

Malta's National Reform Programme Under the Europe 2020 Strategy



April 2011



Malta's National Reform Programme Under the Europe 2020 Strategy

April 2011

Ministry of Finance, the Economy and Investment

Published by the
Ministry of Finance, the Economy and Investment
South Street,
Valletta

Tel.: (+356) 25998 410
Website: <http://www.finance.gov.mt>

Cataloguing-in-Publication Data

Malta. *Ministry of Finance, the Economy and Investment*
Malta's National Reform Programme under the Europe 2020 Strategy
Valletta: Policy Development Directorate,
Ministry of Finance, the Economy and Investment, 2011

2011 – 74 pp. – 21 x 29.7cm

ISBN: 978-99932-94-42-9
ISBN: 978-99932-94-43-6 – Electronic version

Our Publications are available from:

Department of Information
3, Castille Place
Valletta

Tel.: (+356) 21250550

MINISTER'S FOREWORD



Malta has a vision of a better society, one which creates opportunities for those willing to work to contribute to their own welfare, that of their families and the welfare of society at large. This translates into a vision of work opportunities in which individuals and companies excel in their abilities. This is a vision of an inclusive society where everyone can contribute to his own well-being and a society which cares for those left behind and gives them the opportunities, tools and resources to live well. We strive for excellence in education which brings the best of each individual.

We aspire for a society where economic growth does not jeopardise society's well being by degrading the environment at all costs. We strive for a healthier society where basic health services can be accessed by all.

Whilst welfare goes beyond economic well-being, it is intrinsically related to it and to a great extent dependent on it. It is for this reason that Malta supports the Europe 2020 Strategy based on sustainable growth and jobs. It is also for the same reason that we support the emphasis on employment, education, equality and the environment which together with health are the pillars of a society's welfare. This is ultimately a strategy based on smart, sustainable and inclusive growth. Malta has its own set of challenges in these aspects and the National Reform Programme (NRP) aims to set out ambitious yet realistic targets and a policy action plan to address Malta's challenges in employment, education, the environment, poverty and research and development. Whilst all the Europe 2020 targets are being addressed, employment and education challenges will be given priority. We believe that these two challenges hold the key towards improvement in the social sphere and in research and innovation.

In this NRP we clearly show that addressing labour productivity by focusing on education, investment, research and development, and improving market functioning holds the key for Malta to address its competitiveness challenges. We demonstrate that this is essential for Malta to improve its growth potential and address macroeconomic imbalances. Measures to improve public finance sustainability in the long term and measures to strengthen further Malta's financial system are also important to ensure sustainable economic development and are being given priority in this NRP. Finally, an enhanced participation in the labour market is viewed as essential in order to reach higher per capita income levels and a more rapid convergence process.

In view of commitments Malta has made as part of the Euro Plus Pact a number of additional measures to be implemented during the coming twelve months have also been identified. This NRP also reflects the new economic governance framework, particularly the draft regulation on the prevention and correction of macroeconomic imbalances and the draft directive on requirements for the budgetary

framework. Indeed the analysis contained in Part 2 on Macroeconomic Surveillance in this Programme is to a large extent consistent with the Excessive Imbalance Procedure. Specific commitments are also being made in this programme in compliance with the draft directive on the requirements for the budgetary framework.

It is worth highlighting that the Stability Programme contains further details on Malta's medium to long term fiscal consolidation strategy and this NRP is consistent with that Programme. This will ensure that the measures contained in the NRP will take into account fiscal constraints whilst the growth strategy in the NRP will help sustain the fiscal consolidation strategy contained in the Stability Programme.

This NRP contains 25 distinct new measures aimed at ensuring that Malta achieves its Europe 2020 targets in education, employment, poverty, research and development, energy and the environment. In addition seven distinct sets of structural reform measures together with the thematic measures are meant to address growth bottlenecks and macroeconomic imbalances. The total outlays on these measures which are covered by a mix of private funds, EU funds and public funds are estimated at €578 million. These are essential for Malta to achieve smart, sustainable and inclusive growth.

It is encouraging to note that a selection of the measures contained in this programme can raise Malta's potential growth beyond pre-crisis rates as early as 2011. This will be imperative in order for Malta to ensure that the growth rates forecast in the Stability Programme can be sustained without the creation of unnecessary macroeconomic imbalances. This will ensure that the fiscal consolidation strategy highlighted in the Stability Programme is also a sustainable one. However the NRP recognises that further challenges must be met in order for a faster convergence to the EU average per capita income levels and living standards to be achieved in a sustainable manner.

Whilst the Government of Malta is ready to implement the strategy contained in this NRP, it is evident that achieving the ambitious 2020 targets whilst containing the fiscal costs and complying with the requirements of the Stability and Growth Pact will require further assistance from the EU Budget. It is therefore imperative that discussions on the EU Budget, particularly with regard to the forthcoming Multi-annual Financial Framework, take into account this dimension, particularly for those Member States whose per capita income levels are still below the EU average.



Tonio Fenech
Minister of Finance, the Economy and Investment

TABLE OF CONTENTS

MINISTER'S FOREWORD	i
LIST OF ABBREVIATED TERMS	viii
LIST OF ABBREVIATED TERMS	ix
PART 1 – MACROECONOMIC SCENARIO	1
1.1 Macroeconomic Developments over the Last Decade	3
1.2 Productivity	3
1.3 External Competitiveness	4
1.4 Per Capita Income Levels	5
1.5 Going Forward – The Main Long-Term Challenges	6
1.6 Potential Growth and Structural Reform Measures	6
PART 2 – MACROECONOMIC SURVEILLANCE	11
2.1 Sustainable Growth and Jobs	13
2.2 Bottlenecks to Growth	13
2.2.1 Ensuring the Long-Term Sustainability of Public Finances in View of Ageing of Population	13
2.2.2 Ensuring that Productivity Growth Underlines Wage Developments to Safeguard Competitiveness	13
2.2.3 A Further Move to Higher Value-Added Activities by Raising Investment in New Areas of Growth	14
2.2.4 Ensuring Better Utilisation of the Economy's Labour Potential, in particular that of Women and Older Workers, and Improving the Skills Base of Labour Force	14
2.2.5 Addressing the Weaknesses in the Business Environment and Enhancing Competition	15
2.3 Macroeconomic Imbalances	15
2.3.1 Current Account Imbalances	15
2.3.2 Capital Flows Financing the Current Account	16
2.3.3 Asset Prices	16
2.3.4 Private Debt and External Indebtedness	16
2.4 Measures to Address Economic Imbalances and Growth Bottlenecks	17
2.4.1 Smart Fiscal Consolidation	17
2.4.2 Pensions Reform	18
2.4.3 Public Infrastructural Projects	18
2.4.4 Private Investment Incentives	18
2.4.5 Better Regulation	19

2.4.6	Strengthening Market Structures.....	20
2.4.7	Strengthening Financial Stability	20
2.4.8	Improving the Regulatory Environment for Small Businesses	20
2.4.9	Eco Gozo Strategy.....	21
2.4.10	Water Policy.....	21
2.4.11	Malta's Commitments under the Euro Plus Pact.....	21
2.4.11.1	Strengthening the Fiscal Framework.....	22
2.4.11.2	Enactment and Implementation of the Small Business Act	22
2.4.11.3	Administrative Burden Reduction.....	22
2.4.11.4	Start-up Finance and Micro Credit Scheme	22
2.4.11.5	Cultural and Creative Industries Strategy.....	23
2.4.11.6	Full Liberalization of the Postal Sector	23
2.4.11.7	Telecommunications Market	23
2.4.11.8	Next Generation Networks.....	23
2.4.11.9	Telecommunications Regulatory Measures	23
2.4.12	The Thematic Measures	24
PART 3 – THEMATIC COORDINATION.....		27
3.1	Target 1 - Employment and Key Measures to Attain the Target.....	29
3.1.1	National Target	29
3.1.2	Key Measures to Reach the National Target.....	30
	Measure 3.1.2.1 Community Work Scheme	30
	Measure 3.1.2.2 Revision of Means Testing for Social Assistance	31
	Measure 3.1.2.3 Pro-Rata NI Contribution for Part-Time Self-Employed Women	31
	Measure 3.1.2.4 Child Care Centres	31
	Measure 3.1.2.5 Afternoon School Programmes in the Community.....	32
3.1.3	Other Ongoing Measures.....	32
	Measure 3.1.3.1 Incentives to Attract More Inactive Women to the Labour Force	32
	Measure 3.1.3.2 Publicity campaign to attract more women to the labour market.....	33
	Measure 3.1.3.3 Encouraging Older Workers to Continue Working.....	33
	Measure 3.1.3.4 Strengthening Employability Prospects	34
	Measure 3.1.3.5 Measures to Curtail Abuse of the Unemployment Register and Informal Work.....	36
3.2	Target 2 - R&D and Key Measures to Attain the Target.....	38
3.2.1	National Target	38
3.2.2	Key Measures to Reach the National Target.....	38
	Measure 3.2.2.1 The New National Research and Innovation Strategy 2011 - 2020 ...	38
	Measure 3.2.2.2 An Ecosystem Approach to R&I Funding	38
	Measure 3.2.2.3 Doctoral and Post-Doctoral Scheme	39
	Measure 3.2.2.4 The Setting Up of a Life Sciences Centre	40
3.3	Target 3 - Energy and Key Measures to Attain the Target	41
3.3.1	National Target	41
3.3.2	Key Measures to Reach the National Target.....	41

Measure 3.3.2.1 Interconnection to the European Energy Grid	42
Measure 3.3.2.2 Extension of the Delimara Power Station	42
Measure 3.3.2.3 Energy End-Use Efficiency	43
Measure 3.3.2.4 Energy Efficiency in Transport	43
Measure 3.3.2.5 Implementation of Malta's National Strategy for Policy and Abatement Measures relating to the Reduction of Greenhouse Gas Emissions	44
Measure 3.3.2.6 Implementation of the National Renewable Energy Action Plan	45
3.4 Target 4 - Education and Key Measures to Attain the Target.....	47
3.4.1 National Target	47
3.4.2 Key Measures to Reach the National Target.....	47
Measure 3.4.2.1 Tackling Absenteeism by Strengthening Student Services.....	47
Measure 3.4.2.2 Offering more Opportunities for Participation in Vocational Education	48
Measure 3.4.2.3 Introducing Life-Long Learning into the Community through a Pilot Out-Reach Programme	49
Measure 3.4.2.4 Setting up of a National System for Accreditation and Licensing of Further and Higher Education Programmes and Providers and of Recognition of Non- Formal and Informal Prior Learning	49
Measure 3.4.2.5 Introducing New Possibilities and Modalities of Learning in Higher Education	50
Measure 3.4.2.6 Extension of the Malta Government Scholarship Scheme (MGSS) ...	50
3.5 Target 5 - Poverty and Key Measures to Attain the Target	51
3.5.1 National Target	51
3.5.2 Key Measures to Reach the National Target.....	51
Measure 3.5.2.1 Combating Child Poverty	51
Measure 3.5.2.2 Pensions Reform	52
Measure 3.5.2.3 Supplementary Allowance.....	53
Measure 3.5.2.4 Incentives and Support to Persons with a Disability to Actively Participate in the Labour Market.....	53
Measure 3.5.2.5 Strengthening support services to jobless households	54
Measure 3.5.2.6 Training Programme for Employees Earning the Minimum Wage	55
3.6 Financing the NRP	55
PART 4 – HORIZONTAL AND METHODOLOGICAL ISSUES.....	59

LIST OF ABBREVIATED TERMS

BAT	Best Available Techniques	MCST	Malta Council for Science and Technology
CBM	Central Bank of Malta	MEEF	Ministry of Education, Employment and the Family
CCI	Culture and Creative Industry	MEPA	Malta Environment and Planning Authority
COLA	Cost-of-Living Allowance	MEUSAC	Malta-EU Steering and Action Committee
DSS	Department of Social Security	MFEI	Ministry of Finance, the Economy and Investment
EAFRD	European Agricultural Fund for Rural Development	MFSA	Malta Financial and Services Authority
EAP	Employment Aid Programme	MITC	Ministry for Infrastructure, Transport and Communications
EFC	Economic and Financial Committee	MRRA	Ministry for Resources and Rural Affairs
EPC	Economic Policy Committee	NEEAP	National Energy Efficiency Action Plan
EPD	Economic and Policy Department	NGO	Non-Governmental Organisation
ERDF	European Regional Development Fund	NI	National Insurance
ESF	European Social Fund	NRP	National Reform Programme
ETC	Employment and Training Corporation	OPM	Office of the Prime Minister
ETS	Emissions Trading Scheme	PAYG	Pay As You Go
EU	European Union	PDD	Policy Development Directorate
FDI	Foreign Direct Investment	PPS	Purchasing Power Standards
FES	Foundation for Educational Services	R&D	Research and Development
GDP	Gross Domestic Product	R&I	Research and Innovation
ICT	Information and Communication Technology	RTDI	Research, Technological Development and Innovation
IPPC	Integrated Pollution Prevention and Control	SME	Small and Medium Enterprises
ITS	Institute for Tourism Studies	STEPS	Strategic Educational Pathways Scholarships Scheme
JSA	Job Search Assistance	TAF	Training Aid Framework
KBIC	Kordin Business Incubation Centre	TIMSS	International Study Trends in Mathematics and Science Study
LAF	Lisbon Assessment Framework	toe	Tonne of oil equivalent
MCAST	Malta College of Arts, Science and Technology	VAT	Value Added Tax
MCESD	Malta Council for Economic and Social Development		

PART 1 – MACROECONOMIC SCENARIO

MACROECONOMIC SCENARIO

1.1 Macroeconomic Developments over the Last Decade

Over the last decade the Maltese economy was characterised by a significant restructuring process which amongst others led to a significant re-orientation of the economy away from agriculture and the manufacturing sector towards the services sector. The share of manufacturing in total gross value added has declined from 22.4% in 2000 to 13.4% in 2010. Over the same period, the share of primary industries including agriculture, fisheries, and construction has also declined from 6.4% of gross value added to 5.5% of total gross value added. On the other hand, the services sector's share of total gross value added increased from 52.5% in 2000 to 58.8% in 2010. The share of government, education, health and social work in total gross value added also increased from 16.4% to 19.0%. A process of economic diversification was also present whereby the dependence on tourism and electronics was reduced and replaced by emerging sectors in chemicals, aircraft maintenance, business services, information technology and financial services. This restructuring process was undertaken at a significant time of Malta's economic history underlined by significant trade and economic liberalisation, Malta's accession into the EU and also Malta's adoption of the Euro.

Over the same period structural impediments in the economy underlined a decline in Malta's average annual potential output growth from around 4.5% in the decade before 2000 to an annual average of around 2.4% in the last decade. Underlying this decline in potential growth is a clear evidence of a worsening trend decline in capital deepening and total factor productivity. Whilst the Lisbon Assessment Framework (LAF) recognises the substantial achievements made by Malta in education and employment, it also highlights remaining challenges with respect to the quality of Malta's labour resources, including relatively low educational attainment and skill levels of the Maltese labour force.

1.2 Productivity

As a result of these developments labour productivity has experienced only a moderate growth over the last decade and actually decline relative to the EU average. As shown in Table 1, in 2000, Malta's labour productivity had almost reached the EU average. By 2009, this had declined to around 91% of the EU average. The developments in Malta's potential growth highlighted by LAF explain the declining labour productivity from a growth accounting perspective.

