



# **Malta**

## **National Reform Programme**

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## Minister's Foreword



Malta has now experienced five consecutive years of unprecedented economic growth. This has meant more people in employment, households with higher incomes and a society which is more inclusive.

The future looks bright. Our forecast for 2018 and 2019 shows our economy continuing to grow with low to moderate inflation rates and lower rates of unemployment.

While the economy has prospered, as a Government we have also been very prudent with the public finances. Our comprehensive spending reviews in social security, health and education have provided opportunities to review the policy process ensuring that our public spending is more efficient, effective and reflects our changing expectations.

In our objective to bequest a wealth fund and a significantly reduced national debt burden, we have succeeded to reduce the public deficit in the first three years and produced a surplus in the following years.

In line with European and international standards, we have introduced a number of measures in the area of taxation to combat money laundering, tax evasion and fraud. We have also continuously introduced reforms to strengthen the country's institutions and good governance.

We have continued to invest in our children's future and their education. The recent reforms in education have created the concept of the student's journey. This created more pathways and more opportunities that ensure our young people will be qualified to deal with their economic futures. We have continued to invest in upgrading the skills of our existing workforce, improving productivity and employability.

We have improved pensions year on year and provided a progressive monetary supplement to working families. More women are now in employment and there are increased opportunities for those with disability to find work while persons with severe disability have received additional benefits.

We are now committed to a road infrastructure building programme channelling more resources to upgrade our infrastructure whilst preserving the environment.

In this bright future, we shall continue to be proactive and invest in new economic pathways to ensure Malta continues to be at the forefront.

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

Prof. Edward Scicluna  
Minister for Finance



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# 1. Introduction

In 2017, the economy grew by 6.6 per cent in real terms, more than double the 2.4 per cent average growth recorded by the EU-28. Preliminary forecasts by the Ministry for Finance (MFIN) indicate that economic growth for 2018 and 2019 will reach 6.0 per cent and 5.3 per cent respectively, as the economic performance is expected to remain strong over the forecast period.

Growth in economic activity is expected to be supported by strong labour market developments as gains in employment are set to be coupled with a low unemployment rate. The annual rate of increase in employment is expected to be of around 3.8 per cent and 3.5 per cent in 2018 and 2019, respectively while the rate of unemployment is expected to fall to 3.8 per cent in 2018 and stand at 3.9 per cent during the following year.

The Government remains committed to work on strengthening the vital sectors of the economy, by improving educational outcomes, reducing skill shortages and mismatches, investments in health, road infrastructure and technology, guaranteeing a sustainable supply of energy whilst minimising the negative externalities on the environment. It will also continue ensuring that the financial sector in Malta is adequately regulated and supervised by the competent authorities. It will also continue to introduce reforms to strengthen the country's institutions and good governance.

## 1.1 Public Finances and Taxation

The Comprehensive Spending Reviews are establishing frameworks that seek to phase out unnecessary expenditure, reduce waste and inefficiencies and ensure a better match between public programmes and policy outcomes. In this regard, a new directorate tasked with Public Sector Performance and Evaluation within the Budget Affairs Division of MFIN, has been set up. A director has been appointed and the institution building is underway, where a number of officers are expected to be recruited during 2018 with a view to start introducing the spending review function during this current year. An extensive training programme, partly financed through the Structural Reform Support Programme (SRSP), will be carried out with the scope of improving human resource capacity through consultancy and training.

During 2018, Malta will undertake a Fiscal Transparency Evaluation (FTE) exercise in conjunction with the International Monetary Fund's (IMF) Fiscal Affairs Department. This is in line with Government's objective for effective fiscal management and accountability.

A Joint Enforcement Task Force (JETF) has been set up with the aim of continuing the fight against unjust competition in commerce and tax evasion and will address Value Added Tax (VAT) evasion through a coordinated approach with all the relevant stakeholders.

More resources will be allocated towards the fight against tax evasion and improved tax compliance across all economic sectors. These will include the strengthening of the three types of control: pre-registration, post-registration and control visits, translating into immediate follow-up action on any tax leakage. Further to the fight against tax evasion and unjust competition in relation to the remit of the Customs Department, heavier fines

have been imposed by both the Court and out-of-Court settlements. These should also serve as a deterrent against the evasion of excise duty.

## **1.2 Financial Sector and Investment**

Malta has transposed the fourth Anti-Money Laundering Directive (AMLD IV) into national law, incorporating the latest Financial Action Task Force (FATF) Recommendations in the field of anti-money laundering and counter-terrorist financing.

A National Coordinating Committee composed of representatives from Government and other relevant national authorities will be set up. This committee will be coordinating the development of a national strategy to combat money laundering and the funding of terrorism.

An independent review of the local anti-money laundering regime, will be carried out by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) during 2018.

The Markets in Financial Instruments Regulation (MiFIR) and Markets in Financial Instruments Directive II (MiFID II) were transposed and became applicable in 2018. These frameworks strengthen the transparency and improve the functioning of the internal market for financial instruments through enhanced regulatory and supervisory convergence.

Following the enactment of the amendments to the MFSA Act (Act VI of 2018), the MFSA will be strengthening its supervisory role. The amendments were aimed to reflect the objective of reorganising the Authority by separately and clearly framing both roles of regulation and supervision in the financial services sector. In view of this, recruitment by MFSA is envisaged to increase in 2018.

A new agency earmarked to develop and improve the road infrastructure, is currently being set up and will be absorbing the infrastructural responsibilities of Transport Malta (TM), Local Councils and other entities currently involved in the development, maintenance of roads and related structures and resources.

Furthermore, in order to improve intermodal connections in public transport, TM is in the process of upgrading the existing ferry-landing sites and is also in the process of introducing new ferry services from other maritime towns and villages in order to ease road traffic congestion.

Further work will be carried out on the gas pipeline project which will connect Malta to the European Gas Network, following the inauguration of the new 215MW combined-cycle gas turbine power plant during 2017.

In order to expand its capabilities to produce affordable solar electricity, the Government will be installing solar farms on reservoirs and entering in a partnership with private enterprises, with the aim of developing solar farms on property owned by Government or its entities.

Plans are also underway for the construction of a waste incineration plant, which will enable the country to process between 35 to 40 per cent of generated waste into energy.

### **1.3 Labour market, education and social policies**

Several measures were introduced with the aim of increasing the labour market participation of women, mainly through the promotion of family-friendly measures and reducing the barriers to entry in the labour market.

Various incentives have been introduced with the aim of making education more attractive at all levels and to encourage further education amongst youth, while educational institutions remain committed to ensuring that the courses offered are relevant and continuously addressing the needs of the labour market.

In addition, a number of various social measures have been adopted, including a monetary supplement for working families, an increase in contributory and non-contributory pensions, a reduction in tax paid on pensions, an increase in carers' allowances, an extension of the social loans scheme for house ownership, as well as an increase in the amount and eligibility for the rental subsidy scheme.



## **2. Macroeconomic Context and Scenario**

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## 2. Macroeconomic Context and Scenario

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

#### 2.1.1 Macro Forecasts 2018-2019

The robust performance of the Maltese economy over recent years was sustained throughout 2017, as the economy grew by 6.6 per cent in real terms. This growth was more than double the average growth of 2.4 per cent recorded by the EU-28. Although growth was broad-based, net exports was the main driver, fuelled by strong services exports growth and a decline in imports. Private consumption also contributed positively to economic growth in 2017, backed by growth in incomes and favourable labour market developments. In fact, employment grew by 5.4 per cent in 2017, while the unemployment rate fell to 4.0 per cent from the 4.7 per cent recorded a year earlier.

Following the strong performance in 2017, it is expected that real Gross Domestic Product (GDP) growth will remain strong also over the forecast period. Preliminary forecasts of the Ministry for Finance (MFIN) indicate that growth for 2018 and 2019 will reach 6.0 per cent and 5.3 per cent, respectively. Economic growth in 2018 is expected to be mainly driven by domestic demand, which is projected to contribute 3.9 percentage points to growth, underpinned by developments in private consumption and investment. At the same time, favourable external developments will also contribute 2.2 percentage points to growth. In 2019, a pick-up in investment will underpin domestic demand and drive economic growth, while the contribution of net exports will remain modest. Table 2.1 provides a preliminary overview of the outlook for the main macroeconomic indicators. The finalised macroeconomic projections will be published in the Update of the Stability Programme 2018-2021.

#### Main Macroeconomic Indicators

Table 2.1

	2017	2018(f)	2019(f)
Real GDP	6.6	6.0	5.3
Inflation rate (%)	1.3	1.6	1.8
Employment growth <sup>(1)</sup>	5.4	3.8	3.5
Unemployment Rate (%)	4.0	3.8	3.9
Exports of goods and services	1.6	3.5	3.4
Imports of goods and services	-3.0	2.0	2.8
Compensation per employee (% change)	1.3	3.2	3.2
Labour productivity (% change) <sup>(2)</sup>	1.1	2.1	1.9
Unit Labour Costs (% change)	0.2	1.2	1.3

<sup>(1)</sup> Total Employment, National Accounts Definition

<sup>(2)</sup> Real GDP per person employed

When analysing domestic demand, private consumption is expected to remain strong and contribute significantly to economic growth over the forecast horizon, on the back of buoyant labour market developments and coupled with moderate appreciation in wages. Indeed, private consumption is projected to grow by 4.4 per cent in 2018 and at a slightly slower pace of 3.8 per cent in 2019. Following a decline of 0.3 per cent in 2017, public consumption is foreseen to increase by 5.7 per cent in 2018 and by 1.8 per cent in 2019. From a European System of Accounts (ESA) accounting perspective, these growth rates are restrained by the proceeds which are expected to ensue from the Individual Investor Programme (IIP), which are deducted from government expenditure and added to exports. In 2018, gross fixed capital formation is projected to increase by 4.3 per cent and will pick up strongly in 2019, as several projects in the health, technology and telecommunications sectors will commence.

