes (VPET), partnerships, management and governance, and research and innovation.

The Government has changed the term Early School Leaving (ESL) to Early Leaving from Education and Training ELET, to ensure that vocational education is included within such terminology. Furthermore, in 2021, the Strategy entitled 'Early Leaving from Education and Training (ELET) - The Way Forward 2020-2030' was launched, outlining prevention, intervention and compensation strategic actions aimed at preventing early leaving from education and training. An implementation report will be used as Malta's monitoring data collection framework within the ELET field. Given the negative impact brought about by school closure due to COVID-19 on students at risk of ELET, the Government is keeping abreast with a number of stakeholders within schools to provide recommendations and evaluate/adjust policy measures as necessary.

4. Progress towards United Nations Sustainable Development Goals (SDGs)

4. Progress towards United Nations Sustainable Development Goals (SDGs)

4.1 Introduction

Sustainable development has been an integral part of the Maltese Government's agenda for the past years, and progress has been registered in various areas across all SDGs. The Maltese Government is mainstreaming sustainable development principles in its operations and is ensuring that policies, strategies, and initiatives are guided by the principles outlined in the 2030 Agenda.

4.2 Sustainable Development Governance Model

The Sustainable Development Act (Cap. 521) underpins Malta's sustainable development governance model and establishes other institutional roles, such as the Guardian of Future Generations and the Sustainable Development Network. These bodies aim to facilitate the dialogue on the Agenda 2030 implementation with key local authorities, private stakeholders, NGOs, and citizens, fostering exchange of views and national dialogue and overseeing the implementation of the Agenda.

Following the publication of Malta's Sustainable Development Vision for 2050, the Government is working towards the development of a Sustainable Development Strategy for 2050. The Strategy will be founded upon strategic priorities with operational goals in various interconnected and interrelated areas.

The Government has, since 2019, ensured that the budget measures are aligned with the SDGs and that a genuine effort is made to quantify their contribution to the 2030 Agenda targets. This leads to better transparency and accountability of the Government's decision-making processes, whilst ensuring that the three pillars of sustainable development; economic, social and environmental, are always considered. The 2022 Budget measures and their contributions towards the SDGs are illustrated in Annex Table 4.

4.3 Overview of Progress Towards the SDGs

In spite of the registered progress in the sustainable development governance framework, challenges remain. Recognising the existing data gaps and the importance of quality assurance of national data on Sustainable Development Indicators (SDIs), a National Expert Group (NEG) on SDIs was established through a Cabinet Decision on the 6th of July 2021. Composed of technical officers from within the relevant Ministries and Entities, the NEG shall facilitate the coordination of activities relating to the SDIs. It shall ensure that the Competent Authorities strengthen commitment on data collection and the production of statistics in relation to the SDIs. The NEG is also tasked to assist in the identification of country specific indicators to monitor the implementation of the National Sustainable Development Strategy for 2050.

4.3.1 Green Transition

Achieving carbon neutrality by 2050 is at the heart of Malta's economic vision. The Government's efforts towards achieving this target are contributing towards achieving SDG 7 (Affordable and clean energy), SDG 12 (Responsible consumption and production) and SDG 13 (Climate action).

To this effect, the Maltese Government has developed its Low Carbon Development Strategy (LCDS), published in October 2021, which charts a set of measures that ensure the decarbonisation of the economy to reach carbon neutrality by 2050. Furthermore, the National Strategy for the Environment (NSE), which is expected to be published for public consultation in the coming months, will serve as a strategic document targeting all environmental elements of national policies, plans and programmes by setting strategic goals and objectives to be fulfilled by 2050.

More specifically, in the 2022 Budget, the Maltese Government continued to spearhead initiatives that ensure enhanced energy efficiency, clean energy, decarbonisation of transport and a circular economy. These include measures and incentives aimed at energy conservation and diversification as well as reducing emissions from transport, buildings, industry (SDG 9 and 11), whilst facilitating reforms in waste management (SDG 11 and 12) and further investment in renewable energy (SDG 7), as highlighted in Chapter 3. This is further complemented by the ongoing investments in infrastructure and technology to support the country's competitiveness, and sustainable growth (SDG 8 and 9).