	1995	2000	2005	2009
Nominal compensation per employee	45.8	53.3	51.8	54.9
GDP per Capita in PPS	86.0	83.0	78.0	81
Labour Productivity	:	96.7	91.3	91.0

source: Eurostat/AMECO

1.3 External Competitiveness

Related to these developments were competitiveness losses registered over this period. These are illustrated in Chart 1. Increases in unit labour costs related to both wage increases and losses in labour productivity. These were only partly reversed towards the middle of the decade as labour productivity recovered and wage growth moderated. After 2007, unit labour costs rose again, primarily as a result of labour productivity losses with companies operating in international export markets feeling the brunt of a strong Euro and negative terms of trade shocks related to strongly increasing competitive pressures from low cost centres in Asia. Furthermore, the financial crisis which started in 2007 as well as the ensuing global economic recession had a very significant negative impact on world trade and as a result this adversely affected growth and labour productivity in the Maltese economy. Wage adjustments to correct for the negative productivity developments related to the recession occurred with a lag with unit labour costs eventually declining in 2010 on the basis of downward per capita wage adjustments and a recovery in productivity.

However, competitiveness is a relative concept. When compared with the EU and with major competitors, per capita average annual compensation and hourly labour costs appear to be competitive¹. In 2009 per capita nominal compensation is only slightly more than half the EU average indicating significant scope for convergence. Moreover average annual per capita compensation levels have increased more slowly than Malta's main competitors inside the EU² and generally in line the EU average at least up till 2007. This suggests that wage increases were relatively benign. On the other hand, as already explained labour productivity increased more slowly in Malta relative to Malta's main competitors in the EU and also more slowly than the EU average³.

In this regard, it is pertinent to point out that the wage indexation (COLA) mechanism prevailing in the local labour market is not a full indexation system and that the increase in inflation is not totally translated into a commensurate wage increase except in the case of those working at a base wage. Moreover, the COLA mechanism has in built flexibility arrangements. This is amply demonstrated by sectoral statistics which show that in times of recession when inflation in the previous year was still high, sectors which faced competitive pressures did not grant COLA. Finally, the data suggests that general wage increases exceeded COLA indicating that the loss in unit labour costs is more related to supply shortages during a rapid phase of economic restructuring. Hence, although wage indexation measures could hamper an economy's ability to adjust to external shocks, Malta believes that the COLA mechanism in place was not a main contributor to unit labour costs.

The declining trend in relative labour productivity is clearly demonstrated in Table 1 and Chart 2 below. This clearly suggests that at the heart of Malta's competitiveness challenge lies the ability of the Maltese economy to raise labour productivity towards the EU average. Addressing Malta's competitiveness is intrinsically related to addressing the same problems causing the decline in Malta's growth potential. In this respect the Europe 2020 Strategy's focus on growth is more than welcome.

¹ Ministry of Finance, the Economy and Investment; 2009; *Pre Budget 2010: Growth, Jobs and Social Cohesion*

² Ministry of Finance, the Economy and Investment; 2010; *Pre Budget 2011: Ideas, Vision, Discussion*

³ Ibid.

1.4 Per Capita Income Levels

In addition to the productivity challenge for Malta, the low labour market participation rate is a major structural bottleneck⁴. It is interesting to note that whilst productivity levels are now estimated at around 91% of the EU average, GDP per capita in PPS is estimated at around 81% of the EU average. The discrepancy between the two indicators is primarily explained by the low female and old age participation rates. Thus, in respect to the overall convergence towards EU per capita income levels, highlighting labour market participation rates as a major challenge for Malta within the Europe 2020 Strategy is understandable.

Chart 1: Growth in Unit Labour Costs

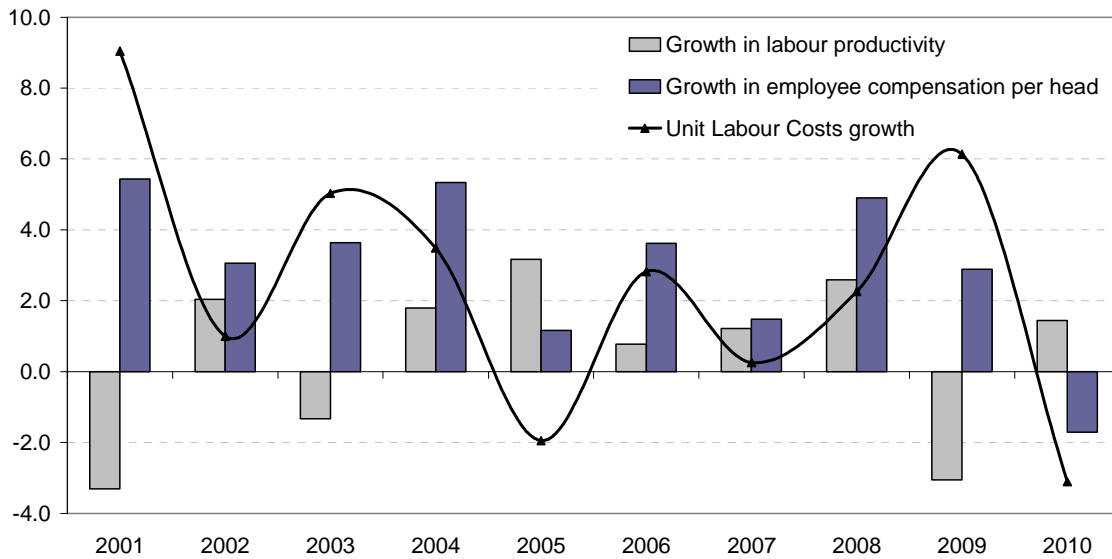
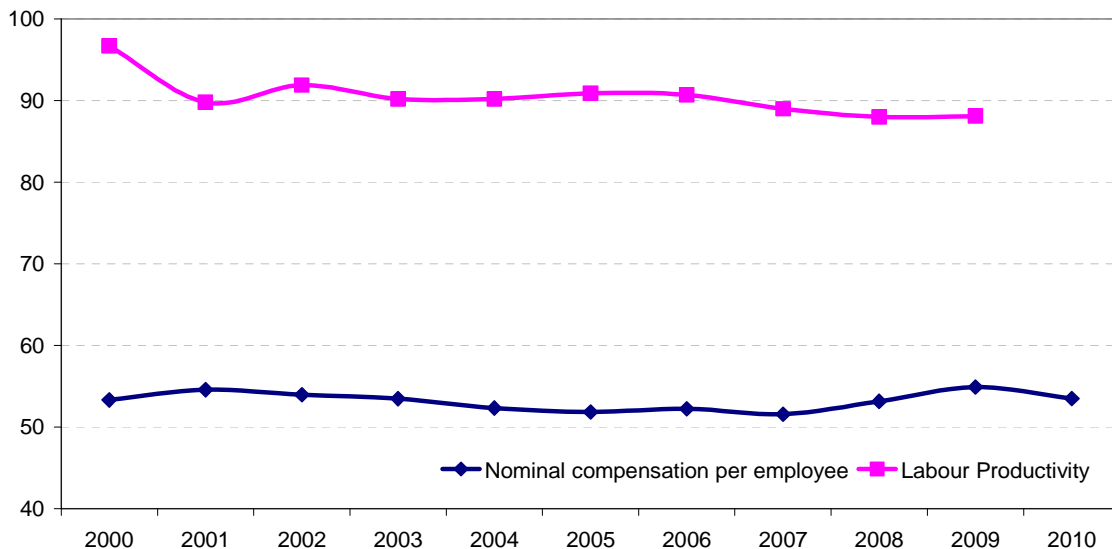


Chart 2: Unit Labour Costs Relative to the EU Average



⁴ Ministry of Finance, the Economy and Investment; 2010; *Pre Budget 2011: Ideas, Vision, Discussion*

1.5 Going Forward – The Main Long-Term Challenges

Going forward, challenging times lie ahead to raise Malta's potential growth by addressing capital investment, raising the quality of Malta's labour supply, and addressing total factor productivity through improvements in market functioning, research and development and institutional development. Moreover, raising per capita income levels will require an added focus on labour resources, primarily by addressing the low labour market participation rates.

1.6 Potential Growth and Structural Reform Measures

Whilst the economic crisis of 2009 may have led to a reduction in Malta's long term growth potential, bottlenecks to growth were evident before the crisis. By 2010 Malta had already embarked on a recovery process with positive growth rates being registered in both actual GDP and potential output. According to the macroeconomic projections potential output growth is expected to gradually recover to its pre-crisis levels of close to 2.5% by 2014. Whilst this may be viewed as a respectable rate of growth for the Maltese economy raising Malta's living standards towards EU average at an acceptable pace requires that the Maltese economy recovers faster towards pre-crisis levels and then target potential growth rates in the region of 3% to 4% per annum. These targets can be achieved only through a continuous reform process and a further strengthening of the structural reform process.

The structural measures contained in this NRP are expected to contribute significantly towards the first growth target; that of regaining Malta's pre-crisis levels of potential growth. The structural reform measures contained in this document which are meant to achieve these targets will be described in more detail in the following chapters. Nevertheless an attempt was made in order to estimate the expected impact of a number of the proposed measures on potential output growth, utilising a supply-side model of the Maltese economy. It was not possible to estimate the economic impact of all the measures. The measures which were quantified were the following:

- Community Work Scheme.
- Revision of Means Testing for Social Assistance.
- Pro-Rata NI Contribution for Part-Time Self Employed Women.
- Child Care Centres.
- Afternoon School Programme.
- Training Programme for Minimum Wage Earners.
- Incentives to Support Persons with Disability to Participate in Labour Market.
- R&I + Commercialisation Programmes.
- Life Sciences Centre.

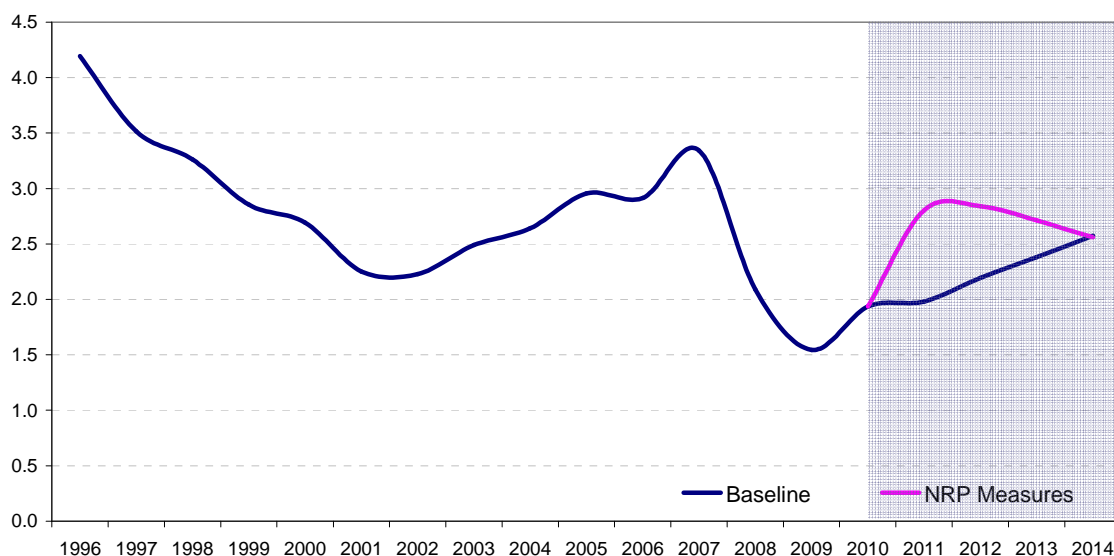
These measures are expected to create potential jobs almost to the tune of 1% of the gainfully occupied population by 2014. In addition, the direct impact of higher investment in various infrastructural projects in energy, transport, education, industrial facilities, research and development were also included. The investment outlay on the projects included amount to around 7.4% of GDP between 2011 and 2014 (an average of 1.9% of GDP additional investment per annum).

Whilst these figures are very encouraging it is worth noting that on their own these investment initiatives are unlikely to be enough to increase Malta's ratio of private and public investment to GDP to the ratios Malta registered in the early part of this decade. It is therefore very important that these measures are supplemented by other private investment initiatives.

These projections do not include the impact on labour productivity and labour efficiency arising from the structural measures contained in this National Reform Programme. Therefore, they represent a conservative estimate of the contribution of the proposed structural reform measures to potential growth. It is also worth noting that a number of ongoing measures which are also included in this Programme are included in the baseline scenario. The baseline scenario corresponds to the potential growth estimates contained in Malta's Stability Programme of 2011.

Chart 3 indicates that under the baseline scenario it will take Malta up to 2014 to reach the pre-crisis potential growth rates of around 2.5% per annum. The structural measures contained in this National Reform Programme are expected to help Malta achieve this target two years ahead and allow Malta to temporarily reach a potential growth rate of 2.8% as early as 2011. Thereafter, based only on a selection of the NRP measures Malta will be able to maintain the pre-crisis potential output growth rate in excess of 2.5% until the end of the programme period in 2014.

Chart 3 Malta's Potential Output Growth Estimates



It is also pertinent to note that the macroeconomic projections contained in Malta's Stability Programme for 2011 forecast growth to increase gradually from 2.4% in 2011 to 2.8% in 2014. These figures indicate that Malta's economic growth is supported by potential growth.

It is also worth noting that the macroeconomic projections contained in the Stability Programme indicate that under the baseline scenario the potential output gap is expected to remain in negative territory throughout the forecast period. The increase in potential output as a result of the structural measures could potentially increase the discrepancy between the actual and potential GDP in the Maltese economy. This indicates that (i) according to macroeconomic projections demand conditions will remain a constraint on economic activity

in the short term, (ii) that a higher rate of growth in excess of potential would be sustainable in the short-term for a faster closure of the output gap (iii) that the economic growth forecasts contained in the Stability Programme are both prudent and sustainable from an output gap perspective.

PART 2 – MACROECONOMIC SURVEILLANCE

MACROECONOMIC SURVEILLANCE

2.1 Sustainable Growth and Jobs

As indicated in the Macroeconomic scenario, to ensure sustainable levels of growth and an orderly convergence process it is important to tackle the bottlenecks which are hindering growth in the Maltese economy. We believe that by doing so Malta will not only be raising its growth prospects and accelerating the convergence process, but will also potentially address the macroeconomic imbalances which can potentially destabilise any economic system and lead to a crisis situation at a point in time.

2.2 Bottlenecks to Growth

In line with the Europe 2020 Strategy, this NRP identifies five major bottlenecks, drawing heavily from the joint effort of the EPC and EFC to identify the main five bottlenecks for Malta. It is worth highlighting that this is essentially an exercise in prioritisation of the major bottlenecks since in reality more than five bottlenecks exist for every Member State. Whilst the five bottlenecks highlighted below are broadly in line with the five main bottlenecks identified by the joint initiative of the EPC and EFC, there is more emphasis on productivity and on structural impediments to growth.

2.2.1 Ensuring the Long-Term Sustainability of Public Finances in View of Ageing of Population

If the recurring budget deficits registered over recent years are not addressed, Government believes that this can hinder the growth prospects of a small open economy which is dependent on foreign direct investment. Moreover, the impact of demographic ageing in Malta on age-related expenditure is projected to be one of the most significant in the EU, both in respect of health care and pensions, with corresponding implications on public finance sustainability. This challenge is amplified by low employment rate, particularly that of women and older workers. In this context, and in view of the requirements of the Stability and Growth Pact, and the obligations outlined in the Treaty on the Functioning of the European Union, fiscal consolidation is a top priority of the Maltese Government.