External demand in 2018 is expected to contribute positively to economic growth as exports are projected to increase by 3.5 per cent while imports are projected to increase by 2.0 per cent. As global economic growth picks up pace, exports are anticipated to grow by 3.4 per cent in 2019. In line with the pick-up in investment, imports for 2019 are projected to increase by 2.8 per cent, resulting in a positive contribution by external demand to growth of 1.3 percentage points.

Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), is projected to be higher than that recorded in 2017 but at the same time it is expected to remain below the 2.0 per cent threshold. The rate of inflation in 2018 and 2019, is expected to increase to 1.6 and 1.8 per cent, respectively. Inflationary pressures in 2018 are expected to be driven by the food and services components. Over the period 2018-2019, the services component is expected to be the main contributor to inflation, while the food component is also expected to contribute positively, although to a lesser extent.

Growth in economic activity is expected to be supported by strong labour market developments as gains in employment are set to be coupled with a low unemployment rate. Job creation is set to remain strong over the forecast horizon, with a projected annual rate of increase in employment of 3.8 per cent and 3.5 per cent in 2018 and 2019, respectively. At the same time, the unemployment rate is projected to decline to 3.8 per cent in 2018 and to increase marginally to 3.9 per cent during the following year. This is well below the expected European Union (EU) average unemployment rate and also reflects the results of ongoing active labour market policies.

In 2018, Unit Labour Costs (ULC) are expected to pick up slightly over the previous year and grow by 1.2 per cent, in reflection of stronger growth in compensation per employee. Growth in ULCs is expected to reach 1.3 per cent in 2019.

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

Structural reforms are key to higher efficiency, greater productivity and economic growth. The implementation of structural reforms contributes to raise confidence among households and economic operators which will ultimately lead to greater employment, higher growth and improved living standards. The Maltese Government is implementing a number of reforms which aim to address the objectives of the Europe 2020 Strategy and Country Specific Recommendations. These include:

- Strengthening fiscal responsibility and ensuring long-term sustainability of public finances through broader spending reviews;
- Improving physical infrastructure and the quality of the business environment;
- Encouraging higher labour participation rates, improving education outcomes and reducing skill gaps;
- Improving small and micro-enterprises' (SMEs) access to finance;
- Encouraging greater investment in research and development;
- Strengthening efficiency in the use of energy and promoting the use of energy from renewable sources;
- Reducing poverty and promoting social inclusion;
- In line with international standards, there will be the continuous introduction of reforms to strengthen the country's institutions and good governance.

In light of the requirement to quantify the economic impact of such reforms, this Programme illustrates the economic impact of structural reforms aimed towards addressing infrastructure bottlenecks through higher public investment. The results presented in this section are based on modelling generated on the basis of the QUEST III model<sup>1</sup>. This scenario represents an illustration of the likely economic impact of the specific policy shock; it is not intended to represent the impact of all policy measures being implemented by Government. Indeed, the only policy change being modelled is the one specified clearly below with the other policy parameters assumed to remain constant.

### **2.2.1 Upgrading road infrastructure**

The economic efficiency of a country and its ability to grow may be hampered by insufficient or low-quality infrastructure, as the latter causes higher supply costs and delays for businesses while it reduces labour mobility. Currently, Malta's infrastructure gap is large relative to the EU average, both in terms of quality and quantity, with the road network being the main contributor to such striking gaps and weaknesses in infrastructure.<sup>2</sup> The recent surge in inward migration along with the rapid economic expansion impinged negatively on the existing road infrastructure, with the consequence that traffic congestion became one of the principal public concerns. Given the adverse effects of inadequate road infrastructure on business productivity, competitiveness and population welfare, the Maltese Government has embarked on a 7-year project estimated to cost around €700 million, to overhaul the country's entire road network.

Within this context, the scenario presented in Table 2.2 illustrates the likely economic impact of increasing public investment by 1 per cent of GDP (every year) over a period of 7 years. This scenario is broadly in line with the Government's €700 million investment plan to upgrade and improve the country's road network.

Addressing the infrastructure gaps in the road network through a boost in public investment is expected to reap significant economic benefits. Indeed, output is expected to increase by 1.27 per cent relative to the baseline by the 7<sup>th</sup> year - the year in which the road infrastructure project is set to be completed. These developments are also illustrated in Chart 2.1 below. Enhanced infrastructure will also lead to a progressive increase in net capital stock, which is expected to increase by 1.7 per cent during the last year of the project. Moreover, imports are expected to increase temporarily over the project rollout period as a result of the increase in investment, and to return to the

### Estimated economic impact of an annual increase of 1.0% of GDP to Government investments over a 7-year period

Table 2.2

Years after shock	1	2	3	4	5	6	7	10	15
<b>Cumulative percentage changes from the baseline (2019)</b>									
<b>GDP</b>	0.29	0.42	0.59	0.76	0.92	1.07	1.27	1.00	0.76
<b>Employment</b>	0.28	0.26	0.27	0.29	0.32	0.34	0.28	0.13	0.07
<b>Total Investment <sup>(1)</sup></b>	4.16	4.13	4.18	4.27	4.38	4.50	4.65	0.50	0.35
<b>Capital Stock <sup>(2)</sup></b>	0.11	0.41	0.69	0.95	1.21	1.46	1.70	1.65	1.31
<b>Imports</b>	0.53	0.44	0.40	0.39	0.41	0.43	0.43	-0.04	0.04
<b>Exports</b>	-0.10	0.11	0.31	0.49	0.66	0.82	1.02	1.12	0.82

<sup>(1)</sup> This variable incorporates both public and private investment.

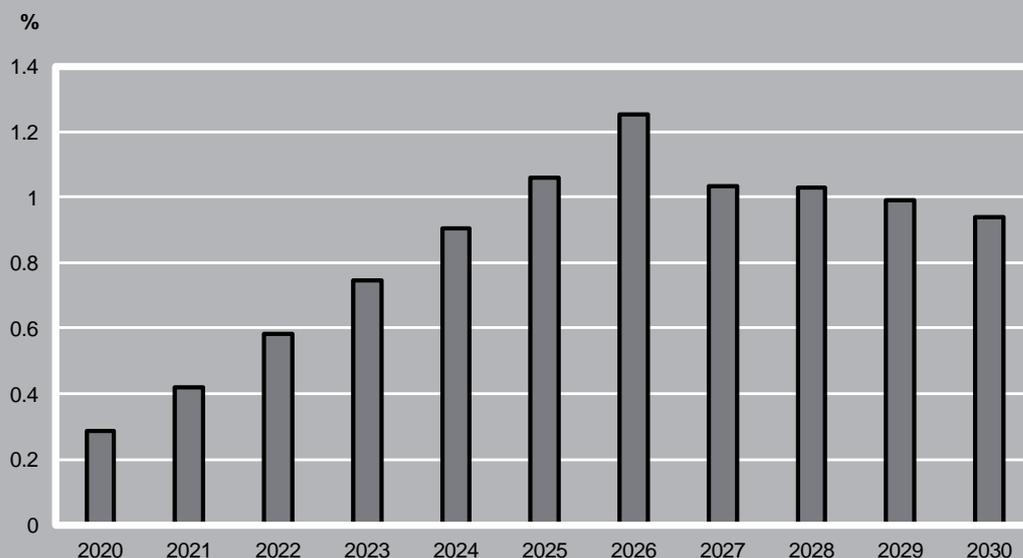
<sup>(2)</sup> This variable incorporates both public and private capital stock.

Source: Economic Policy Department Workings

baseline levels over the longer-term. On the other hand, exports are expected to exhibit a gradual increase over the short-term and to reach 1.0 per cent by the 7<sup>th</sup> year relative to the baseline, due to increased efficiency and higher productivity.

Chart 2.1

### Estimated GDP gains of an annual increase of 1.0% of GDP to Government investments over a 7-year period, relative to the baseline



## 2.3 Distributional Impact of Reform Measures

This section outlines the distributional impact of two specific policy measures announced in the Budget for 2018, which are an increase of €2 to every pensioner and the introduction of an income tax rebate for persons in employment. To assess the effectiveness of these two initiatives, simulations were modelled using EUROMOD<sup>3</sup>. These consisted of:

- A baseline scenario with the specific reform excluded from the simulation; and
- A scenario in which the reform is included in the simulation.

For each measure, the difference between these two scenarios is the impact of that specific policy reform. It is to be noted that EUROMOD is a static model and therefore, the results illustrate the impact of the measures presuming that all else remained unchanged.

### 2.3.1 The increase in pensions

According to the Survey on Income and Living Conditions (SILC), households with no dependent children and with at least one person above the age of 65, are more likely to be at risk of poverty. The adequacy of pensions can play a key role in preventing older citizens from falling below the poverty line. In the Budget Speech for 2018, the Government announced that every pensioner shall be benefitting from a weekly €2 increase in his or her pension, irrespective of whether one is receiving a contributory or a non-contributory pension. The objective of this measure is to address the adequacy of pensions.

This measure is expected to have a positive impact in terms of the overall at-risk-of-poverty rate which is estimated to decline by around 0.27 percentage points. As shown in Table 2.3, the increase in pensions is estimated to lead to a decrease of 0.93 percentage points in the at-risk-of-poverty rate among elderly households. The Gini coefficient, which is an indicator showing the level of inequality in the distribution of disposable income, also recorded a drop, implying that this measure mitigates income inequality.