The interconnection of sustainable food supply security with land use and quality of life (SDG 2) is at the centre of the Maltese Government's agricultural measures announced in the 2022 Budget. Headline measures include further incentives to encourage more effective use of agricultural land by farmers and organic production; measures aimed at digitalising and modernising agricultural facilities and processes particularly the ongoing reform and upgrading of the Pitkalija; and the setting up of a new Enforcement Unit within the Malta Food Agency.

Through the implementation of the Government's vision of carbon neutrality, the Government seeks to align economic growth with measures that reduce and offset greenhouse gas (GHG) emissions, both in line with the national commitment, the European Green Deal and the Paris Agreement.

4.3.2 Fairness

Government's efforts for a fairer and more relevant education system, contributing to SDG 4 (Quality education) have yielded a steady year-on-year decline in early leaving from education and training. Moreover, the extension and increase of measures which are aimed at making work pay and encouraging women's participation in the labour market, contributing to SDG 5 (gender equality) resulted in a gradual decrease in the gender employment gap.

Early leaving from education and training in 2020 declined to 12.6 per cent from 21.4 per cent in 2010. This is a result of the various prevention, intervention and compensation measures that have been implemented by the Government; including supporting young people to stay in school and offering opportunities to early leavers for re-entering education. These are further complemented by the recently launched National Strategy

on Early Leaving from Education and Training (ELET). The ELET is based on the principles of ensuring inclusive and quality education for all by reducing the gaps in educational outcomes between boys and girls and between students attending different schools; decreasing the number of low achievers; raising the bar in literacy, numeracy, and science and technology competence; and increasing student achievement. It also aims to further support the educational achievement of children at-risk-of-poverty and low socio-economic status; raise the levels of student retention and attainment in further vocational and tertiary education and training; and increase participation in lifelong learning and adult learning.

Although the tertiary education attainment rate of people aged 30-34, at 39.8 per cent in 2020, remains slightly below that of the European Union (EU) at 41.0 per cent, the rate has increased by 17.7 percentage points since 2010, one of the largest increases in the EU. The largest share of tertiary graduates (55.5 per cent) attained a qualification at ISCED Level 6 (Bachelor's or equivalent). This was followed by 35.8 per cent of total tertiary graduates who attained their qualification at ISCED Level 7 (Master's or equivalent). The recently launched University of Malta Strategic Plan 2020-2025 and the Malta College of Arts, Science and Technology (MCAST) Strategic Plan 2022-2027, will further strengthen measures aimed at supporting student enrolments in post-secondary and tertiary institutions.

Over the past years, a gradual decrease has been noted in Malta's gender employment gap, down to 17.8 per cent in 2020 from 36.6 per cent in 2010. The introduction of family-friendly and work-life balance measures, adoption of flexible and/or remote working solutions, further enhancement of the free-childcare scheme, coupled with the extension of the in-work benefit is expected to further contribute to this positive performance. The National Gender Equality and Mainstreaming Strategy and Action Plan 2022-2027, which is expected to be launched in the coming months, will strengthen gender mainstreaming in all stages and in various sectors of policymaking by committing Government to direct, targeted, and comprehensive measures targeted to achieve full gender equality. The Government is also committed to ensure women's full participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life. The Gender Corrective Mechanism, approved by Parliament in 2021, will come into effect following the 2022 general election and will ensure that at least 40.0 per cent of representatives in the House are women.

4.3.3 Digital transition and productivity

The Government is committed to continue investing in research, development and innovation (RDI), thus contributing towards SDG 9, by strengthening the capacity of entrepreneurial actors to innovate.