In this regard, the fiscal consolidation exercise currently underway by Government is focusing notable effort in ensuring that the level of health expenditure in the Government's aggregate expenditure is contained, and channelled along a sustainable path by exploring all avenues that may result in improved efficiency and expenditure savings.

2.2.2 Ensuring that Productivity Growth Underlines Wage Developments to Safeguard Competitiveness

Wages appear to be competitive in level terms although a dynamic analysis points to wage developments which are not always underlined by productivity gains. In view of the overall objective of increasing per capita income levels in a sustainable manner various analyses of Malta's competitiveness⁵ indicate that productivity is the major challenge for Malta.

⁵ Ministry of Finance, the Economy and Investment; 2009; *Pre Budget 2010: Growth, Jobs and Social Cohesion*; Ministry of Finance, the Economy and Investment; 2010; *Pre Budget 2011: Ideas, Vision, Discussion*

Competitiveness losses over the last decade were primarily the result of slow or declining labour productivity and secondly to wage developments, particularly in the public sector which were not mirroring labour productivity.

A sectoral comparison of wage shares in the Maltese economy point to productivity challenges in the sectors facing competitiveness pressures. In other sectors wage shares tend to be low such that rising unit labour costs may simply reflect income convergence. In these industries, low wages may simply be providing the wrong incentives in the labour market and possibly creating skill mismatches which can also undermine industrial competitiveness in the long term.

2.2.3 A Further Move to Higher Value-Added Activities by Raising Investment in New Areas of Growth

In view of Malta's low rates of capital deepening, a lasting reinvigoration of fixed capital accumulation could provide an important boost to labour productivity. Despite significant inflows of foreign capital, private sector investment in the Maltese economy has averaged around 16% since the beginning of this decade compared to an EU average of 18% and around 21% among relatively small and emerging economies in the EU similar to Malta⁶. Moreover, in view of the market constraints of a small island economy, Government sees value in supplement private investment with capital expenditure. However, in view of fiscal constraints and efforts to improve long term sustainability of public finances it may be essential to supplement domestic sources of funds with foreign sources, including structural funds from the EU Budget. The main infrastructural bottlenecks which need to be addressed include the education, energy and water resources, transport, communication, and also the environment.

2.2.4 Ensuring Better Utilisation of the Economy's Labour Potential, in particular that of Women and Older Workers, and Improving the Skills Base of Labour Force

Despite substantial improvements in recent years, Malta's low employment rate stems from very low female and older worker participation rates. These in turn may reflect a wide range of cultural and institutional features, such as childcare provision, education and training policies and retirement arrangements. It may also reflect a relatively low wage dispersion among different skill and education levels which discourages high educational achievements.

Improving labour supply and the skills base of the labour force, particularly targeting the skills required to boost R&D and innovation and facilitate a further shift towards higher value-added sectors, is important for boosting potential growth.

At the same time addressing these structural challenges cannot succeed without addressing labour demand. In this context higher investment levels, improved market structures, higher labour productivity and increased rates of return on investment will encourage demand for labour to move in tandem with improvements in potential labour supply and thus prevent persistently high unemployment levels.

⁶ Ministry of Finance, the Economy and Investment; 2010; *Pre Budget 2011: Ideas, Vision, Discussion*

2.2.5 Addressing the Weaknesses in the Business Environment and Enhancing Competition

Market imperfection can lead to low productivity levels and thus undermine the competitiveness especially of the tradable sectors of the Maltese economy. The small size of Malta's economy lends itself to market imperfections, leading to high mark-ups in certain sectors and calling for an enhanced role of the competition authority. Lowering administrative and regulatory burdens could also make Malta a more attractive investment location.

Essentially these five main bottlenecks can be subdivided into three main challenges for Malta:

- 1) Safeguarding competitiveness through enhanced productivity by upgrading skill and education levels, increasing investment and improving market functioning.
- 2) Ensuring long-term sustainability of public finances through a fiscal consolidation strategy and structural reforms which address the long term ageing problem.
- 3) Ensuring convergence of per capita income levels through higher labour market participation, particularly female and old age participation and the creation of new employment opportunities, particularly quality jobs in targeted niche sectors.

2.3 Macroeconomic Imbalances

Addressing the bottlenecks to growth highlighted above and implementing structural reforms will address macroeconomic imbalances thus ensuring that the growth strategy is a sustainable one. What follows is a brief overview of the major macroeconomic imbalances in the Maltese economy.

2.3.1 Current Account Imbalances

Malta has been registering a persistently negative current account balance since the mid 90s. This is partly a feature of a converging economy where, especially during the initial phases between 1995 and 1999 the domestic savings (averaging around 16% of GDP annually) available to finance the necessary investment expenditure (averaging around 23% of GDP annually) needed to be supplemented by foreign capital.

Nevertheless, since the beginning of this decade the persistent current account deficits coincided with a slowdown in Malta's potential growth and an accelerating loss in export market shares. During this period investment as a share of GDP has actually declined to around 18% of GDP suggesting that justifying the persistent current account deficit on the basis of economic convergence considerations alone has become more problematic. Meanwhile, the savings ratio has declined even more drastically to 15% of GDP between 2000 and 2004 and to 12% of GDP between 2005 and 2010.

Relative deteriorations in unit labour costs, primarily due to labour productivity developments already discussed, have possibly undermined Malta's competitiveness position despite relatively competitive wage levels. This, coupled with a transitional period of heavy restructuring spurred by increasing competition from low-cost centres has translated into a loss in export market shares in the goods sectors. The significant competitiveness gains in

services were not enough to totally offset these negative developments⁷. This clearly suggests that addressing the productivity and employment issues for Malta is expected to lead not only to an increase in Malta's growth potential but also act as an important macroeconomic imbalance correction mechanism.

2.3.2 Capital Flows Financing the Current Account

When looking at the current account imbalances it is important also to look into its financing. The composition of capital flows is difficult to evaluate in Malta's case due to the large and offsetting inflows related to financial transactions which do not entirely have a direct significant impact on the Maltese economy. Nevertheless, it is clear that foreign direct investment in the Maltese economy has been significant, even when capital inflows in the financial intermediation sector are removed completely⁸. This suggests that the current account deficits registered by Malta in recent years were consistently financed by relatively stable long-term capital inflows.

2.3.3 Asset Prices

Significant inflows of foreign capital can be very destabilising especially in a converging economy if these inflows end up financing asset price bubbles rather than flowing into productive investment in the economy. However, there are no indications that this has taken place in Malta⁹. This is not to say that asset prices in Malta should not continue to be monitored in relation to economic fundamentals. Of particular relevance are the real estate market and the developments in the construction sector.

The real estate market has registered a welcome correction during the recession, although the correction in the residential property market prices did not result in any major problems in the financial sector. In part, some level of differentiation in the domestic sector can possibly be attributable to the fact that the market appreciation before the crisis was primarily driven by domestic sources of finance rather than inflows of foreign capital, as is the case in other European economies which have experienced a much more severe correction during the crisis. It is worth noting that the share of gross value added generated by the construction sector in Malta has increased more slowly than its counterpart in the EU. In fact the share of Malta's construction gross value added to the total EU construction gross value added has declined from 0.033% in 2000 to 0.029% in 2009.

2.3.4 Private Debt and External Indebtedness

Finally, whereas the level of private debt owed by households is comparable to the level prevailing in the Euro Area, the level of private debt owed by the corporate sector is in excess of the level in the Euro Area¹⁰. Gross external indebtedness is relatively low with foreign direct investment and long term debt accounting for most of the stock of external debt¹¹. Overall private indebtedness and external indebtedness levels do not appear to be alarming. Persistent current account deficits are behind the increase in Malta's gross

⁷ Ministry of Finance, the Economy and Investment; 2009; *Pre Budget 2010: Growth, Jobs and Social Cohesion*

⁸ Economic Policy Division; 2008; *Economic Bulletin April 2008*

⁹ *Ibid.*

¹⁰ Central Bank of Malta; 2010; *Financial Stability Report 2009*

¹¹ Ministry of Finance, the Economy and Investment; 2009; *Pre Budget 2010: Growth, Jobs and Social Cohesion*

external indebtedness. Although Malta still enjoys a net asset position, persistent current account deficits make it essential for Malta to continue to monitor current account developments.

Recent developments point to a slowdown in credit growth in Malta. Credit growth has however remained positive during the recession, partly reflecting the absence of severe financial difficulties in Malta's banking sector during the crisis. Indeed, when considering the ratio of private domestic credit as a share of GDP, it is notable that this has actually exhibited a trend increase in 2008 and 2009, and declined only marginally in the first three quarters of 2010. This suggests that credit continued to increase despite the recent economic slowdown. This was mainly driven by credit to households, primarily for mortgages whilst credit to the non-financial corporate sector has slowed down, albeit remaining positive. Thus whilst acknowledging the contribution of sustained credit lines to the private sector towards smoothing the economic downturn, it is pertinent to focus also on the extent to which the productive sector of the economy was benefiting from such sustained flows.

Whilst the regulatory and supervisory authorities in Malta are aware of the increase in the non-performing loans, this was not an unexpected development in view of the unprecedented economic and financial difficulties economic operators all over the world have experienced. It is also worth reminding that bank capital in Malta predominantly consists of equity and retained earnings and Tier 1 capital to risk-weighted assets still stood at about 12 percent in September 2010. This suggest that Maltese banks are well capitalised to withstand unprecedented shocks to the system. This assessment is generally in line with the conclusions of the stress testing exercise conducted by the Central Bank of Malta as published in the Financial Stability Report.

2.4 Measures to Address Economic Imbalances and Growth Bottlenecks

The thematic aspects of the Europe 2020 and the structural measures being proposed in this NRP to reach the targets set for Malta will be important in order to achieve higher potential growth, increase employment levels and address macroeconomic imbalances. As already indicated, measures which address Malta's labour productivity and employment rates will lead to higher growth and are expected to reduce macroeconomic imbalances. Nevertheless, in addition to the measures proposed in the thematic part of this NRP, a number of other measures will be implemented. These are listed below:

2.4.1 Smart Fiscal Consolidation

Government is committed to comply with the requirements of the Stability and Growth Pact and in the Budget Speech for 2011 has already highlighted the measures which will be implemented in order to reduce the excessive deficit by 2011. In addition, the medium term fiscal path is also highlighted in the Stability Programme with the figures clearly indicating Government's consolidation efforts towards the attainment of fiscal sustainability. Further details of the Government's medium term fiscal consolidation strategy will be included in Malta's Stability Programme. The Government of Malta believes that achieving fiscal sustainability is of utmost importance especially in view of the ageing problem. Fiscal consolidation efforts are also likely to reduce pressures on the current account and also reduce public indebtedness.

2.4.2 Pensions Reform

As a continuation of the pension reform process initiated in 2007, in 2010, the Pensions Working Group (PWG) was tasked with the responsibility to carry out a Report “reviewing Part V of [the Social Security Act] ... with a view of achieving further adequacy, sustainability and social solidarity” as required by Article 64B of the Social Security Act. The PWG submitted its report to the House of Representatives during December 2010. The Report contains a number of proposals aimed at enhancing further the adequacy and the sustainability aspect of the pension system in Malta. Government has not pronounced itself officially on the recommendations expressed in the Report but it has launched a public consultation process that will end in May. As regards the retirement age, the Maltese Parliament has already passed legislation as part of the 2007 Pension Reform that stipulated a rise in the pension age to 65 years (by 2026) in 2006.

2.4.3 Public Infrastructural Projects

According to the Stability Programme, General Government gross fixed capital formation is expected to increase from 2.1% of GDP in 2010 to 3.1% of GDP in 2011. This increase of around 1 percentage points of GDP will supplement private investment levels without undermining the fiscal consolidation targets. Although General Government gross fixed capital formation is expected to decline gradually to 2.6% of GDP by 2014, this is still higher than the 2009/10 ratios. In addition other infrastructural projects will also contribute to the increase in investment activity. This increased investment expenditure will include major infrastructural projects such as the building of the extension of the power station, the inter-connector project between Malta and Sicily and the continued introduction of smart meters. Other increases relate to the environmental and resources sector including investment in renewable energy sources, waste, the management of water resources and water treatment and also in the maritime and ports sector. Some of these measures are included in the thematic aspects of this NRP. Whilst additional public investment by Government would be desirable in order to achieve higher growth targets and a faster convergence process, fiscal constraints limit the room for manoeuvre. In this context, the use of EU funds in both current and future Financial Perspectives, which will assist in addressing Malta’s bottlenecks, will add value to both National and European level.

2.4.4 Private Investment Incentives

In addition to public investment, Government in partnership with Malta Enterprise, will launch a number of initiatives aimed at stimulating private investment, particularly among indigenous investors in the SME sector. These include tax credit schemes tied to employment and investment, funds to help businesses in their product development and ease access to export markets, training and consultancy programmes, and investment in industrial parks. The upgrade of the industrial parks will cost around €20 million.

In addition, Malta Enterprise is currently working on a project entailing the setting up of a Business Support Centre aimed at facilitating investment in Malta by creating a one-stop shop thereby reducing any unnecessary bureaucracy that investors and prospective investors may come across. The Business Support Centres planned for both Malta and Gozo are to start operating in 2011 and are estimated at approximately €400,000 and €80,000 respectively.

The Kordin Business Incubation Centre (KBIC) managed by Malta Enterprise, which is a mixed technology oriented type incubator, is being revamped with a view to introduce new

and improved services in order to attract and facilitate the setting up of more innovative start-up businesses in Malta. It is expected that the measure will assist at least 10 innovative start-ups by the end of 2011.

In addition, Malta Enterprise will continue to implement ERDF funded grant schemes until 2013, including the implementation of seven ERDF schemes which focus on the promotion of R&D, Innovation, Eco-innovation, ICT, Energy, Start ups and growth through the tapping of new markets. It is expected that 450 SMEs will benefit from these grants while €42 million will be disbursed, €35.7m from EU Funds and €6.3m from Malta Funds.

The Small Business Act (Malta) is also expected to enhance private investment in the sector. Various other proposals deal with reducing bureaucracy, improving access to on-line government services, the setting up of an entrepreneurship training fund, the introduction of sunset clauses for new regulations and the removal of registration obligations for small businesses whose turnover does not exceed €7,000.

Various initiatives to promote the Culture and Creative Industries (CCIs) in Malta and on the international market were announced in the 2011 Budget Speech for a total investment of €1.1 million. In this regard, Malta is currently developing a national strategy for the Cultural and Creative Industries. The CCIs in Malta account for 4% of GDP with an annual average growth of 9% for the GVA (2000-2007). The strategy prioritises 4 pillars: education and professional development; route to market; internationalisation; and governance. In addition to this initiative, the 2011 Budget announced 7 new initiatives and programmes to address the immediate needs of the CCIs namely in the field of training and education, audience development and CCI financing mechanisms to leverage private investment. The aim of the strategy is consistent with the vision of Malta's new cultural policy in transforming the cultural and creative sector into the most dynamic facet of Malta's socio-economic life in the 21st century, with the first national milestone being the hosting of the European Capital of Culture in 2018.

On a more general level, the Government has also announced in the 2011 Budget Speech the launch of a national policy and action plan in favour of a savings culture. Coupled with the inclusion of financial education as part of the National Minimum Curriculum, these initiatives are aimed to increase household saving rates in the long term.