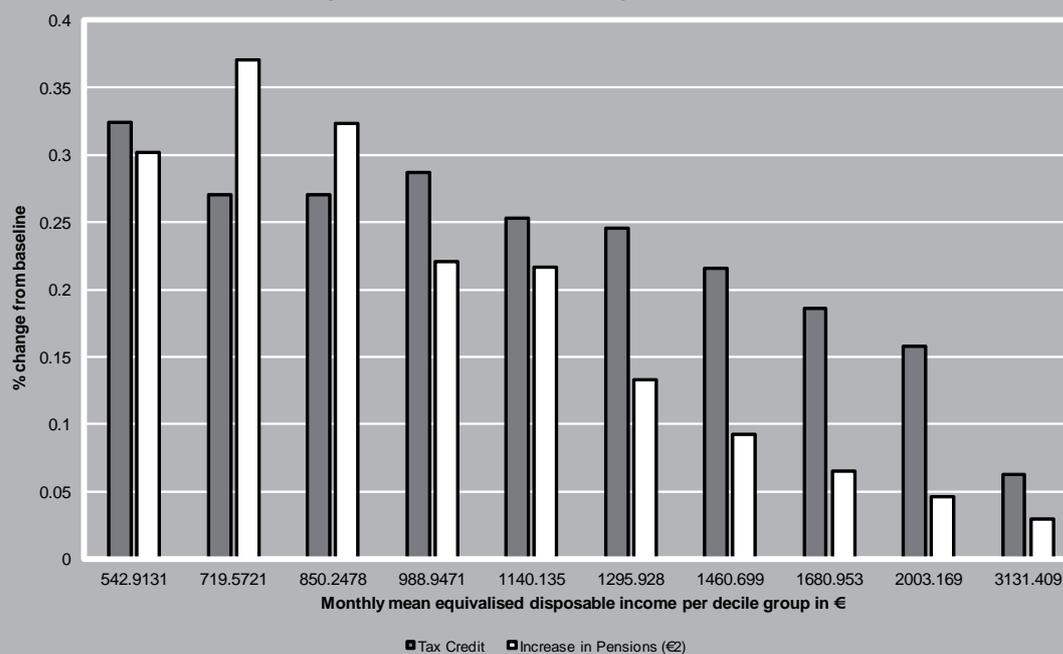
#### Distributional impact of reforms (in percentage points)

Table 2.3

	Increase of €2 for pensioners	Tax refund for all employees
<b>Poverty Indicators:</b>		
<i>Population</i>	-0.27 p.p.	-0.19 p.p.
<i>Children</i>	-0.15 p.p.	-0.37 p.p.
<i>Working Age</i>	-0.13 p.p.	-0.15 p.p.
<i>Economically Active</i>	-0.07 p.p.	-0.17 p.p.
<i>Elderly</i>	-0.93 p.p.	-0.13 p.p.
<i>Gini Coefficient</i>	-0.06	-0.04

Source: Economic Policy Department Workings

Chart 2.2

**Distributional impact of the increase in pensions and the tax rebate**

A deeper analysis of the dynamics of the change in the at-risk-of-poverty indicators (Chart 2.2) reveals that there was a positive distributional impact on all income brackets. However, the cohort benefitting the most from this reform are those at the bottom of the income ladder.

### 2.3.2 The Tax Rebate Measure

With the aim of strengthening the incentive to work and addressing in-work poverty, the Budget Speech for 2018 announced that all those earning less than €60,000 per annum will get an income tax rebate varying between €40 and €68. The tax rebate is progressive and will be worked on the gross income that the employee would have earned during the previous year.

EUROMOD simulations were carried out to assess the impact of these tax rebates. The results indicate that this measure is expected to result in an overall reduction in the at-risk-of-poverty rate by around 0.19 percentage points, as shown in Table 2.3. Such a drop is mainly driven by a decrease of 0.37 percentage points in the at-risk-of-poverty rate among households with children.

As shown in Chart 2.2, the tax rebate is expected to result in an increase in income for all income groups, however the highest rise in disposable income is enjoyed by the bottom deciles. This result was also confirmed by the improvement in the Gini coefficient.

*Footnotes:*

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

<sup>2</sup> International Monetary Fund (IMF): 2017 Article IV consultation, IMF Country Report No. [18/19].

<sup>3</sup> EUROMOD is a tax-benefit microsimulation model for the EU that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU.



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

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## 3. Implementation of the Country-Specific Recommendations

This section outlines policy actions adopted and planned in response to the Country Specific Recommendations (CSRs).

### 3.1 Council's recommendations

***CSR 1: Expand the scope of the ongoing spending reviews to the broader public sector and introduce performance-based public spending.***

During 2016, Malta achieved the medium-term objective of a balanced budget three years ahead of schedule. The Government managed to successfully consolidate public finances, turning a deficit of 3.5 per cent of Gross Domestic Product (GDP) in 2012 to a surplus of 1.0 per cent of GDP in 2016. In addition, the 2017 fiscal surplus is expected to be higher than 3.0 per cent of GDP. These developments are also reflected in a steadily declining debt-to-GDP ratio, which fell below the 60.0 per cent benchmark in 2016 and is expected to be close to 50.0 per cent of GDP in 2017. Malta aims to maintain this momentum in the debt-to-GDP ratio over the short-to medium-term.

These positive fiscal developments brought about changes in priorities of public administration, now that public finances are on a sustainable trajectory. Indeed, the quality and the efficacy of the public finances have become an even greater priority. The Medium-Term Fiscal Strategy submitted to Parliament in May 2017, had already envisaged a renewed emphasis on the quality of public finances rather than the quantity. The Comprehensive Spending Reviews are a core element of the Maltese Government's strategy to ensure the achievement of a more efficient and effective approach to public spending, improving on the policy process while also ensuring that public spending is reflective of changing priorities and changing social needs. In fact, the review processes are establishing frameworks that seek to phase out unnecessary expenditure, reduce waste and inefficiencies and ensure a better match between public programmes and policy outcomes. The expansion of the scope of the ongoing spending review will help to strengthen existing institutions and their technical capacities.

#### ***Conduct of comprehensive spending reviews in Malta***

The first Comprehensive Spending Review was launched in February 2014, and focused on the Department for Social Security. This review led to the introduction of a number of measures all aiming at making work pay and encouraging the reduction of dependency on the benefit system. Expenditure on social benefits declined from 12.9 per cent of GDP in 2012 to around 10 per cent in 2017. This trend is also expected to be sustained over the medium-term.

In 2015, the Comprehensive Spending Review focused on Mater Dei Hospital. The study was completed in September 2015 and resulted in various recommendations mainly

focusing on the payroll system, over-prescription of medicines, medical equipment repairs, expiry date of drugs and contracts. Some of these recommendations have been implemented while others are still underway. A budget decentralisation process is being implemented in seven departments in Mater Dei to increase transparency in decision-making by clinical staff while a process of notional billing between departments is being introduced to increase awareness of the costs. This will enable departments to be more aware of their staffing costs. Recent data for Mater Dei shows that the rate of growth in wages for the departments under consideration has slowed down between 2014 and 2017.

In 2016, the in-depth review in Education was carried out focusing on the primary and secondary education sectors. It is the Government's objective to lower the number of early school leaving students and to encourage these students to stay within the educational system whilst utilising existing resources.

During the period April to June 2017, the Comprehensive Spending Review programme focused on the Ministry for Health. This included the Ministry for Health itself, Primary Care Services, Pharmacy of Your Choice (POYC) and the Contracts Procurement Services Unit. The panel focused on issues of procurement for medicines, contractual obligations including clerical support services, care workers, hospital cleaning services and security services. The Comprehensive Spending Reviews at Primary Care and POYC were completed in July 2017. The main recommendation at POYC was to review the processes that would increase the efficiency in the distribution of medicines to patients entitled to free prescription drugs. It was recommended to improve the connectivity with Mater Dei and open an outreach office at the hospital to reduce potential waste and the risks of duplication of prescription for patients in receipt of repeat prescription drugs. The review at Primary Care concluded that there is the capacity to increase the functions at primary care (including cardiology clinics and physiotherapy) and allow for patients to visit primary care rather than the hospital outpatients' clinics. This would reduce waiting lists for appointments at outpatient clinics at Mater Dei as well as reduce the costs since a visit to primary care costs less than a visit to outpatient clinics at Mater Dei. In the meantime, the implementation of decentralisation continues at Mater Dei Hospital.

A team to evaluate and monitor progress on the Spending Review's recommendations for Health and Education, has been established.

In January 2018, the review at the Management Efficiency Unit (MEU) was completed, with the aim to review its functions and roles in order to reflect improved policy implementation.

In April 2018, the Spending Review exercise shall focus on the Malta College for Arts, Science and Technology (MCAST).

### ***Further initiatives in the area of spending reviews***

A new directorate tasked with Public Sector Performance and Evaluation within the Budget Affairs Division of the Ministry for Finance (MFIN), has been set up. A director has been appointed and the institution building is underway, where a number of officers are expected to be recruited during 2018 with a view to start introducing the spending review function during this current year.

An extensive training programme, partly financed through the Structural Reform Support Programme (SRSP), will be carried out with the scope of improving human resource capacity through consultancy and training, by tapping into expertise in specific fields, depending on the core business of the Ministry involved. Attendance to conferences on the comprehensive spending review process will be further supported through financial assistance with the aim to contribute to the building of networks amongst peers, whilst disseminating knowledge.

The core functions of this directorate will further develop the introduction of Key Performance Indicators, Budget Measures and Simplification Measures that each Ministry is committed to, through the implementation of the Government Programme and the Budget. Furthermore, the following areas of activity of this Directorate will include the Comprehensive Spending Reviews; value for money assessments; standard costing; cost-benefit analysis; base-line costs; performance indicators; and programme evaluation capabilities.