The Maltese economy is mostly made up of predominantly micro-enterprises with insufficient human resource base in areas of science and technology. The Government is addressing this issue by strengthening the capacity of entrepreneurial actors to innovate, and by ensuring constant support through various incentives for the promotion and expansion of industry and the development of innovative enterprises. As a result, enterprises in Malta are becoming more digital, sustainable, and competitive. The digitalisation of several Government services and other sectors of the economy as elaborated in Chapter 3, is expected to improve productivity thus leading to enhanced

economic growth (SDG 8). The holistic digital tourism roadmap and the promotion of the digitalisation of private enterprises, particularly Small and Medium Enterprises (SMEs), as referred to in Chapter 3, will also foster economic recovery.

As indicated in Chapter 3, Malta's new Research and Innovation Smart Specialisation Strategy (RIS3) provides the Government's clear priorities for investment in innovation over the coming years. Furthermore, Malta's National R&I Fund, 'FUSION', has now been extended to five programmes and supports entities and researchers to conduct studies into early-stage projects of high technical excellence. The National Strategy for Research and Innovation in Energy and Water (2021-2030) enables the green transition and contributes towards the provision of affordable and clean energy (SDG 7). Malta's gross domestic expenditure on R&D registered a slight increase from 0.59 per cent in 2010 to 0.66 per cent of Gross Domestic Product (GDP) in 2020.

4.3.4 Macroeconomic stability

The Maltese Government has introduced a number of legislative amendments aimed at better governance and the strengthening of our institutional capacities. Malta also continues to be committed to preventing, detecting and prosecuting money laundering and terrorist financing activities, thus progressing towards the objectives of SDG 16 (Peace, justice, and strong institutions).

Significant progress in enhancing good governance has been achieved in recent months, with numerous reforms such as the strengthening of the Office of the Ombudsman and the Permanent Commission Against Corruption (PCAC), reforms to the system of judicial appointment, the separation of the Office of Attorney General and the Office of the State Advocate, and constitutional reforms in the processes to appoint the President of the Republic and the Police Commissioner, as highlighted in Chapter 3. Furthermore, over the past years, Malta has embarked on reforms designed to address transparency and accountability, such as the removal of prescription on acts of political corruption and the press law revamp that abolishes criminal libel, among others. The Government will continue to enhance and promote good governance across every sphere of public life and across its key institutions and decision-making authorities, particularly by strengthening the investigation of corruption and reforms in the police force to improve rule of law as highlighted in Chapter 3.

4.4 Conclusion

The sustainable development legislative framework of the Maltese Government provides the necessary tools to mainstream sustainable development in the Government's operations and policy formulation. It establishes a centralised public administration system, which integrates the principles of sustainable development, whilst ensuring that effective coordination mechanisms with different stakeholders contributing towards Malta's progress towards the SDGs, are in place. This, together with the Government's commitment towards registering progress in the SDGs, will ensure that any current gaps are addressed and that the mainstreaming of sustainable development principles is affected.

5. EU Funds

5.1 Overview of 2021-2027 Priorities for Malta under Cohesion Policy

Prior to the onset of the COVID-19 pandemic, the economic performance registered in Malta over recent years resulted in a rapid expansion of services exports, due to structural rebalancing in the fast-growing export-oriented services industries. This shift led to a surplus in the current account balance and supported rapid income convergence to the EU average. The strong pace of economic expansion has also brought about new challenges such as pressures on the infrastructure and the environment as well as some labour shortages, amongst others. In this regard, considering Malta's inherent limitations, development in different sectors remains crucial to ensure sustainable development. At the same time, it is essential that Malta continues to invest in mitigation measures aimed at addressing Malta's vulnerability and to strengthen its resilience to external shocks.

Within the 2021-2027 programming period, efforts will be targeting Malta's development needs with a view to enhance the competitiveness of the Maltese economy whilst ensuring sustainable economic growth. Furthermore, during this period, Malta shall continue contributing towards the European priorities of creating a business environment conducive to economic growth, creating jobs, and enhancing social cohesion, whilst at the same time improving the surrounding environment.