Under the Rural Development Programme, a number of supporting measures have been launched wherein primary agricultural producers can invest in their farming operations to improve their efficiency and competitiveness. Furthermore, SME's operating in the agro-processing industry can also apply for projects related to adding value and quality to farming produce. Particular attention is given to projects financed under Malta's Rural Development Programme that create and/or retain employability.

2.4.5 Better Regulation

In order to reduce administrative burden on businesses by 15% by 2012, Malta intends to give priority to the measures below:

- Identification, measurement and reduction of administrative burden in the priority areas as well as 100 simplification measures across line Ministries.
- Training of more than 350 public officials in better regulation principles, tools and techniques including the Standard Cost Model.

- Developing 'best-in-class' standards for regulators to address the high degree of variation in the capacity of regulators.
- The consolidation of the above three measures into Ministry Better Regulation Plans and its continuing recalibration, review and improvement through the central Better Regulation Unit.

The indicated budget for these reform measures is estimated at €1.7 million and is financed through ESF Funds.

2.4.6 Strengthening Market Structures

In view of obvious limitations to the size of Malta's internal market, Government believes that competition policy is an essential ingredient to long-term economic growth in Malta. The Malta Competition and Consumer Affairs Authority will be set up by the Malta Competition and Consumer Affairs Authority Act 2011. The objective of the Authority shall be the attainment and maintenance of well-functioning markets for the benefit of consumers and economic operators. To this end, the new Authority will have stronger powers to safeguard and promote competition, safeguard consumers' interests and enhance their welfare, promote sound business practices, improve and enforce standards in relation to products and services, promote the national metrology strategy and promote the smooth transposition and adoption of technical regulations. Concurrently, the Competition Act has also been amended so as to make it a more effective tool in curtailing restrictive practices and agreements and abuse of dominance.

2.4.7 Strengthening Financial Stability

In the 2011 Budget Speech, Government announced that it will enter into talks with the authorities responsible for financial stability in order to set up a mechanism similar to the European Systemic Risk Board at an EU level, which will be responsible for macro-prudential supervision in Malta. The aim will be to strengthen Malta's financial system and the existing supervisory arrangements. This is expected to directly contribute to address macroeconomic imbalances in the Maltese economy.

2.4.8 Improving the Regulatory Environment for Small Businesses

Back in October 2010, Government published a White Paper on the Small Business Act (Malta) which included a list of measures aimed at improving the regulatory environment and provide for more channels for communication with Government to ensure a responsive administration. The consultation period for the White Paper ended in December 2010. The feedback received was evaluated so as to finalize the Act and the relative Bill was published in the Government Gazette on 18th March 2011.

The Act will introduce an SME Test for all new legislation with a possible impact on the business environment as well as requirements for more user friendly legislation and more focussed efforts to communicate the requirements and the best way that business can meet them. It will also promote communication with the administration through the setting up of an Enterprise Consultative Council and a College of Regulators and ease compliance for business by providing a complete, updated and reliable source of information, in electronic format, on all obligations imposed by Government vis-à-vis businesses as well as all measures of support provided. These initiatives should help business compete better by

removing some of the burdens currently imposed and ensuring the application of the 'think small first' concept in policy making.

2.4.9 Eco Gozo Strategy

Government considers that the best way that the island of Gozo can address the challenge of double insularity, whilst still advancing economically is to focus the island's economy on agro-cultural and tourism industries. These sectors have been identified as areas of strategic importance within the context of the Eco Gozo vision for the sustainable development of the island.

In this regard, as of 2010 priority is being given to the following measures:

- The transformation of the Gozo experimental farm into a centre for research, development and innovation in agriculture.
- The cleaning and upgrading of water catchment areas for the storage of rainwater.
- The promotion of niche tourism markets.
- The upgrading of tourism infrastructure.
- The development of a Human Resource Strategy for Gozo.

These actions have been estimated to cost €2 million.

2.4.10 Water Policy

In July 2010 Government launched a consultation document on a proposed water policy for Malta, outlining the key objectives and policy statements for this sector for the period 2010 - 2015. Government's overall objective for this water policy proposal is to chart the way towards a holistic, integrated approach to water management, recognizing that a balance needs to be struck between supply and demand in the light of our environmental constraints and our socio-economic needs. Therefore, the policy aims to reduce demand and water waste, improve quality by reducing ground water extraction, reduce pollution and ensure good quality water, encourage people to harvest their own rain water, adapt to climate change, and manage floods. Government's vision for water resources is the utilisation of water resources in a manner that is environmentally and economically sustainable, providing the right amount of water for people, agriculture, commerce and industry, and an improved water-related environment whilst recognizing the effects of climate change.

Water Services Corporation plans to invest in the Malta North, Malta South and Gozo Sewage Treatment Plants to treat water up to tertiary level. The Malta North and Gozo plants are envisaged to be financed through the Agricultural EU Funds and Eco Gozo Funds respectively.

2.4.11 Malta's Commitments under the Euro Plus Pact

In March 2011, the members of the Euro area, joined by other EU Member States, agreed on the Euro Plus Pact, a plan aimed at improving the competitiveness of participating States. The Pact contains four objectives: to foster competitiveness, foster employment, contribute further to the sustainability of public finances, and reinforce financial stability.

As a participating state in the Euro Plus Pact, Malta has adopted the following 9 concrete measures which Government is committed to implement within the next twelve months to contribute to the realisation of the objectives of the Pact. These measures will be assessed at the June European Council, in the context of the new European Semester.

2.4.11.1 Strengthening the Fiscal Framework

Government acknowledges the important role that national fiscal frameworks may play in sustaining budgetary retrenchment. In particular, initiatives to enhance the accountability and transparency of the budgetary framework are being strengthened. Moreover, Government is actively considering the implementation of systems which lead towards increased budget execution discipline.

2.4.11.2 Enactment and Implementation of the Small Business Act

The enactment and the implementation of the Small Business (Malta) Act will enhance the regulatory environment and provide for more channels for communication with Government to ensure a responsive administration.

The Act will introduce an SME Test for all new legislation with a possible impact on the business environment as well as requirements for more user friendly legislation and more focussed efforts to communicate the requirements and the best way that business can meet them. It will also promote communication with the administration through the setting up of an Enterprise Consultative Council and a College of Regulators and ease compliance for business by providing a complete, updated and reliable source of information, in electronic format, on all obligations imposed by Government vis-à-vis businesses as well as all measures of support provided.

These initiatives should help business compete better by removing some of the burdens currently imposed and ensuring the application of the 'think small first' concept in policy making.

2.4.11.3 Administrative Burden Reduction

During the coming year Malta would have trained 350 officers within the Public Administration in the Standard Cost Model and Better Regulation processes. Malta is also working actively to reduce the administrative burdens on businesses by 15% thereby releasing manpower to productive activity which will increase the gross operating surplus of the Country. Standards for regulatory institutions will be developed in the coming year.

2.4.11.4 Start-up Finance and Micro Credit Scheme

Left on their own markets tend to shy away from an optimal level of investment in high risk/return projects particularly (but not exclusively) in business start-ups and in relation to research and development or in creative sectors of the economy. Access to finance at favourable terms is likely to be an even more significant constraint for emerging micro and medium sized enterprises which tend to be predominant in these sectors. A guarantee agreement of €50 million has been signed between the European Investment Fund and a

local financial services provider which will facilitate access to credit to micro and medium enterprises, including business start-ups.

2.4.11.5 Cultural and Creative Industries Strategy

Malta is currently developing a national strategy for the cultural and creative industries. The strategy prioritises 4 pillars: education and professional development; route to market; internationalisation; and governance. In addition to this initiative, the 2011 Budget announced 7 new initiatives and programmes to address the immediate needs of the CCIs namely in the field of training and education, audience development and CCI financing mechanisms to leverage private investment. The aim of the strategy is consistent with the vision of Malta's new cultural policy in transforming the cultural and creative sector into the most dynamic facet of Malta's socio-economic life in the 21 century, with the first national milestone being the hosting of the European Capital of Culture in 2018.

2.4.11.6 Full Liberalization of the Postal Sector

Furthermore, measures will be put in place to lay the groundwork for the full liberalization, in 2013, of the postal sector. The full liberalization of this sector will enable competitors to enter into any segment of this market. This is expected to put downward pressure on prices while driving improvements in quality of service and in the efficiency of the sector. These developments are important, given that the postal market has continued to retain a significant position in the overall national competitiveness particularly by virtue of its key role in supporting e-Commerce activities which Government, also in line with EU policy, has long been actively promoting.

2.4.11.7 Telecommunications Market

Amendments to the Electronic Communications (Regulation) Act will be introduced which are aimed to further drive the competitiveness of the telecommunications market and to strengthen the underlying infrastructure.

2.4.11.8 Next Generation Networks

Steps will also be taken to facilitate the roll-out of next generation networks - a study on possible options for facilitating the roll-out of such a network will be finalized, where possible measures will be put in place to facilitate access to passive infrastructure.

2.4.11.9 Telecommunications Regulatory Measures

A number of regulatory measures will aim to increase the competitiveness of the telecommunications sector which is fundamental for national competitiveness. These include (a) a lowering of inter-operator termination rates - thereby fostering a decrease in telephony charges; (b) efforts to introduce further regulation and strengthen existing regulation in the wholesale markets critical to the entry of new players in the broadband market; (c) the reassignment of rights of use of spectrum in bands in the GSM bands; (d) the introduction of secondary spectrum trading mechanisms and (e) measures to ensure that all citizens have a right to a telecommunications connection capable of delivering broadband at a speed of 4 Mbps, amongst others.

2.4.12 The Thematic Measures

Growth bottlenecks are also being addressed by a range of thematic measures in the areas of employment, R&D, energy, education, and poverty which will also contribute in attaining a structural improvement in the country's economic potential and address the macroeconomic imbalances currently prevailing. Education is seen as the fulcrum upon which Malta's structural reform agenda hinges in view of its impact on productivity, employment and competitiveness

PART 3 – THEMATIC COORDINATION

THEMATIC COORDINATION

In June 2010, the European Council adopted the Europe 2020 Strategy and recommended the rapid adoption of national targets. In the ensuing months, Malta worked towards the development of ambitious yet realistic targets taking into consideration Malta's starting point and national specificities so as to promote growth and jobs. Malta notes that the Commission had indicated that Member States will be able to opt for a medium-term revision of the national targets, taking into account that the sum of national targets needs to reflect the agreed EU targets. It is worth reiterating that the current national targets are the most realistic and ambitious Malta can give at this point in time on the basis of projections made. Notwithstanding this, Malta is ready to consider a medium-term revision of these targets, which would take stock of the country's economic performance and progress achieved till then. This would also enable Malta to update its projections and set more tangible targets for 2020.

3.1 Target 1 - Employment and Key Measures to Attain the Target

3.1.1 National Target

In dialogue with the Commission, Malta has set its employment rate target at 62.9% by 2020. The bottlenecks that can be identified and that pose a challenge to Malta in aiming to reach this target are:

- A tradition where women, particularly those having young children, generally opt not to work and remain at home to look after their children.
- The difficulties in finding effective and sustainable solutions in order to make work pay.
- The fact that older workers are less receptive to incentives to join the labour market.
- People continuing to resort to undeclared work in spite of actions being taken to cut down on such abuse and encourage them to regularise their position.
- An increasingly ageing population.
- Weak uptake of work-life balance measures, including childcare.

An employment rate of 62.9% by 2020 implies that there will be an annual increase of 0.26% in female participation for women in the 20-64 age bracket between 2009 and 2020. Their employment rate will increase by 2.9% i.e. from 39.8% in 2009 to 42.7% by 2020. An employment growth of 2.3% per annum for women in the 35-64 age bracket is required resulting in 0.7% annual increase in employment rate of 7.7% absolute increase over 11 years i.e. from 27.2% in 2009 to 34.9% by 2020.

Achieving an employment rate of 62.9% by 2020 implies an increase of 4.5% over the projected rate for 2010. The targeted increase of 4.5% is almost three times more than the increase Malta achieved between 2000 and 2008. Malta recognises that these are ambitious targets given its socio-cultural factors. Yet, it also considers them as realistic and achievable targets and Government is investing and will continue to invest heavily to reach these targets.

Malta will be guided by five priorities that address the bottlenecks being faced and which are aimed at increasing the aggregate employment rate:

- Increasing the participation of women in the labour market.
- Increasing the employment rate of older workers.
- Activating vulnerable groups.
- Improving the employability of the workforce.
- Maintaining efforts to tackle undeclared work.

3.1.2 Key Measures to Reach the National Target

Measure 3.1.2.1 Community Work Scheme

The Community Work Scheme aims at providing the long-term unemployed the opportunity to undertake community work under the direction of Local Councils and NGOs with a view of enabling them to obtain further skills, improve their employability and their chances of finding employment on completion of such an experience through improving their work ethic. Participants will have their income increased up to 75% of the minimum wage and will be required to carry out 30 hours community work a week. Participation is mandatory and those who refuse work without a valid reason are removed from the unemployment register and lose their entitlement to the unemployment benefit. Thus, such a scheme will contribute towards tackling the problem of undeclared work since persons who refuse to participate in the scheme may be engaged in undeclared work while also recovering unemployment benefit. In this way, the scheme serves a dual purpose. In fact, it is projected that the scheme will be revenue enhancing, generating savings of around €200,000 in 2011, which will increase incrementally to around €700,000. Around 90 jobs are estimated to be generated by 2015 being new jobs or previously undeclared work.

Since its inception in 2009, a total of 177 individuals have participated in the scheme. Moreover a total of 56 individuals were struck off the unemployment register, and 21 have entered into employment as a direct result of the scheme.

Eligibility for participation in the Community Work Scheme will be gradually extended over the coming years to cover the short term unemployed. As of next year, the scheme will be extended to include a total of 250 participants per year and a rolling system will be employed such that following the completion of 2 semesters of 6 months each, participants will be automatically removed from the scheme in order to enable the introduction of additional participants in the system, thereby enabling the scheme to attain maximal benefit.

This initiative running between 2010 and 2015 is targeted for the following client groups:

Year	Eligible Registration Period
2010	More than 5 years
2011	More than 4 years
2012	More than 3 years
2013	More than 2 years
2014	More than 1 year
2015	More than 6 months

Measure 3.1.2.2 Revision of Means Testing for Social Assistance

It has been recognised that women whose husbands receive social assistance are discouraged from entering the labour market, even on a part time basis, since income from such a part time job would be considered in their means test for social assistance, and so the social assistance they receive would be reduced or in some cases even discontinued should they decide to seek employment. The system creates disincentives for women to seek employment opportunities or enter into the formal economy. Therefore, in order to address this situation, as from January 2011, part of the income from work for people who are receiving social assistance will not be considered in the financial means test for the family to qualify for social assistance. The amount of wages which will be exempt from the means test will be equal to the difference between the national minimum wage and the full social assistance rate applicable for two people.

This measure is expected to encourage more females to enter the formal labour market. As a result of the measure low income families could potentially register an increase in household income of around 50%. The potential impact of this measure is estimated at 300 employees. Due to the employment potential the measure is expected to be revenue enhancing, potentially generating around €180,000 per annum.

Measure 3.1.2.3 Pro-Rata NI Contribution for Part-Time Self-Employed Women

The obligatory minimum national insurance contribution for self-employed people is resulting in a number of women either choosing not to enter the labour market or to work in the informal market to their own detriment in the event of sickness or injury at the workplace. In order to encourage these women to enter the formal labour market, as from this year self-employed women working on a part-time basis are being given the opportunity to choose to pay a 15% pro rata contribution on their income, as in the case of employed persons, instead of the minimum currently stipulated by law. This pro rata contribution also grants pro rata rights for some social benefits.