### ***Fiscal Transparency Evaluation exercise (FTE)***

At the request of the Maltese Government, during 2018 Malta will undertake a Fiscal Transparency Evaluation (FTE) exercise in conjunction with the International Monetary Fund's (IMF) Fiscal Affairs Department. In line with Government's objective for effective fiscal management and accountability, this evaluation shall assist the Maltese Government to obtain a more in-depth assessment of public finances that substantiate economic decisions, including the costs and benefits of policy changes and potential risks to public finances. In particular, the FTE shall provide:

- A comprehensive assessment of national fiscal transparency practices against the differentiated standards set by the Code (the international standard for disclosure of information about public finances);
- Rigorous analysis of the scale and sources of fiscal vulnerability based on a set of fiscal transparency indicators;
- A visual account of national fiscal transparency strengths and reform priorities through summary heat maps; and
- A sequenced fiscal transparency action plan to help the Maltese Government address those reform priorities.

***CSR 2: Ensure the effective supervision of internationally oriented business by financial institutions, licensed in Malta in cooperation with the host supervisors in the countries where they operate.***

The European Insurance and Occupational Pensions Authority (EIOPA) has recently issued a Decision on the collaboration of the insurance supervisory authorities, which is applicable to all Member States. In accordance with this Decision, where the applicant intends to operate exclusively (or almost exclusively) in another Member State, the Malta Financial Services Authority (MFSA) engages with that Member State, even at application stage, in order to facilitate its understanding of the situation and the circumstances of the undertaking before the MFSA makes a decision on the authorisation. The Protected

Cell Company Regime, which regime is not available in other Member States, has been reviewed by European institutions and was found to be compliant with the Solvency II Directive.

With regards to European Union (EU) cooperation, the local supervisor makes use of the EIOPA initiatives for National Competent Authorities cooperation and also participates in various insurance groups including the EIOPA Colleges of Supervisors. Besides, there are regular cooperation meetings and/or conference calls with the host supervisors, in particular with those host supervisors where Maltese insurance undertakings carry out significant activities.

Following feedback from stakeholders to a consultation held in the second half of 2017, the Government of Malta proposed to amend the MFSA Act, to reflect the objective of reorganising the Authority by separately and clearly framing both roles of regulation and supervision in the financial services sector. Greater levels of efficiency and effectiveness of the MFSA were called for during the consultation, in line with the views of international authorities.

The amendments to the Act saw the creation of a Chief Executive Officer responsible for the MFSA's overall performance in terms of the achievement of its objectives and implementation of its strategy and policies as set out by the Board of Governors.

Moreover, the amendments clearly delineate the functions of the Registrar of Companies and the MFSA. This translated into better focus and streamlining in both the MFSA and the Registrar of Companies. In order to guarantee the MFSA's full and effective autonomy as a public institution, the annual budget of the MFSA will be submitted by the MFSA Board of Governors to a Parliamentary Committee which in turn will examine the estimates and report its findings for consideration by Parliament.

In December 2017, Malta transposed the fourth Anti-Money Laundering Directive (AMLD IV) into national law, which directive reflects and incorporates the latest Financial Action Task Force (FATF) Recommendations in the field of anti-money laundering and counter-terrorist financing. This directive has been transposed into Maltese law by virtue of amendments to the Prevention of Money Laundering Act, the enactment of new regulations ('The Prevention of Money Laundering and Funding of Terrorism Regulations' (PMLFTR)) under the said Act, and through the publication of various regulations intended to set up beneficial ownership registers for companies, trusts, associations, foundations and other legal entities.

The Prevention of Money Laundering Act provides for the setting up of a National Coordinating Committee on Combating Money Laundering and Funding of Terrorism composed of representatives from Government and other relevant national authorities. This committee, which will be set up and brought into force by means of regulations that will be published shortly under the said Act ('The National Coordinating Committee on Combating Money Laundering and Funding of Terrorism Regulations, 2018'), will be coordinating the development and implementation of a national strategy to combat money laundering, the funding of terrorism and the financing of the proliferation of weapons of mass destruction.

The revised Act continued to enhance the Financial Intelligence Analysis Unit's (FIAU) role in the fight against money laundering and the funding of terrorism, especially when it comes to cooperating and exchanging information with international counterparts and local authorities. Furthermore, the Act and the PMLFTR issued thereunder strengthened the FIAU's abilities to supervise and sanction breaches of AML/CTF preventative measures, and introduced heftier fines for such breaches.

Another distinctive characteristic of the new PMLFTR and AMLD IV, is the added emphasis placed on the carrying out of risk assessments by financial and gaming sector operators, other businesses and professions such as company service providers, real estate agents, lawyers and accountants, and the adoption of a risk based approach in the implementation of anti-money laundering requirements on their customers. Persons and entities subject to anti-money laundering requirements shall thus be required to have an understanding of the risks of money laundering and funding of terrorism that they are exposed to and to allocate their resources and efforts to combat money laundering and funding of terrorism more efficiently, focusing on the riskier clients and services.

Looking beyond our shores, the AMLD IV also establishes a policy towards non-EU countries that have deficient anti-money laundering and counter-terrorist financing rules, requiring enhanced measures to be placed on dealings with such higher-risk countries, which requirements are also transposed under the new PMLFTR.

The local anti-money laundering and counter funding of terrorism regime will be scrutinised by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), when it will be carrying out its fifth round of assessment of the Maltese regime in 2018.

Further initiatives, such as the Markets in Financial Instruments Regulation (MiFIR) and Markets in Financial Instruments Directive II (MiFID II), were transposed in 2017 and became applicable as from 2018. These frameworks strengthen the transparency and improve the functioning of the internal market for financial instruments through enhanced regulatory and supervisory convergence with respect to the requirements applicable to investment firms, trading venues, data reporting services providers and third country firms providing investment services or activities in the Union. The regulatory framework, as amended, shall improve transparency and supervisory oversight with the main changes inter alia including additional transaction reporting requirements and enhanced conduct of business rules.



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

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

### **4.1 Employment**

#### **4.1.1 National Target**

The Government was set to reach an employment rate of 70 per cent by 2020. This target has been exceeded as the employment rate (among 20 to 64 years old) stood at 71.4 per cent during 2017. The male employment rate rose by 0.9 percentage points, increasing to 84.1 per cent in 2017, while the female employment rate increased by 2.5 percentage points, to 58.0 per cent. The Government is committed to continue increasing labour market participation rates for all groups including females, young people, older workers and the long-term unemployed.

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

The Government continued to sustain its policies aimed at increasing labour market participation and has implemented various legislative measures and policy programmes designed to address this objective. Amongst others, several measures were introduced with the aim of increasing the labour market participation of women, mainly through the promotion of family-friendly measures and reducing the barriers to entry in the labour market. Through employment, vulnerable groups are also being empowered and enabled to enhance their financial independence.

In the meantime, the Government has continued to provide additional resources for education and training essential for the upgrading of skills for improving productivity and employability.

The promotion of flexible working arrangements, free early- and after- school care services, and the provision of free childcare and out-of-school centres are intended to encourage more women to enter the labour market. Unemployed persons, particularly women in receipt of social benefits and who returned or joined the workforce, benefitted from the tapering of benefits scheme. Furthermore, women in employment are now benefitting from an increase in the maternity leave while adoption leave has been aligned with maternity leave. Employees who undergo the process of medically assisted procreation are now also in receipt of paid leave. The Government has also set up a special fund to finance maternity leave in the private sector in a bid to decrease gender discrimination in employment. Furthermore, the In-Work Benefit scheme has been extended in the case of single-earner households with children. In January 2018 there were 2,684 claimants that have taken advantage of the In-Work Benefit scheme. Additionally, the personal income tax reform has incentivised women to enter the labour market as a result of reductions in the personal income tax rate.

In order to curtail abuse of the unemployment benefits and curb undeclared work, various actions were taken by the Law Compliance Unit within Jobsplus and the Benefits Compliance Directorate within the Compliance and Investigations Division. The revision of the law regulating Employment and Industrial Relations (EIRA) has been concluded and a number of proposals were put forward, thus ensuring that it remains relevant. In addition, the Department for Industrial and Employment Relations (DIER) recruited additional EIRA Inspectors to ensure that workers' rights are safeguarded.

The Government has also launched a number of programmes aimed at improving the employability prospects of specific disadvantaged groups. One of the schemes is the Access to Employment whereby employers receive a wage subsidy for hiring individuals who are furthest away from the labour market. In 2017, the Community Work Scheme was revised and will continue to improve further in 2018. This ensures that eligible participants who are at risk of becoming detached from the labour market will be formally employed and active. Through the Work Programme Initiative scheme, the Government is collaborating with the private sector in assisting the long-term unemployed and inactive to enter or re-enter the labour market.

The Government is also committed to integrate persons with disability into the labour market. Policy measures which were introduced and continued to be enforced in 2017 included the enforcement of an existing law stipulating that at least 2 per cent of the workforce of companies employing more than the full-time equivalent of 20 people must be people with disability, initiatives to increase work readiness for people with disability and to train employers to adapt the workplace accordingly. In addition to this, a budgetary measure was introduced, whereby people with disability joining the labour market would continue receiving the disability pension in full. The Government is seeking to continue promoting the employability of persons with disability through fiscal incentives offered to employers, including through exemptions on the Social Security contributions and tax credits.

Addressing skills and labour shortages and upskilling of the labour force are other important priorities for the Government. Investing in education and training is essential to upgrade skills of workers and improve productivity, employability and adaptability. Educational institutions are continuously ensuring that the courses offered are attractive, relevant and address the needs of the labour market. Other ongoing programmes, such as the Youth Guarantee NEET Activation Scheme II, the LEAP Education Project and the National Apprenticeship Scheme aim to facilitate the progression from education or inactivity to employment. In 2016, Agency SAPPOR started operating the Job Enhancing Skills Scheme, also referred to as JESS. This scheme aims to strengthen the abilities of persons with a disability by offering job opportunities and training to develop new skills thus increasing possibilities of seeking gainful employment. In 2017, the Skills Aid Scheme was introduced to promote the training of persons that are already active within the labour market.