A Smarter Economy

The Maltese business community is mainly made up of micro-enterprises and self-employed, that need a supportive environment for them to be able to set up, grow and compete both locally and abroad. This can be done by encouraging investment both by established enterprises as well as new ones, thus strengthening the productivity dimension as elaborated in Chapter 3.

In view of the gap between Malta's level of Research and Innovation (R&I) when compared to the EU average, further support is required to establish the required infrastructure and foster partnerships. This will make it possible for the country to be in a position to make the leap into an innovation-led business model. Furthermore, efforts to strengthen the digital transition are also foreseen, including the strengthening of digital skills and the promotion of digital services.

A Low Carbon and Greener Environment

Notwithstanding the significant investment already undertaken within this sector, including through EU funded initiatives, there are still unmet needs which require attention. During the 2021-2027 period, further efforts are needed to continue promoting and supporting the shift towards a green economy, including investment in energy, waste and water, biodiversity, green infrastructure, and green mobility, amongst others. Efforts supporting the green transition through the update of skills related to green jobs are also foreseen. These investments will improve the quality of life of Maltese citizens which hinges on ensuring that the surrounding environment is conducive towards well-being. Measures addressing the environment, with a particular focus on promoting energy efficiency and storage, investment in waste and water management infrastructure and

multi-modal urban mobility solidify the environment dimension of sustainable growth as referred to in Chapter 3.

With an aim of shifting towards the use of alternative fuels in road transport, the Programme will also support a more extensive network of charging points for electric vehicles (EVs) and related infrastructure investments across Malta and Gozo. This will support the shift towards alternative fuels, cleaner air, mitigating pollutants and GHG emissions. This is in synergy with the Green Cars Initiative, as part of the European Economic Recovery Plan which seeks to enhance the development of new, clean and sustainable forms of road transport.

A More Connected Society

Being the most densely populated country in Europe and having experienced a rapid increase in population over the recent years, the need to improve transport connections in Malta remains relevant. Given its limited size, Malta is often faced with challenges that are usually found in cities, in particular congestion and high pressures on the transport infrastructure. Addressing these challenges requires a multifaceted approach for road infrastructure in terms of investment in different modes of transport which are accessible, sustainable, and safe. In addition, as an island state at the periphery of Europe, investment to enhance the maritime infrastructure remains crucial to ensure the competitiveness of the Maltese economy. Government's efforts aiming to enhance both road and maritime transport connectivity contributes to enhance the competitiveness of the Maltese economy and thus complements the measures included in Chapter 3 addressing the productivity dimension. The interventions targeting road transport are also complementary to the measures and investments targeting the Environment facet of Chapter 3.

A More Social Community

The need to invest in health, education, and socio-economic integration, remains a priority, as also highlighted in measures and investment addressing the fairness dimension of Chapter 3, with a focus on quality and inclusive education and improving access and resilience of the health care system, amongst others. Investment in integrated measures, including infrastructure and services as well as investment to enhance the resilience of labour markets and improve access to quality jobs, remains necessary. Such investment will contribute towards improving access to inclusive quality services and ensure the integration of all communities, particularly disadvantaged and vulnerable socio-economic groups. To continue providing equal access to health services, EU funds continue to address the challenges brought about by the changing demographic trends and rising health needs. Further investment in education, training and life-long learning is key in addressing the social needs of the country and sustaining Malta's human capital.

The COVID-19 pandemic had severe repercussions on the tourism sector and changed the way in which the touristic product is being delivered. This calls for further investment in Malta's touristic product in order to ensure recovery of the sector. Initiatives shall focus on the renovation of cultural assets and the valorisation of Malta's cultural heritage. Such efforts will counterpart Government's aim to improve quality along the value chain, but also to foster social cohesion and an improved environment. This coordinated approach will also enrich Malta's cultural heritage, thereby complementing the measures and investments addressed in the relevant productivity dimension of Chapter 3.