The minimum NI contribution would otherwise reduce net disposable income very significantly, in certain cases even exceeding the yearly profits from self-employment activity. The measure can potentially increase the net income of self-employed women by around 150%. This is projected to increase the number of women in part-time self-employment by around 375. Because of the significant employment potential of this measure, its net fiscal cost is expected to reach €216,000 per annum.

Measure 3.1.2.4 Child Care Centres

Affordable and accessible quality childcare provision is very important for working parents. Government is planning to increase the provision of childcare services as a means of an early start to education since childcare services may offer an important contribution to child development and socioeconomic integration.

Government already operates fourteen child care centres. A further five centres will be established between 2011 and 2013. The total cost for the five centres over the entire three-year period will reach €717,000. This measure is expected to exert a positive impact of 131 women entering the labour market.

Measure 3.1.2.5 Afternoon School Programmes in the Community

Klabb 3-16 is an after-school hours' service for school-age children between 3 and 16 years offered by the Foundation for Educational Services (FES). The service bridges the gap between school and parents' work finishing times. The service provides a safe, stimulating environment with appropriate adult supervision and facilitation during non-school hours. Government already operates two afternoon school centres. A further nine centres are needed.

The measure to start implementing the opening of the nine centres will commence in 2011 and will continue to expand until 2015. The total fiscal outlay of these nine new centres is expected to reach €769,000 over the entire five-year period till 2015. The employment potential of the measure is estimated at an additional 135 persons. This measure will primarily target female employment.

3.1.3 Other Ongoing Measures

In addition to the above five new or strengthened existing measures, the following ongoing initiatives will also contribute to the achievement of the national employment target. Whilst most of these measures are ongoing, their impact on employment and economic growth is expected to persist over the period covered in this NRP. These measures are also being highlighted in order to ensure consistency and continuity with previous National Reform Programmes.

Measure 3.1.3.1 Incentives to Attract More Inactive Women to the Labour Force

The measures introduced in past years to incentivise increased female employment are bearing fruit. The employment rate of women has been increasing since 2008 with a 4.3 percentage points (36.4% to 40.7% Labour Force Survey Q4 2008 and Labour Force Survey Q3 2010 respectively) absolute increase registered between that year and the third quarter of 2010. Increased participation in the female employment rate resulted among all age brackets¹².

The following measures are aimed at enticing more women to the labour market:

a) Women who do not have an employment history registered with ETC for five years prior to taking up employment will be exempted from paying income tax for a number of years equivalent to the number of children under the age of 16. In order to increase the benefit for low income earners, instead of a full year's exemption, a woman may opt for a maximum tax credit of €2,000 which may be utilised over a period of 2 years. Women who didn't stop working or who haven't been absent for five years and who choose to return to the workplace after giving birth will also be exempted from paying income tax for one year, for every child born from 2007 to date. Up to now, 6,566 women have benefited from the one year tax credit scheme for each one of their children, amounting to €5.8 million. This scheme will remain effective during 2011.

b) Women who start their own business will be assisted in the filling of forms through guidance provided by the Small Business Unit and ETC. Child care services offered to them

¹² The Labour Force Survey (Q4 2008 and Q3 2010 respectively) notes that there was an increase in the employment rate of youth, from 42.2% in 2008 to 47.6% in 2010. The employment rate of women in the 25-54 age bracket increased from 43.2% in 2008 to 48.3% in 2010, and the employment rate of the 55-64 age bracket increased from 11.9% in 2008 to 12.7% in 2010.

from Government-run child care centres will be free of charge for the first five years. This measure is being taken to assist more inactive women to join the labour market and to regularise the employment of those who may be working in the informal economy.

These measures will further consolidate efforts undertaken by Government to provide financial incentives for women to return to work after having a child.

Measure 3.1.3.2 Publicity campaign to attract more women to the labour market

The ESF-funded NISTA' project aimed at encouraging more women to enter and remain in the labour market through a Media Campaign over three years using TV, radio and other media was launched. The first target group are inactive women to instil in these persons a sense of financial independence and empowerment, and to seek formal employment and re-entry into the labour market. The second target group are men so as to promote the benefits of sharing paid and non-remunerated work between the spouses/family. This will free women from taking the full burden of family work and lead to an increase in female employment rates. The third target group are employers to promote with them the business case for greater work-life reconciliation measures at the workplace. The budgetary allocation for this measure amounts to € 1,306,850.

Measure 3.1.3.3 Encouraging Older Workers to Continue Working

a) New legislation was introduced in 2008 through which persons of pensionable age under the age of 65 are now able to work without losing their pension entitlements, irrespective of the amount of earnings and irrespective of their age. The new legislation requires that such persons contribute by means of a social security contribution from their employment. Therefore, there is now no longer a limit on the amount of earnings from gainful activity (i.e. a capping of earnings) in order to qualify for a Retirement Pension prior to age 65. Prior to this legislative measure, persons below 65 years of age had to forfeit their pension if gainfully occupied and earning more than the Maltese National Minimum wage.

b) Government has introduced a new medical assessment as part of the criteria for qualification to the invalidity pension to ensure that the system will not lead to early exit from the labour market. Malta is currently looking at how this process can be improved in other areas where benefit entitlement is linked to unemployment through work incapacity. Statistical data shows that since the introduction of the invalidity reform proposals in 2007 a significant amount of savings has been made on pension expenditure and also the pension population has been substantially reduced thereby acting as an effective deterrent to labour market exit. In the years 2008-2010, the number of beneficiaries was reduced by 2,469 persons and thus making them available for gainful employment. This resulted in an annual recurrent saving to Government of approximately €7.27 million.

The above measures have contributed to increased numbers of older workers opting to continue working after reaching retirement age. According to the Labour Force Survey Q3 2010, the total number of persons aged 55+ amounted to 20,179 or 2,638 more than the figure for the same period the year before. Between the third quarter of 2009 and 2010, the employment rate of persons in the 55-64 age bracket increased by 4.4% in absolute terms. Given the success of these measures, they will be pursued in the coming years.

c) The reform of the pension system will also contribute to encourage older people to remain active and contribute towards the country's economic and social development. Currently the official retirement age is 61 years. In 2014, the official retirement age will be 62 years

and in 2019 it will be 63 years. This means that within the Europe 2020 strategy period, Malta will be experiencing an increase in the number of persons older than 55 years remaining in employment.

Measure 3.1.3.4 Strengthening Employability Prospects

The following employment and training measures are aimed to strengthen the employment prospects of both employed and unemployed persons including youths, women, older and disadvantaged persons. Furthermore, these measures will also support the principles outlined in the Europe 2020 flagship initiatives - An agenda for new skills and jobs and Youth on the move:

a) Employment Aid Programme

The ESF-funded Employment Aid Programme contributes towards the integration of disadvantaged persons in the labour market including work inexperienced young jobseekers, inactive women, older persons, persons with disability and the long-term unemployed. It facilitates access to employment through financial assistance and upgrades skills through work experience. Employers will receive a public grant equivalent to 50% of the wage costs for one year i.e. half the actual wage plus half the employer's national insurance contributions. In the case of persons with disability, the subsidy is higher in value and is given for three years, that is, 75% of the actual wage for the first year of employment and 60% for the subsequent second and third year. In such instance, employers will be requested to retain recruited persons with disability in employment for a further one year after the subsidy period.

Since Gozo suffers from double insularity, work opportunities on the island are limited. To this end, disadvantaged employees based and working in Gozo will benefit from a 52-week subsidy, irrespective of the target groups under which they fall (in case of registered disabled persons 156 weeks subsidy will be granted).

A total of 1,530 persons are targeted to be supported through this project. The project commenced in February 2009 and will be completed by the end of 2013 with a total budgetary allocation of €8,200,000.

b) Youth Employment Programme

In order to reach the above mentioned target, the ESF-funded Youth Employment Programme is envisaged to include the following activities:

- Career guidance and psychological services.
- Occupational Therapy Services.
- Outreach Service and TV Programme.
- Youth Website: using the internet as a resource for career guidance and other advisory services.
- ETC Youth Day.

A total of 4,860 persons are targeted to be supported through this project. The project commenced in August 2009 and will be completed by the end of 2011 with a total budgetary allocation of €822,422.

c) Apprenticeships

The Employment and Training Corporation firmly believes in the potential of apprenticeships to ensure the development of skills which are appropriate, timely and relevant to particular industries. Apprenticeships may mitigate the drop in the labour market integration of school leavers and equip young people with valuable occupational and social skills, required to pursue their employment pathway.

The main expected outcomes are to further facilitate the integration of individuals in the labour market and to enhance trainee placements and increased job security.

About 700 youngsters are undergoing an apprenticeship at any one time.

Apprenticeships are run in conjunction with Malta Council for Arts Science and Technology. MCAST incurs the tuition cost and pays the maintenance grants to apprentices. When apprentices are placed at an establishment for on-the-job training, the employer pays them a wage in addition to the maintenance grant. The Employment & Training Corporation (ETC) only incurs the cost of placing and monitoring the apprentices.

d) Employability Programme

Various initiatives are being offered through the ESF-funded Employability Programme, which targets a diverse client group. The following activities are offered through the Employability Programme:

- Job Search Assistance (JSA) - The initiatives under JSA include Job search seminar, job skills programme and Job clubs.
- Training in basic skills and literacy.
- Work orientation training initiatives and packages and re-training programmes.
- Traineeships schemes.
- Training Subsidy Scheme.
- Skills assessment system.

A total of 32,000 persons are targeted to be supported through this project over its lifetime. In 2009 and 2010, 18,000 persons had already been trained by means of this project. The project will be completed by the end of 2011 for a total budgetary allocation of €5,253,211

While the objective of the Employability Programme is the provision of training to the ETC clients, its ultimate aim is the integration of job seekers and inactive persons into the labour market and the provision of assistance to those in employment to secure and advance their position within the labour market.

e) Training Aid Framework

The role of the ETC as an Intermediate Body of the ESF-funded Training Aid Framework is to promote, develop, manage and implement a system through which eligible employers will be able to implement training programmes for their employees. The TAF will support undertakings to provide training to their workforce and upgrade their skills by offering the opportunity to benefit from a partial refund of their training costs. The Programme was initiated in February 2009 and will be completed by the end of 2013 for a total budgetary allocation of €8,851,620

A total of 475 enterprises, and around 3,500 trainees, were originally envisaged to be supported. Instead, the number of applications received by end December 2010 amounted to over 2,000, covering around 10,000 trainees.

f) Training, Information and Diffusion of Knowledge - European Agricultural Fund for Rural Development

The scope of this measure is to improve the competitiveness and the sustainability of the agricultural sector by investing in human potential. Through this measure, service providers will be engaged to provide training to key potential stakeholders, mainly those operating in the agricultural sector or processing. Training will be free of charge whilst the measure will cover the expenses related to the service provider.

Measure 3.1.3.5 Measures to Curtail Abuse of the Unemployment Register and Informal Work

Legislation in Malta obliges registered jobseekers to accept employment or training opportunities offered to them or are otherwise removed from the employment register. Consequently during 2010, 1,963 persons were struck off the register

Officials from the Employment and Training Corporation carry out investigations and surprise inspections of places of work as part of the fight against undeclared work. The number of inspections for the year 2010 totalled 3,745 during which 1,754 persons were found working illegally. Employers are given the opportunity to regularise the position of those found working illegally or else face legal action. As a result of this, the employment of around 1,000 persons was regularised; in the other cases, legal action was initiated against the employers and almost 1,000 cases underwent court proceedings.

In addition to the work carried out by the Employment and Training Corporation, the Benefit Fraud Directorate with the Ministry of Education, Employment and the Family, also investigates when social security benefit fraud is suspected or reported. In 2010, the Benefit Fraud and Investigation Department continued to focus its resources on investigating all reports of alleged abuse in Social Security benefits and on identifying new trends in social benefit abuse. Reports on alleged social benefit fraud are received from two main sources; the general public and the Department of Social Security.

During 2010, the Benefit Fraud and Investigation Department conducted through its Inspectorate, 2,744 on-site inspections. From the on-site inspections and from all other investigations conducted by the Department, 1,960 cases were concluded and which resulted in the suspension of a total of 1,060 social benefits. The estimated annual savings for 2010 totalled €3,716,295.

Apart from the continuation of the above enforcement functions, the following measures aimed at reducing undeclared work and increasing the number of persons in declared employment will be taken:

1. Increasing the penalty period for persons who fail to participate in an activation measure without a justified reason for three or more times, from six months to twelve months on Part 2 of the Register.
2. Developing a proposal to increase the frequency of registration as a jobseeker's duration of unemployment increases. Currently all registrants register once a week. Through the new system, the frequency of registration will increase to twice per week

when the person has been on the register for more than one year, and to more than twice per week if the length of registered unemployment increases. The new registration system is expected to become operational in 2011.

3. Designing and launching an inter-departmental campaign on the benefits of declared work in 2011.

The new registration system is expected to cost between €160,000 and €200,000, while the publicity campaign has a budget of €30,000.

3.2 Target 2 - R&D and Key Measures to Attain the Target

3.2.1 National Target

Following consultations with the Commission, Malta has set its national R&D target at 0.67% of GDP by 2020. In October 2010 the Innovation Union Flagship Initiative was launched with the aim of promoting a distinctive European approach to innovation. Efforts will be invested to support knowledge as well as the transformation of good ideas and research results into innovative products and services, in line with the principles outlined in the flagship initiative.

Intermediate target, trajectories and monitoring mechanisms will be defined through the new R&I Strategic Plan.

3.2.2 Key Measures to Reach the National Target

Measure 3.2.2.1 The New National Research and Innovation Strategy 2011 - 2020

With the coming to an end of the time period covered by the current National R&I Strategic Plan (2007-2010), there is a need to actively reflect on achievements, challenges and changes which have taken place over the past three years and design a new national R&I strategic plan which builds on progress made and lessons learnt in implementing the previous Plan. The Plan (2011-2020) will take full consideration of policy developments in other thematic areas and policy developments at national, European and international level. Particular attention is being given to the strategic approach adopted in the EU Innovation Union, namely consideration to the whole cycle of innovation from blue sky to market. The R&I Strategy 2011-2020 gives central importance to innovation (broad concept), framework conditions, societal challenges and the involvement of all actors. The new R&I strategic plan will provide a policy framework for the coming decade, and will take into consideration; inter alia, ongoing work in the preparation of thematic plans in several sectors, including health research, FP participation and value-added manufacturing. The plan will be based on strong stakeholder consultation. The new national R&I strategic plan is expected to be completed by Q4 2011 and it is foreseen that the new R&I plan can lead to the launch of new initiatives.

Measure 3.2.2.2 An Ecosystem Approach to R&I Funding

The main objective is to ensure an idea-to-innovation approach in line with the Innovation Union Flagship Initiative, by addressing gaps in support which create bottlenecks for commercialisation.