## **4.2 Education**

### **4.2.1 National Targets**

The Government retains its commitment of reducing the early school leaving rate to 10 per cent by 2020 while the provisional rate for 2017 stood at 18.8 per cent. In addition, the target rate for completion of tertiary education is 33 per cent by 2020. Provisional estimates for 2017 indicate that the rate stood at 30.5 per cent.

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

In July 2017, the National Skills Council set up a sub-committee with the scope of identifying a workable approach to address identified digital skills mismatches and related issues in Malta and draw a report analysing the situation and provide a set

of recommendations to address the problem. The financial allocation to the National Commission for Further and Higher Education (NCFHE) was increased in order to enable the institution to fulfil its regulatory function in education more effectively. In 2017, NCFHE has registered a total of 135 training providers in Malta, published guidelines for the accreditation of online (digital) and blended programmes and promoted multiple routes of lifelong learning.

Additional courses have been launched to encourage more students to further their studies including in fashion design, journalism studies and maritime. The Alternative Learning Programme - an alternative learning pathway designed for students exiting compulsory education - offered a wide range of courses during scholastic year 2017/2018.

The maintenance grants of higher education students are considered crucial to increase the number of graduates. Mature and foreign students who are registered and accepted to follow a full-time day course in higher education institutions are now also eligible for the grant. Furthermore, in order to encourage more students to take up a veterinary career, the Government is providing additional financial support. In the case of students residing in Gozo, the annual allowance of €1,500 has been extended to Gozitan students attending private institutions for higher education in Malta. In addition, the thresholds of student income with respect to their eligibility for supplementary assistance were revised in order to better assist families with low-income and students facing social problems.

As from the academic year 2017/2018, individuals aged less than 40 years who pursue a post-graduate course are exempt from paying income tax for two years. In addition, the Get Qualified scheme has been enhanced to include financial support for students wishing to pursue a vocational study programme, whereby, upon successful completion, students benefit from a tax credit.

As part of the second phase of the Tablets in Primary Schools for Teachers and Students, the cohort of Year 4 (2016-2017) students who are now in Year 5 (2017-2018) kept their tablet, while teachers and Learning Support Assistants (LSAs) received the necessary training in summer 2017. WIFI is now available in all Year 4 and 5 primary classrooms, ensuring that the 'One Tablet per Child' project operates more effectively.

In 2017, the project 'Schools as Community Learning Spaces' was piloted at the Valletta Primary School and will be further extended to other schools in 2018. This programme aims to increase the supply and the rate of participation in learning by less qualified parents, guardians and community members.

### **4.2.3 Planned New and Extended Measures**

The MATSEC and Sec Examination Fees shall be waived over a period of two years with the scope of relieving the financial burden on low-income households whilst supporting Government's efforts to reduce early school leaving. A fourth call for applications of the Paid Study Leave Scheme covering Scholastic Year 2018/2019 has been issued offering officers in the education stream the possibility of utilising up to one scholastic year of paid study leave.

European Union (EU) funds and local funds have been awarded for the refurbishment of the Vocational Education and Training (VET) laboratories in public secondary schools.

The Faculty of Education within the University of Malta has opened a course for the teaching of Vocational subjects. New vocational subjects are planned to be introduced in schools in the third quarter of 2019 while the work of the second phase on the new Campus at MCAST has commenced. Launched in 2016 'My Journey: Achieving through different paths' shall be introduced and phased in scholastic year 2019/2020. The new secondary schooling system includes the provision of general academic education, vocational education and training, as well as applied learning.

Under the Connecting Business and Education initiative, key stakeholders hailing from different sectors will discuss ways and means of addressing any skill gaps and thus ensure that more bridges between education and industry, are built. In addition, an agreement between the Malta Financial Services Authority and the Ministry for Education and Employment sees that, for a period of two consecutive years, short-term Scholarships at advanced level will be provided in order to address the existing skill gaps in Malta's Financial Services Sector.

The Quality Assurance (QA) Unit within the NCFHE is currently conducting the first External Quality Assurance audits. In the coming two years, as part of the project 'Consolidating Quality Assurance and Validation in Higher Education in Malta', the QA Unit shall also be updating the National Quality Assurance Framework for Further and Higher Education.

The Government will be sustaining the arrangement with Cambridge University to strengthen the use of the English language. Furthermore, it will continue to encourage more children to study languages through more attractive programmes and will also enhance learning of all foreign languages through the application of the Subject Proficiency Assessment. In 2018, the National Literacy Agency (NLA) in collaboration with University College London, will start training educators from the College Literacy Teams as reading recovery teachers and reading recovery teachers leaders in Malta. The Reading Recovery (RR) is an accredited school-based literacy programme for the lowest achieving children aged five to six.

Furthermore, the Government has agreed to a new five year sectorial collective pay agreement that focuses and awards the professional development of the teaching grades. The agreed financial and progression packages offered in the agreement should encourage more students to pursue a teaching profession. Currently, around 7,000 teaching professionals are benefiting from this agreement. Within the Design of Learning Outcomes Framework, a total of 48 Learning and Assessment Programmes were developed with the collaboration of 200 local curriculum experts. Seventy educators were trained to provide professional development advice to other teachers.

## **4.3 Climate Change and Energy Targets**

### **4.3.1 National Targets**

The Government is committed to raise the share of energy from renewable sources in gross final energy consumption to 10 per cent (estimated at 6.0 per cent in 2016). The Government is also committed to raise the proportion of renewable energy used in all forms of transport to 10 per cent by 2020 (estimated at 5.4 per cent in 2016). Malta's gap between 2015 inventory emissions and the 2015 binding target (2015 annual emission

allocation pursuant to Decision 2013/162/EU) is +11.65 per cent, whilst the gap between 2020 projected emissions and the 2020 binding target (2020 annual emission allocation pursuant to Decision 2013/162/ EU) is +12.94 per cent. In this regard, Malta is seeking to mobilise flexible instruments in order to meet its interim targets of actual emission for 2015.

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

The Government is committed to address issues that might have a long-term impact on climate change, whilst guaranteeing a reliable supply of energy and a well-connected transportation network. The Government is currently in the process of drafting a number of plans and strategies, which will ensure that the climate and energy targets are achieved.

An inter-ministerial committee has been set up to draft the National Energy and Climate Plan for 2021-2030. This document will outline how Malta intends to achieve the national binding target of -19 per cent level of Greenhouse Gas (GHG) emission reduction in 2030 in relation to 2005 levels, as well as Malta's national contribution towards the EU-level targets for 2030 in relation to renewable energy and energy efficiency.

A vision document for the development of Malta's Low Carbon Development Strategy has been prepared in order to determine the most cost effective process towards low carbon development. Several submissions were received during the 8-week consultation period, launched in May 2017. These will feed into the process of drafting this strategy.

During 2017, the second National Action Plan on Green Public Procurement (GPP) 2018-2020 was launched, setting out targets for 14 product and service groups, whilst adopting a more comprehensive approach for public procurement procedures. New initiatives include greening procurement instruments; greening award criteria; pooling of green advisory experts; training and constant refresher courses; incentivising local councils through award schemes; greening EU funding; green finance; post-procurement auditing and enhancing the role of the Ministry GPP coordinator.

The review of the Green Economy Action Plan, designed to scale up Malta's efforts to promote green economy principles in line with EU and international strategies, has identified a lacuna in relation to greening financial instruments for green investments. In this regard, the Government is currently in the process of awarding a contract for a feasibility study, which will ultimately result in recommendations as to how the Maltese financial system can cater for green investments in the most effective and efficient way.

The shift towards more efficient and eco-friendly power generation has continued during this past year, with the new 215MW combined-cycle gas turbine power plant operating since March 2017 and the completion of ancillary infrastructure, including the regasification unit and jetty. The Government will continue working on the gas pipeline project which will connect Malta to the European Gas Network. Following a study completed in 2017, which identified the optimal route, a preliminary marine route survey will be conducted in 2018. This project was awarded €3.68 million for the financing of the studies to be undertaken in the next two and a half years under the Connect Europe Facility. These include the environmental impact assessment/permitting studies, a preliminary marine route survey, front-end engineering design and the financial

engineering. The first tenders for specialised consultants were launched and awarded. The project was also re-confirmed as a Project of Common Interest (PCI) in the 3<sup>rd</sup> PCI list issued by the European Commission in November 2017.

In order to expand its capabilities to produce affordable solar electricity, the Government will be installing solar farms on reservoirs resulting in a total power rating capacity of 2MWp by the first quarter of 2019. In addition, the Government is developing a partnership with private enterprises, with the aim of developing solar farms on property owned by Government or its entities for a total of 1MW of alternative energy per annum each.

Families, who do not have access to a roof, can invest in communal solar farms. The scheme, which was launched in October 2016, allowed households to invest in virtual photovoltaic (PV) ownership. Work on the first communal solar farm installed on the Fiddien Reservoir is at an advanced stage, with households already benefiting from such a scheme. This scheme was fully subscribed within a few days.

At a household level, the Government extended the scheme promoting domestic PV until the 29<sup>th</sup> June 2018, with grants of up to 50 per cent of the capital cost being capped at €2,300. A total of 5,292 beneficiaries benefitted from this scheme during 2015 and 2016. Schemes on the purchase of solar water heaters, roof insulation and double glazing, and feed-in tariffs have also been extended. By the end of 2017, 9,538 families have benefitted from the solar water heaters scheme, while 1,830 families benefitted from the roof insulation and double-glazing scheme.

Further investment, amounting to more than €2 million, will be directed towards the improvement of the Reverse Osmosis plants with the aim of reducing electricity consumption. It is expected that the implementation of Phase 1 will be completed by end of 2018, while Phase 2 is expected to be completed by mid-2019.

The Energy and Water Agency (E&WA) and the Malta Business Bureau (MBB) launched a scheme encouraging enterprises to enter into a voluntary agreement to implement various energy efficient measures. To date, 23 enterprises have joined the scheme.