Bringing Europe Closer to Citizens

The Maltese Islands are characterised by permanent geo-physical challenges, all of which need their due attention. In particular, the island of Gozo faces double insularity challenges. In this regard, efforts to reduce disparities between Malta and Gozo are given precedence. Priority shall be given to Gozo's needs in line with the national policy framework, thereby fostering sustainable growth complementary to the measures and investments addressing the environment and productivity challenges of Chapter 3. Investment in sustainable urban development will continue to be promoted by fostering interventions in social, economic, cultural, and environmental areas., which are tailored to the local specifications of the island's territory.

Facilitating a Just Transition

In line with the ambitions laid out in the European Green Deal for climate action and the objectives of the Paris Agreement, interventions under two main priorities shall serve to enable Malta to continue in its ambitions for decarbonisation and the reduction of greenhouse gas (GHG) emissions. These interventions are consistent and complementary to the measures and investments addressing the environment dimension of Chapter 3.

Investments will go towards the installation of an onshore power supply at Malta's main ports engaged in international trade. This investment will involve the connection of vessels to onshore electricity power supply whilst berthing. This will provide an environmentally friendly alternative to reduce GHG emissions. Such investments will also put Malta in the lead when it comes to the application of such technologies.

5.2 Update on the State of Play

During 2021, Malta finalised and officially submitted a number of EU funding Programmes during 2021, including Malta's Recovery and Resilience Plan (RRP), Programmes for the Asylum, Migration and Integration Fund (AMIF), the Internal Security Fund (ISF) and the Instrument for Financial Support for Border Management and Visa Policy (BMVI), as well as Malta's Common Agricultural Policy (CAP) Strategic Plan. Malta's RRP has been approved whilst the other programmes are being negotiated with the European Commission.

In mid-2021, the regulatory framework governing the 2021-2027 Funds under Cohesion Policy was also adopted. Following the publication of the regulatory framework, a wide Public Consultation exercise on the European Regional Development Fund (ERDF), Cohesion Fund (CF), Just Transition Fund (JTF) and European Social Funds Plus (ESF+) documents for public consultation was carried out. As a follow up to the consultation exercise, during 2022, the Programmes shall be updated to take into account the relevant feedback received and will be subject to negotiations with the European Commission.

5.3 Complementarity of Funding between EU Funds and the RRP

Complementarity of funds between Cohesion Policy instruments and the RRP are outlined within both the RRP and the respective Programmes and Partnership Agreement. Efforts under the RRP to foster a digital, smart and resilient economy will be implemented in

synergy with European Regional Development Fund (ERDF) initiatives under Policy Objective 1, particularly in relation to support for digitalisation.

Support and reforms under the RRP are aimed at addressing climate neutrality through enhanced energy efficiency, clean energy, and a circular economy. Decarbonizing transport will be in synergy with initiatives under ERDF and Cohesion Fund (CF) with a focus on enhancing water management, investing in the circular economy, developing the TEN-T network (road and ports) as well as nurturing a shift towards carbon neutrality through the decarbonisation of ports under the Just Transition Fund (JTF).

Efforts to strengthen the resilience of the health system, enhance quality education and socio-economic sustainability under the RRP will also be complemented by initiatives under ERDF and ESF+ with a view to holistically address service provision related to their corresponding sectors.

Delineation between instruments is ensured at a programming stage whereby the development of EU funded plans and programmes is coordinated within the same Division and Ministry. Measures to avoid double funding set up for the 2014-2020 programmes will continue to be applied during the implementation of the 2021-2027 programmes.

5.4 Complementarity and Consistency between Funding Priorities and NRP Priorities

The funding priorities addressed by EU Funds, mentioned in Section 5.1, aim to address the four complementary dimensions highlighted in the European Commission's new growth strategy, which include environment, productivity, macroeconomic stability and fairness. EU funding simplifies the challenges faced in Malta and make the priorities highlighted in the NRP more attainable. These funds help support investments related to the health sector, promoting digital objectives, and transportation, mainly by improving network and accessibility. This helps Malta become more competitive and sustainable.