National funding for R&D is presently centred around the national R&I programme and R&D incentives for industry. Nonetheless, other funding sources (including, but not limited to, CIP and FP) will be looked into as possible supporting measures to realize the idea-to innovation approach.

a) National R&I Programme Implementation and Extension Towards Commercialisation

The implementation of the national R&I programme is an ongoing measure, the objective of which is to fund research projects of between €50,000 and €200,000

concentrating on technology transfer between academia and industry with specific focus on the four priority sectors identified in the National R&I Strategy, namely Environment and Energy Resources, ICT, Value Added Manufacturing, and Health and Biotech. Projects funded under this programme have a maximum duration of three years and their expected outcomes include an increased capacity for R&D and the commercialisation of research outputs. The R&I programme for the current year was launched in June 2010. The funding for the R&I Programme will be increased to €1.1 million in 2011. By 2012 the R&I Programme will be supplemented by the Commercialisation programme and the net budgetary impact is expected to reach €2.4 million in 2012. The net fiscal outlays for the programme could potentially reach €3.7 million by 2014. However, it is worth noting that if the Commercialisation programme is successful in attracting further investment and successful commercial activity, the potential exists for generating enough economic activity to compensate for the fiscal costs of both programmes by 2020.

b) Incentives for R&D in Industry

In 2009, Government launched an incentive package to support Industrial Research and Experimental Development. The incentive package incorporates a total of eight incentives that provide assistance to increase the amount of research and development activities in Malta. The incentives are industrial research tax credits, experimental development tax credits, tax credits for patent registration by SMEs, R&D grants (funded through ERDF as part of a wider incentive scheme for industry), support for participation in EUREKA projects, secondment of highly qualified personnel, support for undertaking technical feasibility studies and support for the setting up of innovative clusters. The measure aims to help enterprises invest in R&D activities by supporting pre-R&D activities necessary to develop and test the concepts of the envisaged research project; supporting industrial research and experimental development activities; supporting interactions between large companies and SMEs and also between industry and the research institutions; and supporting SMEs in the patent registration of successful research projects.

It is planned that work will be undertaken to identify and address gaps in funding and provide support for ideas to innovation, thus closing the cycle between the generation of a new idea and its realization as a new product/process on the market. The most effective means for achieving this will be investigated, and may include extension of present support schemes and/or the creation of new ones.

European Agricultural Fund for Rural Development funds are allocated under measure 124 – “Cooperation for development of new products, processes and technologies in the agriculture and food sectors”. Under this measure support is given to projects implemented through a cooperation set up between the primary producers and the other entities aimed towards the development of new processes, products and technologies.

Measure 3.2.2.3 Doctoral and Post-Doctoral Scheme

The investment in education and skills reflects a key priority of the Innovation Union initiative. The post-graduate programme of the ongoing Malta Government Scholarship Scheme and the ESF funded STEPS project (ongoing until 2013) have both yielded important results in enlarging the pool of Malta’s researchers, especially in areas which have been identified as priority research areas in the 2007-2010 national R&I strategic plan.

Building on the schemes currently in place, it is planned that these be expanded to include:

- Post-doctoral opportunities undertaken both in Malta and abroad.
- More opportunities to scholars who are willing to use their capacity in Research and Development in those specific areas which are identified as high priority areas for our knowledge-based economy.
- More opportunities for individuals undertaking lifelong learning or following programmes at postgraduate level in Malta or abroad on a full-time, part-time or distance learning basis.

Measure 3.2.2.4 The Setting Up of a Life Sciences Centre

A state-of-the-art Life Sciences Centre is a key factor in maintaining existing FDI in Malta, attracting new FDI and sustaining the local industrial base. In order to become more competitive and sustain a growing knowledge-based economy, local enterprise and FDI need facilities to support both their current operations and their needs for R&D and innovation. The Life Sciences Centre will encompass the whole Innovation life cycle and Supply Chain process for companies specialising in areas related to Life Sciences, from the development of the Innovation process and the start-up of new businesses and entrepreneurial activity through to ongoing growth within the Centre. Throughout the various stages of their life cycle, these companies would be backed by the technical support and R&D facilities, by providing the right balance between infrastructure and soft support for business development phases. The Life Sciences Centre will be situated in the site currently occupied by the Malta Enterprise premises in San Gwann Industrial Estate. This Centre is being financed through the ERDF programme and is expected to be fully operational by end 2013.

It is important to point out that it is Malta's intention to place the R&D target in a wider context of supporting local innovation. This target will not be an end in itself, and investments (including financial) in transforming knowledge to innovation will be sought. As has been frequently discussed and acknowledged, R&D is an input factor, and Malta will also be looking at transforming the inputs into outputs over the coming decade. Several measures are planned in this regard including the setting up of an equity financing programme and the revamping of the Kordin Business Incubation Centre to facilitate innovative start-ups.

Budget is currently set at €19.8 million over a three-year period starting from 2011 with 15% government funds and 85% ERDF. The measure is expected to result in an increase in RTDi expenditure of around 0.45% of GDP and has an employment potential of 138 people.

3.3 Target 3 - Energy and Key Measures to Attain the Target

3.3.1 National Target

Government has set the following ambitious targets for energy efficiency, renewable energy and greenhouse gas emission reduction:

- A maximum increase of greenhouse gas emissions not falling within the scope of the EU Emissions Trading Scheme of 5% by 2020 (compared to 2005 levels particularly emissions from transport, mainly road transport, waste, agriculture and fuel combustion in industry and commercial and residential buildings).
- A commitment to achieve by 2020 a share of energy from renewable sources in gross final energy consumption of 10%.
- A commitment to achieve by 2020 a target of 10% of energy consumed in all forms of transport from renewable sources.
- A commitment to achieve a 22% energy or 235,254toe savings target by 2020 with an intermediate target for 2014 of 15% or 144,876toe.

Energy efficiency is a key objective in the Government's energy policy. Energy efficiency finds synergy in the achievement of all Government's objectives - it can assist the economy, as well as help to achieve social and environmental objectives. Energy efficiency can have a significant impact on the demand for energy, and so can reduce the country's fuel bill and the release of carbon into the environment. It is widely perceived that the potential for improving energy efficiency exists in Malta.

In improving energy security and reducing carbon emissions, it has arguably the lowest cost, and highest reversibility of all options available to Government to meet its objectives. It is even more rewarding than the introduction of renewables in the achievement of environmental objectives, and hence deserves priority. The most important aspect of the energy efficiency policy is for that part of the technical potential that yields the most savings for a given investment to be identified and exploited first.

The energy efficiency target for 2020 is based on primary energy consumption for Malta, capped for aviation in the same manner as the target for renewables sources of energy¹³. It is based on national models of energy consumption projections, and assumes primarily that the energy end use savings envisaged in the NEEAP are achieved and that the new electricity generation plant in Delimara is commissioned as well as a new interconnector with Sicily.

3.3.2 Key Measures to Reach the National Target

The main use of fossil fuels in Malta is for the generation of electrical energy for onward distribution and consumption within the Maltese Islands.

Electrical power is generated by two conventional thermal power stations owned by Enemalta Corporation and located in Marsa and in Delimara. These power plants utilise

¹³ Energy consumed in aviation is calculated as per Directive 2009/28/EC on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC.

heavy fuel oil for conventional steam plant (boiler/turbo-generation) and gasoil for gas turbines.

The Marsa Power Station houses the older generation plant, some of which is past its expected useful life both from a technical and economic perspective. A large portion of the steam plant at this station was purchased second hand and dates back to the early 1950s. The Delimara Power Station houses relatively new plant, which was commissioned between 1992 and 1998 mostly using modern and cleaner technologies.

Government has established energy efficiency as an important consideration for the authorisation of any new generation plant by the Malta Resources Authority. Energy efficiency is also one of the environmental criteria stipulated in the Directive 2008/1/EC of the European Parliament and of the Council of 15 January 2008 concerning integrated pollution prevention and control (IPPC Directive). Use of Best Available Techniques (BAT) is a criterion stipulated by Malta in its National Allocation Plan for allocation of allowances to new entrants under Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (the ETS Directive). The IPPC Directive is an important regulatory instrument for large industrial installations. A main requirement is the utilisation of BAT in operation of plants. Current as well as future operators will have to abide by the provisions in this directive – it would be useful to present the implications both on current and any future operators within the sector and the possible impacts on final consumers.

Measure 3.3.2.1 Interconnection to the European Energy Grid

Malta is not connected with the European energy grid as at present. The implementation of an electrical interconnection to the European energy grid in conjunction with the retention of significant local electricity generation capacity would offer greater flexibility in meeting local demand while providing a potential for considerable reduction in the national CO₂ emissions through the reduction of local emissions. The new interconnection infrastructure may be used to ensure that existing and new generation capacity is utilised in the most efficient manner possible by allowing the local plant to operate at or as near to base-load as possible. Although, CO₂ (and other pollutants) would not be emitted locally in respect of any electricity generated by conventional fossil fuel combustion and acquired via the interconnection, it is expected that the price of the electricity purchased from mainland Europe would also include the cost of CO₂ emissions allowances required to be surrendered by the electricity provider in compliance with Directive 2003/87/EC. The Interconnector with Sicily will raise the conversion efficiency to an average of 40%¹⁴, at an investment of €182 million (€162 million Malta funds and €20 million EU Funds under the European Economic Recovery Plan) that is expected to be completed by October 2013.

Measure 3.3.2.2 Extension of the Delimara Power Station

The extension of the power station at Delimara, with an investment of €165 million, is expected to be completed by May 2012. Electricity generation using conventional fossil fuel burning plants constitutes the primary source of Greenhouse Gas (GHG) emissions in Malta, the primary contributor emissions of CO₂ produced by the fuel combustion process.

¹⁴ Average EU conversion efficiency as stated in Directive 2006/32/EC.

Enemalta will be implementing a number of inter-linked technical measures in order to achieve the required reduction in CO₂.

Since 2008, plant dispatch and load management has changed, with a larger proportion of the load being met by the combined cycle power plant (CCGT plant) in the Delimara Power Station (DPS). This has resulted in a reduction in the overall GHGs emitted per MWh generated, in view of the higher efficiency of this plant and the lower emissions per TJ of gas oil compared to heavy fuel oil. Further reduction in CO₂ will also be achieved when the new 144MW generating plant at Delimara is commissioned. The new plant will have a conversion efficiency of 46% at base load.

Measure 3.3.2.3 Energy End-Use Efficiency

In its effort to further increase energy efficiency by consumers, Government will continue to take action in the form of informing the public and facilitating uptake of schemes to promote energy savings by the public.

Action taken in this sector will be mainly intended to have a long-term effect, without restricting the possibility of an increase in justifiable energy consumption, due, for example, to strong economic growth or structural changes. These actions are coordinated through the National Energy Efficiency Action Plan (NEEAP). The first NEEAP was published in 2008 and the second NEEAP is to be published in 2011.

Specific new initiatives for 2011 include the extension of the scheme to promote Solar water heaters with a budget of €800,000 in addition to schemes to promote uptake of micro-generation through renewable sources of energy.

In addition to existing initiatives to ensure that Government leads by example through the use of Green Leaders, Government will also be managing its own transport to make it more efficient. An exercise to analyse government transport will start in 2011 and end in 2013. A target for efficiency improvement of government departments of 2% by the end of 2011 has also been established.

Support is also given under measure 121-Modernisation of Agricultural Holdings of the Rural Development Programme to farmers who opt to invest in green energy. A sub-measure under this scheme awards specific points on investments that lead to an overall improvement of the farming operations in terms of energy efficiency and reduction in carbon emissions. Proposed actions include photovoltaic systems, solar water heaters and water treatment plants.

Aid is granted at 50% of the total eligible cost up to a maximum amount of €150,000.

Measure 3.3.2.4 Energy Efficiency in Transport

A reduction of fuel consumption in the transport sector can be achieved through an improvement in efficiency in transport in general. If mass transportation can be improved to the point where current private vehicle users are attracted to using public transportation then there is likely to be considerable room for improving the country's transportation fuel bill. This will concurrently generate other improvements including reduction in air and noise pollution and other direct and indirect benefits associated with reduced pressures on the transport infrastructure.

Socio-economic developments, including an increase in the household disposable income, status associated with car ownership, dispersed land use developments and a public transport service which does not reflect the current travel demands, have resulted in the rise in car ownership and use. Overall, the net result is one of high fuel consumption where there is potential for energy savings.

A key measure to improve transport efficiency is a reform of the public transport service. The new fleet will be Euro V which is the most current and modern technology commercially available, efficient and affordable, particularly to elderly and students. One of the objectives of this reform is to achieve a modal shift from cars to public transport.

The reforms to upgrade the private and commercial vehicle fleet will continue. The registration tax was reformed in 2009 such that one of the factors included in the calculation are the car emissions. A scheme will be launched in 2011 to promote old car scrapping when a new efficient car is purchased. Furthermore, owners of electric vehicles will receive a grant of up to €5000 to install PV panels. A network of charging points will also be installed throughout Malta in 2011. A target of 5000 electric cars has been established for 2020. Hybrid vehicles will also be encouraged by reducing the registration tax for such vehicles. Excise duty has also been increased to further discourage the use of conventional fuels.

Measure 3.3.2.5 Implementation of Malta's National Strategy for Policy and Abatement Measures relating to the Reduction of Greenhouse Gas Emissions

Malta's economic development is very much influenced by European and global economic developments and therefore any repercussions from problems faced by the wider global economy as a consequence of climatic changes and greater instability of the energy market will filter down and adversely affect the Maltese economy. Furthermore, due to its geophysical, social and economic circumstances, Malta is itself particularly vulnerable to the direct impacts of climate change. Any action that is taken today, on a national and global level, to address climate change, will be reflected as reduced (economic and social) adaptation costs in the future.

The general objectives of the National Strategy for Policy and Abatement Measures relating to the Reduction of Greenhouse Gas Emissions are to meet Malta's obligations as part of the EU overall greenhouse gas reduction target up to 2020 through national and sectoral actions. Malta, and relevant emitting activities are required to comply with commitments as set out through Climate Change related legislation under the EU acquis, in particular Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community as amended and Decision 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020.

Malta has established a target to allow a maximum increase of Malta's greenhouse gas emissions of 5% by 2020 (compared to 2005 levels) in non-ETS sectors (e.g. buildings, road transport and farming). The energy generation sector is constrained to operate within the EU-wide Emissions trading scheme whilst other sectors have an overall target of limiting growth in emissions to not more than 5% compared to 2005 levels by 2020.

Implementation of this measure started in September 2009 and will run up to 2020. The Strategy will be reviewed on a three year basis with the first review to take place by the end of 2011.

Measure 3.3.2.6 Implementation of the National Renewable Energy Action Plan

Malta must achieve a 10% target for share of energy from renewable sources in gross final consumption of energy by 2020. This includes energy consumed in transport, electricity, heating and cooling. This measure will run from 30th June 2010 to 31st December 2020.