A framework for the training and certification of energy auditors and energy managers has also been established, resulting in the certification of 72 energy auditors and 11 energy managers. The E&WA is also offering home visits to households interested in advice on energy and water efficiency. In addition, the Government is seeking to replace old inefficient appliances for vulnerable households.

The Government has continued to invest in the transport sector to enhance energy efficiency and reduce emissions.

Meanwhile, work on the re-development of the Kappara Junction has been completed and officially inaugurated in January 2018, while works on the development of a multi-level Junction at Marsa started in November 2017. Another measure aimed at reducing congestion is the introduction of a tidal and smart traffic management system at Paola. The measures will contribute towards the elimination of bottlenecks and an improved traffic flow during traffic peaks. This is expected to have ripple effects on the journey time of public transport and hence may encourage more people to use this service instead of their private cars.

The public transport sector invested in 28 new Euro VI buses in 2017, whilst continuing to enhance the road network and make available a better level of information to passengers. In addition, the measure introduced during 2017 whereby persons who turned 18 during the year could travel for free on public transport, has been extended in 2018 to include persons between the ages of 16 to 20 years. As a result of these measures, an increase of 11.4 per cent in passengers was registered in 2017, when compared to the previous year.

With regards to the completion of the upgrading of the access network for the port of Valletta, investment on the TEN-T core port of Valletta is ongoing. The first phase of the refurbishment and upgrading of the Deep Water Quay (DWQ) has been completed, while the second phase to expand the DWQ for large cruise liners is planned to commence in 2018. Other infrastructural development projects planned to start in 2018-2019 include the development of three existing and new landing places for commuter ferries funded by European Regional Development Funds (ERDF), as well as landing places for the Gozo-Malta fast ferry. Investigations on the feasibility of a tunnel between Malta and Gozo are currently ongoing, with tests being carried out on some of the cored samples.

A study is currently underway to evaluate the introduction of a Mass Rapid Transport Systems (MRT) for Malta. The study includes an options analysis of all possible MRT solutions, including light rail. The best option has already been identified and now the study is looking into the details of this option. The study is to be completed by 2018.

The promotion of environment friendly vehicles remains an important priority for Government. A Financial Grant Scheme divided into four sub-schemes is currently in place to promote electromobility, whereby the first sub-scheme covers three possible grants to choose from, notably addressing the promotion of M1 or N1 electric vehicles. The highest of the three possible grants in the first sub-scheme is tied with a scrappage scheme for an older Internal Combustion Engine (ICE) vehicle. The second sub-scheme addresses electric quadricycles (L7e), the third sub-scheme is intended for the promotion of electric motorcycles/moped/tricycles while the fourth sub-scheme is intended to promote the uptake of Pedelec. A grant for the upgrading of electric vehicles and new plug-in electric service garages of electric vehicles importers and vehicle leasing operators is also in place. These measures aim at increasing the national electric vehicle fleet so as to contribute to Malta's national targets with respect to energy efficiency, climate change and air quality.

The biofuel substitution obligation, requiring importers and wholesalers of petrol and diesel to place a pre-determined amount of biofuel on the market during 2017 has reached 7.5 per cent in 2017. The enforcement of this obligation will be ensuring that Malta remains on track to meet its 2020 target on renewable energy in transportation. In the 2018 Budget, the Government extended the autogas conversion scheme. In 2017, 220 vehicles benefitted from this scheme.

The tax rebate for parents making use of school transportation has also been extended for this year. As from October 2018, school transportation will be available for free to all students in both public and private schools. The bicycle and pedelec bicycle grant and the grant for the installation of bicycle racks by companies and organisations were renewed for 2018. During 2017, there were nearly 2,000 eligible applications. In addition, a grant has been allocated to encourage private companies to invest, on a 50:50 co-financing basis, in secure parking for their employees who use bicycles as the mode of

commuting. A further amount has been allocated for Local Councils to invest in initiatives promoting secure cycling within the local community. A lower VAT rate on bicycle rental has also been implemented in order to encourage its use.

Transport Malta is allocating three exclusive public car parking spaces per vehicle put into service by the operator, which will be used exclusively by the operator. The operator is bound to provide the service from a mandatory number of locations as expressed in the tender document. The concessionaire will include a fleet of 150 full battery electric vehicles (EV) and a network of EV charging infrastructure. Car sharing users will be able to pre-book a car from any of the designated locations through a mobile application. It is expected that the service will come into force in October 2018.

## **4.4 Research and Innovation**

### **4.4.1 National targets**

In 2013, Malta's national gross domestic expenditure on research and development (GERD) target envisaged within the Europe 2020 Strategy was revised from 0.67 per cent to 2.0 per cent of GDP by 2020. According to provisional figures by Eurostat, Malta recorded a provisional GERD of 0.61 per cent of GDP during 2016.

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

The Research and Innovation (R&I) funding unit within the Malta Council for Science and Technology (MCST) administers FUSION, a national funding programme that supports Research and Innovation. FUSION is composed of two programmes, the Commercialisation Voucher Programme (CVP) and the Technology Development Programme (TDP). The CVP is aimed at improving the development and commercialisation potential of innovative research ideas whereas the TDP supports the actual development of innovative projects proposed by public and industrial entities. In 2017, the CVP continued to develop further interest with 16 beneficiaries being funded through two calls, whilst seven proposals were awarded TDP funds following successful completion of the CVP. Moreover, there were three awards for Initial Patent Application and one award for Business Plan as a result of the further commercialisation-preparedness support to the beneficiaries through the R&I funding unit. In 2018, the R&I unit plans to increase both the number of CVP and TDP funded projects. In fact, a total of 12 CVP projects have already been awarded for the 1<sup>st</sup> CVP Call, another 12 are envisaged to be awarded for the 2<sup>nd</sup> CVP Call. A minimum of 4-6 TDP Projects will be awarded for each TDP Call in 2018.

The Centre for Entrepreneurship and Business Incubation (CEBI) was set up with the aim of strengthening the concept of entrepreneurship at the University of Malta. By the end of 2017, 100 students obtained a Masters qualification in the Entrepreneurship programme, with a high number of students proceeding in setting up their own business ventures. Moreover, the TAKEOFF incubator based within the CEBI at the University of Malta is Malta's leading technology business incubator specifically designed to help incubatees create successful STEAM (science, technology, engineering, arts and media), knowledge-based, start-up enterprises. TAKEOFF provides a broad range of services across the business community and does not only focus simply on 'start-up' but also on sustainability and success of the enterprises. TAKEOFF also made its proven mentoring programmes available to the wider community including charities and Voluntary Organisations, and in 2017, TAKEOFF undertook over 900 hours of mentoring, supporting

around 90 enterprise founders. In 2017, TAKEOFF managed the Maritime seed fund award (MARSA) and the TAKEOFF seed fund award (TOSFA) on behalf of Ministry for Economy, Investment and Small Business (MEIB) and Malta Marittima agency.

The Malta Marittima Agency, together with the University of Malta, launched the Maritime Proof of Concept in 2017, which aims to aid and financially support researchers and entrepreneurs to take their maritime-related technology or business innovative idea one step further towards commercialisation. In 2017, seven researchers and entrepreneurs were awarded seed funds under the Maritime Proof of Concept and further calls are planned for 2018.

MCAST, as a higher educational institution, aims to build solid grounds in Research and Innovation. Thus, MCAST introduced a Research Framework and set up a Research Committee with the aim to improve the level of teaching through relevant research and to create a dynamic environment that encourages an active knowledge transfer between academics and students.

The Malta Information Technology Agency (MITA) Innovation Hub, which was set up in 2014, is acting as a hub to synergise the efforts of various parties aimed towards ICT-themed research and technological development, idea-generation, incubation and open-innovation. It aims at stimulating digital entrepreneurship whilst also serving as a showcase for locally nurtured innovations and locally developed ICT products and services. The MITA Innovation Hub launched the first accelerator programme branded 'YouStartIT' which will fund and support up to 45 start-ups during the period 2016 to 2020 with the aim to provide seed investment to partly fund the best start-ups. Up until the end of 2017, 11 start-ups were funded under this programme.

Through the Horizon 2020 (H2020) Unit, MCST will assist and support local researchers from both public and private entities by giving specialised advice and guidance about the Horizon 2020 Programme. The Unit will identify opportunities for local researchers in H2020 open calls and raise awareness through circulation of information and promotional events including one-to-one meetings and information sessions for potential participants. The unit will also provide support at all stages, starting from proposal preparation right through project implementation, by providing assistance on financial reporting and any other administrative procedures as required by the researchers/entity.

A Government-owned company has been set up to run a Joint Innovation Centre (JIC) following a Memorandum of Understanding signed in 2016 between the Government of Malta and Huawei Technologies (Italia) for strategic cooperation with the focus area being 'Safe City'. Safe City refers to technologies used for public safety in cities and surveillance management. Discussions are currently underway with potential stakeholders interested in working with JIC on a proof-of-concept related to public surveillance.

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

### **4.5.1 National Targets**

The reduction of poverty and the promotion of social inclusion are key issues within Malta's political, social, economic and cultural context. Malta's target is to lift around

6,500 people out of the risk of poverty and social exclusion by 2020. Against this scenario, the Government is committed towards alleviating poverty and social exclusion while also enhancing the prospects of society in general and of the most vulnerable persons. In this regard, the Government has implemented specific programmes and launched a series of initiatives addressing the four main factors which lead to poverty: unemployment, low income, retirement and disability or sickness. At 20.1 per cent, the at-risk-of poverty or social exclusion (AROPE) indicator registered a decrease of 2.3 percentage points when compared to 2015 levels. The AROPE indicator provides the share of persons who are either at-risk-of-poverty, severely materially deprived or residing in a house with low work intensity (applicable only for persons aged 0-59).