To access EU funds, Member States are required to prepare a Partnership Agreement and plans or programmes covering various funds for the 2021-2027 period. Malta's Partnership Agreement, which is yet to be finalised, outlines the main parameters of EU funded plans and programmes as well as synergies with other EU instruments including the Recovery and Resilience Facility (RRF). This coordination is instrumental for Malta to be able to maximise the use of EU funding sources and to ensure coherence between different EU funded initiatives.

The Partnership Agreement will set the overarching strategic direction which will consequently be implemented through the various Plans/Programmes financed through cohesion policy funds, amongst others. The implementation of such Programmes/Plans, is expected to directly contribute towards the achievement of the smart, environmental, social and territorial dimensions which strategically target priority areas aimed to meet both EU and national objectives, whilst taking into account the relevant Country Specific Recommendations (CSRs).

It is envisaged that investments supported under the plans/programmes shall particularly aim to foster an innovative and smart economy, whilst promoting environmentally

sustainable practices; to enhance connectivity and foster a healthy environment. They also aim to foster an inclusive social environment in line with the European Pillar of Social Rights, foster an environment conducive to a healthy workforce and sustain a new generation of quality education provision, whilst addressing the challenges faced by the current low-skilled adult population.

The ERDF/CF/JT programme emanating from the 2021-2027 Partnership Agreement will support investments in line with priorities identified under different national policies. Resources will be mobilised to facilitate access to finance for enterprises including through grants and loans. Areas supported through the plans/programmes include digitalisation, R&I, energy storage and efficiency, the valuation of cultural heritage and tourism, investments aimed to support business development, R&I, clean energy, waste and water management, health facilities, including mental health and paediatrics, culture and tourism, educational institutions and transport infrastructure, amongst others.

The ESF+ Programme will directly contribute towards the achievement of the social dimension which strategically targets priority areas aimed to meet both EU and national objectives relating to employment, education, social inclusion, and material deprivation.

6. Institutional Issues and Stakeholder Involvement

6. Institutional Issues and Stakeholder Involvement

When addressing the country-specific recommendations and other economic, social and environment challenges, the commitment of the Government as well as that of social partners, local Government, and non-governmental organisations, is critical for effective implementation of the relevant reform measures and investments.

The Government has actively consulted the Malta Council for Economic and Social Development (MCESD), which bring together the main social partners in Malta. In fact, these stakeholders were consulted by the respective Ministries on various measures and initiatives presented in the National Reform Programme (NRP) and they were also invited to attend an ad hoc meeting on the NRP to discuss the strategic underpinnings of the overall report.

Furthermore, a quarterly monitoring exercise on the implementation of the NRP was carried out, prior to the drafting of a status report on each individual measure listed in the NRP. It should be noted that measures which are co-funded through European Union (EU) funds have also been included in this NRP.

The Ministry for Finance and Employment (MFE) was responsible for coordinating the required input from the relevant Ministries and key stakeholders, participating in seminars and discussions on progress achieved in the NRP. This collaborative process proved to be successful and has led to the drafting of a comprehensive yet concise NRP with increased ownership from line Ministries. A copy of the NRP will be handed to the Malta Fiscal Advisory Council. Subsequently, the NRP will be made available to the public after submission to the European Commission. The 2022 NRP document was discussed and approved by Cabinet on 11th April 2022.

A similar process was adopted during the preparation of the Recovery and Resilience Plan (RRP) in 2021. The RRP was presented to the MCESD, following the consultation exercise that took place in the run up to the development of Malta's EU funded plans and programmes for the 2021-2027 period. This consultation process was launched in 2019, and the outcome of such consultations provided important insights of stakeholders' position about the needs and investment priorities necessary for Malta's socio-economic development within the context of EU Funds. This served as an important contribution towards the identification of investment needs for the purposes of the RRP, taking into account the short implementation timeframes of the Plan and the need to link investments with the country's CSRs. The RRP was later discussed and approved by Cabinet prior to its submission to the European Commission on 13th July 2021.