Table 2: MRRA Renewable Energy Project					
<i>Renewable Energy Projects</i>					
	2010	2011	2012	2013	Total
Wind Farms					
Sikka I-Bajda Offshore Wind Farm	2,950	88,500	70,800	132,750	
Wied Rini Onshore Wind Farm	1,600	48,000	38,400	72,000	
Hal Far Onshore Wind Farm	85,000	20,500	0	0	
Legal/Financial service	153,613	100,000	100,000	150,000	
Ancillary items for L-Ahrax Wind Mast	36,826	0	19,826		
<i>Sub Total</i>	<i>279,989</i>	<i>257,000</i>	<i>229,026</i>	<i>354,750</i>	<i>1,120,765</i>
Photo Voltaic Systems					
1st Tranche Photovoltaic	34,338	135,662	0	0	
2nd Tranche Photovoltaic	0	206,500	0	0	
<i>Sub Total</i>	<i>34,338</i>	<i>342,162</i>	<i>0</i>	<i>0</i>	<i>376,500</i>
ISE Technical Collaboration	150,000	180,000	200,000	0	
<i>Sub Total</i>	<i>150,000</i>	<i>180,000</i>	<i>200,000</i>	<i>0</i>	<i>530,000</i>
Total	464,327	779,162	429,026	354,750	2,027,265
Notes:					
1. The related costs cover the following: <ul style="list-style-type: none"> • Technical, legal and financial services in relation to the tender process. • Wind resource studies • Related environmental and technical studies requested by MEPA 					
2. The budget estimates do not include the construction and operating cost of the projects					
3. The quoted estimates are inclusive of VAT					

Table 2 only shows the cost of taking the projects through the tendering stage as it is the Government's intention to allow the private sector to develop and own these projects. In return the successful bidders will sell the energy they supply at a Feed in Tariff. The Feed in Tariff will be proposed by the bidders in their tender offer. For this reason the costs related to the actual Feed in Tariffs cannot be defined.

Milestones:

Period	Share of renewable energy trajectory targets
2012	2.0%
2014	3.0%
2016	4.5%
2018	6.5%
2020	10.0%

Other measures include:

- Three mechanical biological treatment plants equipped with energy recovery.
- Capital grant for residential solar photo voltaic systems.
- Capital grant for residential solar water heaters.
- Capital grant for micro-generation renewable energy technologies in commercial and industrial sector.

The total budgetary cost of these measures is expected to reach €6.2 million in 2011 and €4.0 million in 2012, declining to €0.4 million in 2013. These mainly include the capital grants for solar energy and micro-generation of renewable energy measures. Over this period, EU funds are expected to cover 85 per cent of the cost of these measures totalling €7.7 million over the 2011/13 period. In addition, €51.8 million – of which an estimated €44.3 million will also be covered by EU funds – will be spent by a public entity on biological treatment plants.

3.4 Target 4 - Education and Key Measures to Attain the Target

3.4.1 National Target

Throughout the period 2000-2008, from among EU-27 Member States, Malta registered the largest decrease in the percentage of early school leavers, arriving at a percentage of 39% in 2008. This percentage drop (15.2%), is more than three-fold the percentage decrease registered by most EU Member States. The progress achieved over the period 2000-2008 is attributed almost entirely to the establishment of the Malta College of Arts Science and Technology (MCAST) which provides vocational and professional education and training to upper secondary students.

Throughout the period 2000-2008, Malta registered one of the largest increases (13.6%) in the percentage of tertiary educational attainment of 30-34 year olds, arriving at a percentage of 21% in 2008. This is due to the fact that, during the 1990s, Malta experienced a significant increase in the number of students participating in higher education, mainly at the University of Malta due to a number of additional incentives for students to take up higher education studies.

In dialogue with the Commission, Malta has set the following targets:

- Aiming to reduce school drop-out rates to 29% by 2020.
- Increasing the share of 30-34 years old having completed tertiary or equivalent education to 33% by 2020.

In the period 2010-2015, Malta will endeavour to continue to offer new possibilities for learning whilst ensuring that all persons receive due certification and recognition of their studies in a drive to value all learning, in order for this to be able to serve the individual learner as a basis for further study or work.

3.4.2 Key Measures to Reach the National Target

Measure 3.4.2.1 Tackling Absenteeism by Strengthening Student Services

With the aim of reducing current levels of absenteeism in compulsory education, it is planned that social and educational student services will be improved at the grass-roots level within schools, in order to provide a more understanding environment for students with different abilities and for students from diverse social, cultural and national backgrounds.

It is also planned that multi-disciplinary teams (including social workers, psychologists, psychotherapists, trainee counsellors, trainee career guidance teachers, family workers) will monitor families in which there is a high tendency of children's' absenteeism from school, at the community level in order to provide the support needed to socially address problems which the family unit may be facing.

While some elements mentioned above are already in place, particularly at college level, with a first attempt having been made at community level, this measure requires significantly stepping up Malta's efforts in this regard, so as to be able to affect the students at school level. Due to the increase in human resources that the extension of student services

requires, as well as the nature of organisation of human capacity and resources at community level, it is planned that such a measure will be initiated in 2012-2013, and continue to expand in its coverage until 2015. The fiscal cost of the measure is expected to reach €2.1 million over a four year period starting from 2012. The measure is expected to be a significant contributor to reduce the number of drop-outs from the education system.

Measure 3.4.2.2 Offering more Opportunities for Participation in Vocational Education

Vocational training is deemed to be an important vehicle in order to encourage more students to continue their education beyond the school-leaving age and to develop their true employment potential. The setting up of MCAST has been an important milestone allowing Malta to register significant improvements in educational attainment levels over the last few years. It is therefore imperative that this National Reform Programme continues to build on these achievements. This measure aims to extend the provision of vocational education, in particular through:

- 1 The introduction of vocational subjects in secondary school, which are to be included as part of the general curriculum undertaken by students. Such vocational subjects are to be introduced with the aim of fulfilling the potential of students in vocational fields, and to introduce students to subjects which can capture both their aptitudes and their interest, in view of them progressing to further vocational studies and to employment in a given technical or vocational sector at a later stage. Preparation of ground work involved in the setting up of VET provision is underway and will continue until 2011. Vocational subjects as pilot projects will start in September 2011. The pilot projects to be carried out in State and Non-State Schools are expected to take place between 2011 and 2012. Meanwhile the initial VET will start being offered in schools in 2012.
- 2 The extension of vocational subjects at post-secondary level of education in institutions which are dedicated to vocational education and training, which include the Malta College of Arts, Science and Technology (MCAST) and the Institute of Tourism Studies (ITS). The extension of provision of vocational subjects at post-secondary level of education will be an ongoing measure throughout the years 2011-2015. In this respect:

The Malta College of Arts, Science and Technology (MCAST) are currently implementing an ERDF Project for the extension of its Campus. This is planned to be completed in 2013, after which it is expected that MCAST will be able to increase its student intake, as well as provide a better learning environment for its current students.

The Institute of Tourism Studies (ITS) is currently building a new vision and strategy based on a clearly-defined mission to provide quality learning to lead to excellence in the tourism industry, with a view to enable more individuals to participate in tourism studies, including the low-skilled and unskilled.

- 3 The introduction of embedded learning for Foundation (first level) students, providing them with the opportunity to learn the key subjects of Maltese, English and Mathematics through the students' own preferred area of vocational studies. Embedded learning in vocational education started in September 2010 at MCAST, which is to be piloted until June 2011. Depending on its success, it will continue thereafter.

The measure (European Agricultural Fund for Rural Development) - under 4.1.2 also contributes to VET.

Projections carried out by NCHE indicate that despite the projected decline in the overall number of students up till 2020, vocational students will continue to increase. It is therefore inevitable that this sector will require significant funds in order to meet the infrastructural requirements. The total cost of these measures is estimated at €9.1 million over the entire 2011/14 period covered by this Programme. This is almost entirely devoted to the extension of MCAST between 2011 and 2013, primarily an EU Funded project.

Measure 3.4.2.3 Introducing Life-Long Learning into the Community through a Pilot Out-Reach Programme

The aim of this measure is to tailor lifelong learning, in the form of various educational opportunities, to the needs of the community, with particular attention being paid to the needs of certain key groups in society where there is much potential for raising of educational levels, such as unemployed mothers and other unemployed persons with low or no skills.

The aim of such a measure is to provide:

- A different experience to previous learning paths through which might have failed the learner.
- The adequate level and type of learning (whether general or vocational).
- The appropriate style of learning (tailor-made to the needs and strengths of individual learners).
- The most feasible time for learning (e.g. during school hours for mothers).
- The most convenient place for learning, close to one's place of residence.
- A welcome environment for learning, with other learners from one's own community.

Time-frame: It is envisaged that the necessary policy and action plan will be formulated throughout 2011-2012, with a pilot phase to be in place in 2013 in time to assess results by 2015.

Measure 3.4.2.4 Setting up of a National System for Accreditation and Licensing of Further and Higher Education Programmes and Providers and of Recognition of Non-Formal and Informal Prior Learning

This measure envisages the setting up of a framework for:

- The accreditation of formal further education programmes (defined as programmes at levels 1-4 of the Malta Qualifications Framework and which are not provided in the form of compulsory education).
- The accreditation and licensing of (public or private) further education providers eligible to operate in their respective sector.
- The accreditation of formal higher education programmes (defined as programmes at levels 5-8 of the Malta Qualifications Framework).
- The accreditation and licensing of (public or private) higher education providers eligible to operate in their respective sector.
- Recognition of prior non-formal or informal learning, as linked to specific individuals on the basis of previous work or other experience.

Legislation (primary and secondary) relating to the setting the legal basis for the setting up of such a framework, outlining the main criteria on which such a framework is to be built, is to

be adopted by 2011. Policy and guidelines relevant to the procedures of internal and external quality assurance on which accreditation and licensing is to be based to be adopted by the relevant competent authority by mid-2012. Policy and guidelines relevant to the procedures of recognition of non-formal and informal prior learning shall be adopted by the competent authority by mid-2012. Relevant capacity building is to take place both within structure of providers as well as within the structures of the competent authority throughout 2011 and 2012. The framework will be operational by 2012-2013, with providers being given an appropriate transition phase to align themselves to the framework.

The use of EU funds is being contemplated in the setting up of the above-mentioned framework with a view to sourcing good practice from abroad and building capacity in Malta.

Measure 3.4.2.5 Introducing New Possibilities and Modalities of Learning in Higher Education

The measure will provide a longer higher educational pathway than in traditional higher education, with a view to allowing learners to study during late evening hours and During periods of their life in which they find it to be most convenient and most practical. This measure aims to capture adults into higher education. It is expected to raise the qualification level of such persons with a view to providing them with higher intellectual and analytical capabilities and offering them better job prospects. It is expected that this measure will be implemented by relevant educational institutions as from 2011-2012.

This measure is expected to target adult learners who are self-sufficient and able to pay a reasonable cost for their tuition, with some of the costs being subsumed into the operational costs of the institutions which provide such education. Therefore the measure is expected to be budget neutral.

Measure 3.4.2.6 Extension of the Malta Government Scholarship Scheme (MGSS)

Malta's competitive position can only be improved if the country's workforce skills and capabilities are improved by continual and persistent investment in education and research which would enable human resources to complement the high value added activities that Government is continuously seeking to attracting to Malta. It is only continual improvements in the quality and value added of the goods and services exported by Malta that would enable the country to improve its growth potential and living standards.

Government is proposing to increase the current scholarship scheme from €466,000 to €600,000 as from 2012. This implies an additional fiscal outlay of €134,000. This measure is expected to be beneficial to the overall education levels but more specifically raise the proportion of science and technology graduates and potentially increase the number of researchers carrying out research and development activity.

3.5 Target 5 - Poverty and Key Measures to Attain the Target

3.5.1 National Target

Promoting Social Inclusion in particular through the Reduction of Poverty

Malta believes that any target in the area of poverty and social exclusion needs to be both ambitious and realistic. The establishment of an ambitious target is vital for sending a strong political message of the commitment in the fight against poverty. Yet, at the same time it is also considered fundamental that this ambitious target is based on realistic foundations. The initial projections show that it is going to be relatively difficult for Malta to improve on its current position, both as its starting point situation is fairly good when compared to that of other Member States, as well as in view of the projected demographic changes leading to 2020.

In contributing to the EU headline target, Malta will be primarily focusing on those people who are materially deprived, amongst whom are those who are both materially deprived and at risk of poverty. Three particular targeted groups have been identified, these being children, elderly and jobless households.

The projections in hand indicate that Malta's proposed national target will be to lift around 6,560 people out of risk of poverty and exclusion.

Alongside the poverty-reduction target, the social objectives of Malta's NRP are backed up by the measures aimed at achieving the employment and education targets, in line with the belief that innovative social protection intervention must be combined with a broad set of policies including those on employment and education. Achieving by 2020 the employment rate target would represent the single biggest contribution to lifting persons out of poverty. Education and training systems will also be instrumental in supporting upward social mobility. In the long-term perspective, reducing school drop-outs would be a strong contribution to poverty reduction, since a sufficient level of skills and competences is indispensable for employability.

3.5.2 Key Measures to Reach the National Target

Measure 3.5.2.1 Combating Child Poverty

As indicated by national research, lone-parent households with one or more dependent children were those most at risk of poverty¹⁵. It was thus decided to put in place gradual measures to tackle single-parent households with low work intensity. Social security entitlements for single parents will be reviewed to take into consideration socio-economic realities, with a focus on the creation of a culture of contributions, rather than one based on dependency. The measure will ensure that single parents whose youngest child is aged 7 years or over, are moved from income support to trainees' allowance. This means that although they will continue to receive the same amount of benefit, an obligation will be placed on the single parent to actively seek work and follow training opportunities provided by the State. Thus, lone parents will have to undergo training which will help them to develop more skills and competencies adherent to the need of the labour market. The benefits of this measure include: attracting and encouraging people towards the labour market; developing

¹⁵ NSO, Survey on Income and Living Conditions 2008

more skills and an approach towards lifelong learning; instilling a mentality of contributions rather than dependency on social benefits provided by the State; having an increased labour force participation; and reducing the at-risk-of-poverty rate of children and lone-parent households. It is worth noting that parents of children aged under 6 years will continue to receive 'unconditional' benefits.

Given that the alleviation of child poverty is directly linked to several variables, further research will be conducted in order to have a better picture of the households most at risk and the reason for their situation. Such research will be the basis for a more comprehensive strategy which will tackle the problem of child poverty in a more holistic manner.

While this research study is not expected to have an immediate impact in terms of poverty reduction, it will lead to a better understanding of how complex the problem of child poverty is, as well as to identify the measures needed to bring about a sustained reduction in child poverty. Thus, this study is expected to provide a significant contribution to child poverty reduction in the long term.

Measure 3.5.2.2 Pensions Reform

This measure aims to address the long-term sustainability and adequacy of the Pensions system in Malta. A report with recommendations on how to implement the second phase of the pension reform was presented to Parliament and was launched for public consultation.

Reforming the pension system has been a priority for the Maltese government. In order to deepen the analysis, further evaluate reform options, provide specific advice to the government and propose a strategy of reform, a special working group was created to advise on the matter and to propose a strategy for reform.

The Pension Working Group made significant contributions to the evaluation of pension reform actions. The proposals under analysis cover initiatives aimed at enhancing the adequacy whilst ensuring the sustainability of pensions through a review of aspects of the contributory pensions in Malta whilst at the same time considering the contribution of second and third tier pensions to the same objectives.

Government decided to implement the process in a gradual manner, starting with the adoption of a set of parametric reforms to the PAYG component. Changes introduced by law in 2006 included the following: (i) gradual increase and convergence of retirement ages for men and women; (ii) gradual increase in the minimum number of years of contribution required for full pension entitlement; (iii) change in the definition of pensionable salary for retirees born in 1962 and later (average of best 10 years instead of average of best 3); and (iv) new definition of guaranteed minimum pension (60% of national median income instead of 80% of minimum wage).

The introduction of second and third pillars (mandatory and voluntary funded schemes) was perceived as a more structural type of reform that requires further discussion and this part was postponed until a second phase of reform can take place. At present, the discussion concerning the funded component is open, and some actions have already been adopted, including the preparation of: (i) the institutional set up for the development of private pension management under the supervision of the Malta Financial Service Authority (MFSA); and (ii) the regulatory framework for private pension provision.