## **4.5.2 Policies to achieve the targets**

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

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

The Government is sustaining its efforts to ensure adequate and sustainable pensions for current and future pensioners, as addressed in the ongoing pension reform process. The aim is to improve the current system primarily by strengthening further the first pillar and through the introduction of incentives pertaining to third pillar pensions.

In the 2018 Budget, the Government increased pensions, both contributory and non-contributory, and raised the ceiling on which income from pension is tax exempt. As from 2018, pensioners who are 65 years or older will also have their pension adjusted to take into consideration the National Insurance contributions paid after pensionable age. Furthermore, retired pensioners who are less than 65 years of age and are self-employed or work part-time, will be able to pay the National Insurance contribution pro-rata at a 15 per cent rate instead of the full rate. Elimination of gender discrimination in pension rates was also affected as from 2018, whereby the same rates are now paid to male and female pensioners.

With the 2018 Budget, there was an extension of both the increased carers and the carers allowances benefit. An additional allowance of €8.15 per week for every other family member is given if the married person loses his or her right to social assistance when entitled to the increased carers' allowance. This measure will support care-givers and help relieve the pressure on formal long-term care in institutions.

The Government continued to address the exclusion challenges of disabled persons. Amongst the measures implemented, Government launched housing for persons with disability. Through this project, the first ten residential homes in the community for disabled persons will be developed. This project, which was spread over a period of three years, will be completed by May 2018. Schemes to support home adaptation works were also launched whereby financial aid and technical assistance are provided to persons with disability to carry out the necessary adaptations to their place of residence. In addition, a Personal Assistant Fund was launched in 2016.

Progress was also registered with respect to the better representation of persons with a disability on Government boards/committees/commissions. This measure will ensure that persons with a disability contribute to the policy direction of these Government structures and that the best interests of persons with a disability and their families are safeguarded in the policy process.

The Government extended the renewal period of free medical aid for disabled pensioners to one year instead of three months. In order to streamline the means test for free medical aid, the capital threshold means test is the same as that applicable for the non-contributory benefits means test. This measure will increase the capital threshold for married and single beneficiaries, thus more persons will qualify for such a benefit. This measure was completed during the first quarter of 2017. There were 846 beneficiaries up to 31<sup>st</sup> December 2017.

One of the measures pertinent to the disability pension reform enacted in the 2017 Budget focused on strengthening the three-tier payment system in which payment varies according to the degree of disability, by increasing the allowance in certain tiers and extending eligibility.

### ***Families and Adolescents***

Government is strengthening support services to jobless households with a view to provide a more accessible and holistic service to those at risk of poverty, those in poverty and those who are facing social exclusion. Community-based projects continue to target teens and adults with the scope of enhancing their skills and facilitating their integration in the community/society. Particular, albeit not exclusive, attention is given to single mothers.

Other projects target children and young people. The respective services combine recreation with education and informal social skills training to increase socialisation and inclusion in a healthy and participatory way. The projects implemented during 2017 focused on skills training (formal and non-formal) and mentoring – targeting mainly adults and young people to increase confidence, take more control of their economic and financial situation, and, when possible, enter the labour market.

Furthermore, in the Budget for 2018, it was announced that those selling their first residence to purchase another one, can benefit from a stamp duty refund of up to €3,010, and in the case of a person with a disability, this benefit increases up to €5,250. This benefit is only eligible for those that do not have any other residential property.

In addition, in the Budget for 2018, an investment of €53 million for the provision of affordable housing units has been approved and a new company, Housing Projects Management Unit (HPMU), has been set up. The Housing Authority continued to carry out repairs and embellishment works in housing estates. In this regard, following the continuation of regeneration and maintenance of housing estates, various projects were completed, while works in other 42 blocks in seven different localities are in progress or will start soon. Additionally, the Government, through ERDF co-financing, will be installing lifts in around 109 blocks by year 2021, whilst also embellishing the common parts of these blocks.

Furthermore, the Budget for 2018 announced that there shall be a continuation in the social loans for house ownership. It has also been announced that the Government will raise the thresholds underpinning the rental subsidy scheme such that those aged 65 years and over can also benefit from this scheme.

An Equity Release Working Group was set up to draft and develop proposals on how to introduce Equity Release products in Malta. Currently there is no formal home equity

market in Malta that is properly regulated. Some retired persons release value from their property by downsizing their residence. Others enter into arrangements with private providers of residential homes for the elderly and pay for such services by bartering their property. Others prefer to remain living in their homes but are struggling to maintain their living standards and mainly rely on their state pension as their principal source of regular income.

For such retired persons, the development of regulated Equity Release (ER) financial products could provide a realistic solution enabling them to better enjoy their retirement in their own home whilst releasing part of the equity built over the years in the residences.

On the 28<sup>th</sup> April 2017, an agreement was reached on the remuneration paid to employees on a minimum wage. Upon completion of the first year of employment with the same employer, these employees will be entitled to a mandatory increase of €3 per week, in the second year of employment and upon completion of the second year, they will be entitled to an additional €3 per week. Employees earning more than the basic minimum wage will still be entitled to the portion of the increase mentioned above during the second and third year of employment. For the years 2018 and 2019, the weekly cost of living allowance will be supplemented by an additional €1 increase each year. Through this agreement, a delicate balance was reached between the poverty concerns surrounding low-income pay as well as the need to ensure that the economy remains competitive.

In addition, refund on personal income tax introduced to those earning less than €60,000, has come into force as from 2018. This is calculated on the gross income paid by the employee during the previous year. This refund will also be received by those who do not pay tax on employment income, while those who earn less will benefit from the highest refund, with the aim of reducing the tax burden for low-income individuals and households. The reduction in tax burden will benefit almost 200,000 taxpayers.

In addition, through the In-Work Benefit scheme, additional income is provided to families with children who are in employment and are on low income. In the 2018 Budget, Government announced that for married couples of whom only one is gainfully occupied, the highest rate of In-Work Benefit will be increased from €350 to €450 per child, while the lowest will increase from €52 to €75 per child. This measure is expected to lessen dependency and to attract more social benefit beneficiaries into employment. Together with other measures, it will therefore contribute to further reduce the at-risk-of-poverty rate.

## **4.6 Other Measures**

Towards the end of 2015, the Directorate for Human Rights and Integration was set up. It embarked on an EU funded project which led to the drafting and launching, on 15 December 2017, of the Migrant Integration Strategy & Action Plan (Vision 2020). This strategy and action plan should address the difficulties posed by social exclusion and bring about an improvement in the relationship between Maltese and foreign communities.

## **5. European Union Funds and Other Reforms**

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## **5. European Union Funds and Other Reforms**

This chapter outlines the Government's strategy on the European Union (EU) Funds and their relevance to structural reforms. Furthermore, this chapter will also analyse other structural reforms that are unrelated to country-specific recommendations (CSRs) but are nonetheless important for the business environment, the economy and public finances.

### **5.1 EU Funds**

Economic growth and the creation of more and better quality jobs are the main focus of the European Strategic and Investment Funds (ESIF). In recent years, Malta made a quantum leap both in terms of the development of physical infrastructure as well as through investment targeting human capital. In fact, the country has undertaken important investments in key strategic areas including competitiveness, the environment, education and health provision, social welfare, agriculture and fisheries.

Investment will continue to be directed towards a number of key areas in line with the Europe 2020 targets, as well as fund-specific missions. This will continue to enhance environmental sustainability, social well-being and a healthy society, while also promoting competitiveness through economic development and job creation.

Malta's Partnership Agreement sets out an assessment of the national development needs and defines the priorities for the use of the ESIF, that will help Malta achieve its socio-economic goals as well as contribute towards the agreed Europe 2020 targets over the programme cycle. The 2014-2020 programming period will provide the opportunities for the Maltese economy to continue fostering the right environment for economic growth, job creation and the making of a society that is more inclusive. Within this context, the Partnership Agreement has identified the following three funding priorities: Fostering competitiveness through innovation and the creation of a business-friendly environment; Sustaining an environmentally-friendly and resource-efficient economy; Creating opportunities through investment in human capital and improving health and wellbeing.

The Partnership Agreement is being implemented through the various Operational and National Programmes financed through the ESIF. The implementation of such Programmes, covering ERDF, CF, ESF, EAFRD and EMFF funds, is expected to contribute towards the Europe 2020 targets whilst taking into account the relevant CSRs. Measures that are currently underway include investment for the development of Small and Medium-Sized Enterprises (SMEs), environment, ICT, agriculture, fisheries as well as education and training, amongst others.

### **5.2 Additional Reform Measures and the use of Structural Funds**

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

The Digital Agenda for Europe represents the EU's objective leading towards the maximisation of the social and economic potential of ICT through high-speed internet and interoperable applications. At this stage, EU funds have been secured for a feasibility

study on the need for a submarine cable to mainland Europe. Malta has also secured further funding through the Connecting Europe Facility (CEF) for the BeSmartOnline4 Project.

The Digital Malta Strategy, which stemmed from the Digital Single Market Strategy is currently being adopted in order to increase competitiveness and boost the attractiveness of the local industry. The aim of the strategy is to transform Malta into a digitally-enabled nation. The strategy outlines three main strategic themes: Digital Citizens, Digital Government and Digital Businesses with three strategic enablers in legislation, human capital and infrastructure. The approach seeks to promote more start-ups, foreign investment, enable strategic alliances, encourage angel investment and nurture niche service providers. Business is encouraged and supported to exploit (i) the opportunities of the European Digital Single Market, (ii) Malta's strategic location in the Mediterranean, with ready access to the European and North African markets, (iii) Government's strategic alliances with foreign ICT organisations and (iv) opportunities to expand into new or bigger markets. To date, Malta has already achieved the first two targets of the Digital Agenda for Europe related to broadband (100 per cent basic coverage by 2013 and 30Mbps broadband coverage by 2020).