The continuation of this reform should help to sustain the adequacy of pensions and also lead to an overall improvement in pensions' rates, particularly in respect of the least paid

pensioners. Such a measure is expected to contribute to the reduction of poverty amongst elderly people.

The pensions reform will also contribute towards encouraging older workers to continue working (vide measure 4.1.2.3 under employment target).

Measure 3.5.2.3 Supplementary Allowance

The Supplementary Allowance in the Maltese Social Security system is designed to offer financial assistance to married couples or single persons where the household income falls below a certain threshold.

Given that statistics indicate that 22% of the 65+ cohort of the population are considered at-risk-of-poverty, it is being proposed that the Supplementary Allowance mechanism be revised for such pensioners where the household income falls below the National Median equivalised income levels, thereby ensuring a higher rate of Supplementary Allowance for this category of the population.

Measure 3.5.2.4 Incentives and Support to Persons with a Disability to Actively Participate in the Labour Market

a) To analyse, revise and propose the necessary parametric or fundamental changes required with respect to the benefits enjoyed by disabled persons

To analyse, revise and propose the necessary parametric or fundamental changes required with respect to the benefits paid to disabled persons under the Social Security Act with a view to continue providing an adequate safety net whilst encouraging employment, attracting increased female labour force participation, reducing the risk of poverty, improving vulnerable persons' prospects for social inclusion, respecting and enhance family values, endorsing equality and promote equity, addressing all prevalent long-term medical conditions/diagnosis, enhancing good governance and reduce abuse, and enhancing the adequacy of rates payable and sustainability of the system.

A report will be drawn up in 2011 and will propose medium- to long-term initiatives taking cognizance of the wide-ranging services provided by government in this area with specific emphasis on employment and support initiatives for disability or functional impairments¹⁶.

Number of people to be effected: circa 2,200 persons on a disability pension, circa 5,000 persons on Invalidity Pension.

b) Bridging the Gap Scheme for Persons with a Disability

This initiative also contributes towards the attainment of both the national targets for poverty reduction and employment. This is because the integration of persons with disability in the labour market will help them to be more independent financially and therefore decrease their dependence on social services.

¹⁶ Aiming at reviewing the benefits and the employment register for persons with disability. Following this exercise, Government will continue to invest in training initiatives aimed particularly at persons with disability. Furthermore, there will be the introduction of an assessment of the employability skills of persons with disability.

The Bridging the Gap Scheme supports and assists disadvantaged groups, including persons having a disability, by providing counselling and placement services together with referrals to adequate training. The scheme is designed to support a client in the transition period from unemployment to employment. It allows the employer to evaluate the performance of the client in the workplace, prior to proper engagement.

Between 2011 and 2015, 280 people are expected to benefit from this measure, which has a yearly budget of €102,000.

Measure 3.5.2.5 Strengthening support services to jobless households

This initiative will contribute towards the attainment of both the national targets for poverty reduction and employment. Integrating vulnerable people into the labour market will improve their employability prospects and enhance their position in life both from a financial and a social perspective.

The aim of this measure is to:

- Consolidate and wherever possible expand further, current Appoġġ¹⁷ services whose main users are persons living in, or at risk of poverty and social exclusion.
- Further expand community based services.
- Take comprehensive action to safeguard children and families.
- Improve the quality of service to persons requesting assistance from the agency and to offer more timely intervention to service users.
- Provide more accessible and holistic services to persons living at risk of poverty and to support families and other persons in the community identified as requiring assistance so as to enhance their possibility of social integration.
- Strengthen support services to families who are living in vulnerable situations and support children living in vulnerable situations and at risk of poverty so as to take decisive action to break the cycle of poverty.

On a yearly basis, resources required to deal effectively and efficiently with demand for services and capacity building will be presented. Operating practices within the different services will be reviewed and updated, as the need arises, to ensure the best possible service delivery.

Three new community centres were set up during 2009 and 2010. As a result, the following initiatives will also be carried out:

- Identify the needs pertaining to the specific communities.
- Draw up projects, through the community workers and other stakeholders, to address the aforementioned needs.
- Offer social work services to an average of 100 service users per year.
- Provide social work support services to persons identified as being at risk of social exclusion with particular emphasis on young parents, single parent families, large families, low income families including unemployment.
- Provide skills training to identified parents so as to help them develop their personal, parenting and independent living skills including employment skills (Family Workshops).

¹⁷ Appoġġ forms part of the Foundation for Social Welfare Services. The agency offers over 25 specialised and generic social welfare services to children and families in need.

- Support parents to raise their young children within their own homes, even through volunteers and Home-start¹⁸, so as to prevent as much as possible the need to remove children from their homes (target children aged 0-5).
- Continue to expand fostering services on a yearly basis.
- Develop a National Forum to bring together professionals working in the area of child protection so as to ensure that the policies and procedures to safeguard children are in place.
- Provide specific training to professionals working in the above mentioned areas of work.
- Promote further Positive Parenting and work in collaboration with Sedqa¹⁹ to deliver parenting skills courses addressing the needs of those living in poverty and social exclusion.

Measure 3.5.2.6 Training Programme for Employees Earning the Minimum Wage

Government is incentivising the take up of training programmes by those who are working and earning the minimum wage. This measure is being taken to enable these persons to obtain further skills thereby increasing their possibilities of earning better wages and possibly be lifted out from or avoid in-work poverty. Those employees earning the minimum wage who participate in ETC-run training programmes will be given a weekly allowance of €25. The measure is estimated to cost around €293,000 per annum.

3.6 Financing the NRP

Table 3 below presents a detailed overview of the net budgetary cost of the proposed measures and the extent to which these measures are covered by EU funds. A total outlay for the 2011/13 period of €55.2 million is foreseen. Of these, €32.1 million are expected to be financed out of EU funds. Therefore, EU funds represent more than half the total outlay on the thematic aspects of the NRP. The net impact on the budget balance over this period amounts to €23.1 million. Some of the measures will continue throughout the 2014/15 period. These amount to around €9 million per annum. The costs of these measures are included in the public finance projections contained in the Stability Programme.

In addition, €425 million will be incurred by non-government entities in order to invest in energy, water resources and transport infrastructure over the entire 2011/15 period. These amount to the bulk of the investment through the thematic aspects of the NRP. EU funding in these areas is estimated at €64.3 million covering the period from 2011/13 only.

This brings the total outlays on the thematic aspects of the NRP to €498 million over the 2011/15 period. In addition one has to include other outlays in the macro-economic aspects of the NRP which are estimated to reach €80.4 million. This brings the total outlays covered by this NRP to €578 million over a period of five years up to 2015.

¹⁸ Home-Start Malta offers support, friendship and practical help to parents with young children in various communities in Malta to give children the best possible start in life.

¹⁹ Sedqa offers health promotion, prevention, treatment, and rehabilitation services to persons with drug, alcohol, and/or gambling problems, and to their families.

Table 3: Quantification of NRP Thematic Measures

		Net Cumulative Fiscal Impact (EUR million)					EU Funds 2011/13	
Measure	Timeline	2011	2012	2013	2014	2015		
Employment								
1	Community Work Scheme	2011/15	-0.231	-0.346	-0.462	0.577	0.693	
2	Revision of Means Testing for Social Assistance	2011	-0.180	-0.180	-0.180	0.180	0.180	
3	Pro-Rata NI Contribution for PartTime Self Employed Women	2011	0.216	0.216	0.216	0.216	0.216	
4	Child Care Centres	2011/13	0.287	0.574	0.717	0.717	0.717	
5	Afternoon School Programme	2011/15	0.167	0.334	0.501	0.668	0.769	
Education								
1	Tackling Absenteeism	2012/15	:	0.416	0.831	1.454	2.078	
2	Vocational Training Measures							
	Vocational Subjects	2011/15	0.020	0.028	0.028	0.028	0.028	
	MCAST Extension	2011/15	1.455	2.784	4.722			7.617
3	Community Life Long Learning Pilot Out-Reach Programme	2011/13	:	:	:	:	:	
4	Accreditation	2011/13	0.806	0.806	0.806	0.806	0.806	
5	Higher Education Modalities of Learning	2011/12	--	--	--	--	--	
6	Extension of the MGSS	2012/15	:	0.134	0.134	0.134	0.134	
Poverty								
1	Training Programme for Minimum Wage Earners	2011/15	0.293	0.293	0.293	0.293	0.293	
2	Pension Reform	--	--	--	--	--	--	
3	Incentives to Support Persons with Disability to Participate in Labour Market	2011/15	0.102	0.102	0.102	0.102	0.102	
4	Improve Services to Jobless Households	2011/15	0.500	0.500	0.500	0.500	0.500	
5	Research Study on Households earning less than the Median Equivalised Income	2011	0.006	:	:	:	:	
R&D								
1	New National R&I Strategy	2011	:	:	:	:	:	
2	R&I + Commercialisation Programmes	2012/15	1.073	2.440	3.618	3.662	3.711	
3	Doctoral/ Post Doctoral Scholarship Scheme	2011/15	0.075	0.150	0.250	0.350	0.350	
4	Life Sciences Centre	2011/13	6.609	6.609	6.609	--	--	16.854
Energy and the Environment								
1	Interconnector with Sicily	2011/13	:	:	:	:	:	
2	Extension of Delimara Power Station	2010/12	:	:	:	:	:	
3	Energy End-Use Efficiency Schemes	2011/13	1.200	:	:	:	:	
4	Transport Energy Efficiency Schemes	2011	-2.300	0.500	0.500	0.500	0.500	
5	Renewable Energy Measures	2010/13	6.178	4.028	0.355	:	:	7.649
TOTAL			16.276	19.386	19.540	8.673	9.329	32.120
as % of GDP			0.2	0.3	0.3	0.1		
Distribution of Funds by Thematic Area								
	Employment		0.3	0.6	0.8	0.8	0.8	:
	Education		2.3	4.2	6.5	2.4	3.0	7.6
	Poverty		0.9	0.9	0.9	0.9	0.9	:
	R&D		7.8	9.2	10.5	4.0	4.1	16.9
	Energy, Transport and the Environment		5.1	4.5	0.9	0.5	0.5	7.6
	TOTAL		16.3	19.4	19.5	8.7	9.3	32.1

Table 4: Ministry responsible for measures under each target

Measure No.	Measure Title	Lead Ministry
Target 1 – Employment		
3.1.2.1	Community Work Scheme	MEEF
3.1.2.2	Revision of Means Testing for Social Assistance	MEEF
3.1.2.3	Pro-Rata NI Contribution for Part-Time Self-Employed Women	MEEF
3.1.2.4	Child Care Centres	MEEF
3.1.2.5	Afternoon School Programmes in the Community	MEEF
3.1.3	Other Ongoing Measures	
3.1.3.1	Incentives to Attract More Inactive Women to the Labour Force	MEEF
3.1.3.2	Publicity campaign to attract more women to the labour market	MEEF
3.1.3.3	Encouraging Older Workers to Continue Working	MEEF
3.1.3.4	Strengthening Employability Prospects	MEEF*
3.1.3.5	Measures to Curtail Abuse of the Unemployment Register and Informal Work	MEEF
Target 2 – R&D		
3.2.2.1	The New National Research and Innovation Strategy 2011-2020	OPM
3.2.2.2	An Ecosystem Approach to R&I Funding	OPM**
3.2.2.3	Doctoral and Post-Doctoral Scheme	MEEF
3.2.2.4	The Setting Up of a Life Sciences Centre	MFEI
Target 3 – Energy		
3.3.2.1	Interconnection to the European Energy Grid	MFEI
3.3.2.2	Extension of the Delimara Power Station	MFEI
3.3.2.3	Energy End-Use Efficiency	MRRA
3.3.2.4	Energy Efficiency in Transport	MITC
3.3.2.5	Implementation of Malta's National Strategy for Policy and Abatement Measures relating to the Reduction of Greenhouse Gas Emissions	MRRA
3.3.2.6	Implementation of the National Renewable Energy Action Plan	MRRA
Target 4- Education		
3.4.2.1	Tackling Absenteeism by Strengthening Student Services	MEEF
3.4.2.2	Offering more Opportunities for Participation in Vocational Education	MEEF
3.4.2.3	Introducing Life-Long Learning into the Community through a Pilot Out-Reach Programme	MEEF
3.4.2.4	Setting up of a National System for Accreditation and Licensing of Further and Higher Education Programmes and Providers and of Recognition of Non-Formal and Informal Prior Learning	MEEF
3.4.2.5	Introducing New Possibilities and Modalities of Learning in Higher Education	MEEF
3.4.2.6	Extension of the Malta Government Scholarship Scheme (MGSS)	MEEF
Target 5 – Poverty		
3.5.2.1	Combating Child Poverty	MEEF
3.5.2.2	Pensions Reform	MEEF
3.5.2.3	Supplementary Allowance	MEEF
3.5.2.4	Incentives and Support to Persons with a Disability to Actively Participate in the Labour Market	MEEF
3.5.2.5	Strengthening Support Services to Jobless Households	MEEF
3.5.2.6	Training Programme for Employees Earning the Minimum Wage	MEEF

* MRRA is lead ministry for Measure 3.1.3.4 (f).

** MFEI is lead ministry for Measure 3.2.2.2 (b).

PART 4 – HORIZONTAL AND METHODOLOGICAL ISSUES

HORIZONTAL AND METHODOLOGICAL ISSUES

Successful Preparation, Implementation and Monitoring of the NRP

Political Involvement

The political responsibility for the monitoring and implementation of the NRP is vested in the Minister of Finance, the Economy and Investment. The Policy Development Directorate (PDD) within the same Ministry is responsible for its co-ordination. Each line Ministry and key public sector entity has a designated contact person who reports on the progress of every measure falling under their respective responsibility.

The NRP was approved by the Cabinet of Ministers and will be tabled and debated in Parliament together with the Stability Programme 2011-2014.

To increase the involvement of local authorities, the Ministries and entities responsible for the implementation of the measures contained in the NRP are to consult and liaise, where applicable, with the respective Local Councils and with the Local Councils' Association.

Social Partners and other Stakeholder Involvement

A technical sub-committee coordinated by the PDD was constituted to set Malta's national targets. In its intention to continue to seek the involvement of all stakeholders in the drafting, monitoring and implementation of the NRP, Government actively involves the Malta-EU Steering Action Committee (MEUSAC) and the Malta Council for Economic and Social Development (MCESD), two forums which bring together many of the social partners in the Maltese islands.

Communication Strategy

In view of the need to explain to citizens and social partners how economic reform leads to a higher standard of living, the Minister of Finance, the Economy and Investment, as well as the technocrats, will deliver speeches, participate in seminars and discussions on issues concerning Europe 2020 whilst providing updates on the progress achieved in the NRP.

Monitoring

Malta carries out a mid-year and end-of-year assessment of the implementation of the NRP. The basis of information gathering is a status report on each individual measure in the NRP. Updates received on a quarterly basis from line Ministries and entities will be reviewed and evaluated. The Policy Development Directorate will subsequently consolidate the input received and prepare other input related to bottlenecks, country-specific recommendations and other required information.

Use of EU Funds

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

Governance

The governance model used for the reporting of the past NRP will be retained, as it has proved to be successful not only in terms of policy integration but also in increasing the line Ministries' ownership of the NRP and associated programmes. This governance structure, based on the active participation of all relevant Ministries and an extensive consultation with stakeholders has been deemed to be very effective by the Commission and is considered to be one of the better practice models.