Malta also seeks to maximise the benefits and opportunities deriving from legislation adopted within the EU, including the Data Protection Framework, the Electronic Identification and Trust Services Regulation, the Information Society Directive, the Regulation concerning the European single market for electronic communications and achieving a Connected Continent. Malta will also strive to foster a regulatory environment that is forward looking and technology-neutral providing the needed flexibility to help stimulate innovation.

During 2014, the eSkills Malta Foundation was set up as a multi-stakeholder initiative that recognises synergy of action between Government, education and industry, focusing on enhancing the ICT skills that are fundamental for Malta to sustain a Digital Economy. The Foundation follows and participates in various EU-led policies, guidelines and initiatives, and in this respect, it is the recognised national contact point for Malta for the Digital Skills and Jobs Coalition. The future for the eSkills Malta Foundation is to continue working on its objective to increase the digital capacity and digital skills in Maltese ICT practitioners, labour force and the citizen, foster and promote the ICT professional ethics and standards and implement an annual national eSkills plan in line with local needs. All this will be complemented by sharing best practices from other similar European coalitions, thus actively contributing to the Digital Single Market.

### **5.2.2 European Platform against Poverty**

The reduction of poverty and the promotion of greater social inclusion are key policy objectives within Malta's political, social, economic and cultural milieu. Against this scenario, the Government is committed to continue reducing the number of individuals at risk of poverty and social exclusion while also enhancing the wellbeing of society in general, especially for members of the most vulnerable groups.

This national commitment is reflected in the National Strategic Policy for Poverty Reduction and for Social Inclusion (2014-2024) that was launched by the Government in December 2014. This strategic policy presents six dimensions that are vital for promoting

well-being, namely: income and social benefits; employment; education; health and environment; social services; and culture. The Ministry responsible for implementing the strategic policy, set up an Inter-Ministerial Committee (IMC) which brought together the key Ministries covering the six dimensions.

This ongoing coordination led to the drawing up of an 'Implementation and Evaluation Report 2014-2016' launched on 23<sup>rd</sup> November 2017. This report presents a review and evaluation of the developments addressing the actions emanating from the National Strategic Policy for Poverty Reduction and for Social Inclusion between 2014 and 2016. Moreover, the report also measures development through statistical analyses arising from a review of general economic and living conditions indicators published by Eurostat and the National Statistics Office (NSO) as well as through in-house statistics compiled by different Ministries.

The Government has also implemented a series of budget measures aimed at reducing the risks of poverty. The measures targeted the four main categories of people that are at risk of poverty: the unemployed, persons on low income, the elderly, and disabled persons and persons who suffer from severe or chronic sickness. These measures were explained in section 4.5 in Chapter 4.

### **5.2.3 Innovation Policy**

Malta continued implementing initiatives which aim to drive growth through innovation by strengthening its knowledge base, supporting viable ideas to reach the market, making good use of Structural Funds for research and innovation as well as joining efforts nationally and with partners abroad.

Being an effective player in the European Research Area (ERA), and contributing to its realisation, remains an important goal of Malta's R&I agenda. The national R&I system is in line with the principles underpinning the ERA vision, and Malta has actively sought to encapsulate the ERA dimension and what it means for small countries through its national ERA Roadmap, which was completed in April 2016. The National ERA Roadmap complements Malta's national R&I Strategy 2014-2020, which was approved by Cabinet in February 2014. The ultimate goal of this strategy remains that of embedding research and innovation at the heart of the Maltese economy to spur knowledge-driven and value-added growth and to sustain improvements in the quality of life.

The mission of this strategy is that of providing an enabling framework for achieving this vision, building on past achievements as well as lessons learnt. This in turn depends on establishing the necessary 'building blocks' including a comprehensive R&I support ecosystem, a stronger knowledge base and smart, flexible specialisation. Malta's approach to R&I remains strongly business oriented and focused on close to market research and transition to innovation. Supporting the route from ideas to market in a holistic manner is a prime goal of Malta's new R&I Strategy. Within this context, industry-academia collaboration, support to private sector investment and effective transfer of knowledge are of crucial importance in making sure that good ideas and research efforts yield the desired results. Following the finalisation of the National R&I Strategy, Malta embarked on the preparation of an R&I Action Plan in order to map out the operationalisation of the R&I Strategy and the monitoring of its implementation. Malta's finalised R&I Action Plan was approved by the European Commission in October 2016.

Business-academia collaboration is also the focus of dedicated efforts through the Technology Transfer Office (set up within the University of Malta (UoM) in 2009) which picked up significant pace since September 2012.

The Centre for Entrepreneurship and Business Incubation (CEBI) was launched in May 2013 as a centre of excellence in entrepreneurship at the UoM. The programme focused on educating prospective entrepreneurs and intrapreneurs. In addition, there are now plans in place to launch a doctoral programme which may also extend research to cover business and the self-employed where it overlaps with entrepreneurship, intrapreneurship and enterprise.

The Malta College of Arts, Science and Technology (MCAST) has also introduced entrepreneurship as a key skill across the Foundation, Technical and University Colleges. Students are not only receiving knowledge in relation to the typical operations of an enterprise but are encouraged to turn ideas into business proposals, which are then evaluated. Any promising ideas and proposals are subsequently developed within the MCAST Entrepreneurship Centre (MEC), which provides students and alumni with the opportunity to transform creative and innovative ideas into profitable and sustainable business ventures.

Malta has continued its proactive support for, and participation in, Euro-Mediterranean initiatives, including ERANET-MED (ending in March 2018) and ARIMNet2 (ended in October 2017). Successful projects with Maltese beneficiaries that came up with these initiatives are currently in progress. Furthermore, Malta is actively participating in the Partnership for Research and Innovation for the Mediterranean Area (PRIMA). In this regard, Malta aims to support regional projects in RDI by committing €500,000 per year for the next 10 years to the PRIMA initiative. At the local level, Malta continues to support Maltese researchers and industry players to participate in cross-border collaborative R&I activities through grants and the establishment of bilateral agreements with international organisations.

Finally, the eSkills Malta Foundation currently supports and complements initiatives regarding digital innovation and start-ups. Examples of these include 'The Million Dollar Idea' run by the ICT Student Association, Web Entrepreneurs run by Ascend Consulting, and others.

#### **5.2.4 Training for Employment**

A European Social Fund (ESF) project entitled 'Training for Employment', headed by Jobsplus, includes a number of initiatives with the aim to facilitate access to employment through the development of skills and competences. These initiatives include the Work Placement Scheme, Work Exposure Scheme, Traineeships, Training Pays Scheme, Occupational Handbook, and Study on Arduous Jobs.

The Work Placement Scheme aims to provide training to participants reading for a course offered by Jobsplus, which includes on-the-job training. The Work Exposure Scheme is intended to facilitate transition into employment by providing individuals with initial hands-on training that helps them obtain the knowledge, skills and competences required to find and retain employment. This scheme is designed to mirror contemporary

labour market demands, whereby the jobseekers' job preferences are matched with employers' needs.

The Traineeship Scheme's primary objective is to provide jobseekers with initial vocational training (pre-employment training) that will help individuals obtain the knowledge, skills and competence required to find and retain employment. Traineeships are based on the dual system of vocational training providing a combination of on-the-job and off-the-job training.

The Training Pays Scheme aims to increase the number of adults participating in lifelong learning. Persons will be refunded 75 per cent of the training costs incurred (up to a maximum of €1,000), when attending a training programme aiming to improve their level of competence or acquire new skills. Both the training programme followed and the training provider need to be accredited and licensed respectively, by the National Commission for Further and Higher Education (NCFHE).

An Occupational Handbook, covering the largest part of the Maltese labour force and including information on the labour market trends, job description and duties, knowledge and skills required, qualification/warrants/licenses needed, and average salary, amongst other information, will be launched. This Handbook will be instrumental for job seekers (including unemployed and employed persons), students, career and/or employment advisors, guidance teachers, employers and training service providers. Furthermore, the Study on Arduous Work aims to identify those occupations that can be classified as arduous jobs. At the same time, the study aims to identify segments of the labour market, which could deploy the employees that work in these occupations. The findings of this study will help policy-makers in designing future interventions targeting these workers (mainly older workers).

The eSkills Malta Foundation is also promoting actively the EU Funded Digital Opportunity Traineeship, which is an EU pilot project aimed at boosting digital skills on the Job. The Digital Opportunity Traineeships initiative is an EU-funded project to provide cross-border traineeships in digital skills for 6,000 students and recent graduates from 2018 to 2020.

### **5.2.5 Youth on the Move**

The EU flagship initiative 'Youth on the Move' aims to enhance young people's education and employability with the scope of reducing the youth unemployment rate. To this effect, the National Employment Policy incorporates a whole chapter on the initiatives for youth, whilst providing an overview of the Maltese situation in relation to the young unemployed and those young persons who are not in Education, Employment or Training (NEETs).

Through the initiatives listed in the Youth Guarantee Implementation Plan, the Government is committed to provide a second chance in education to individuals with a low level of education and to help them enter the labour market with the aim of employment retention and improvement of career prospects. Some of the measures offered as part of the Youth Guarantee Programme are: the NEETs (Not in Education, Employment or Training) Activation Scheme, where NEETs are individually profiled by experts and receive individual attention and Traineeships, the SEC Preventive Classes offering

revision classes and the ICT Summer Courses targeting mainly students attending the Alternative Learning Programme.

### **5.2.6 Industrial Policy Flagship**

The Government confirms its determination to ensuring conditions conducive to sustainable industrial growth, within the framework of a diversified and balanced economy. Malta Enterprise (ME), the key industrial strategy driver, will focus on its core business, namely the promotion of direct investment. Foreign direct investment will absorb a very significant part of ME's resources but the promotion of local investment in productive activities will not be neglected. Employment, higher added value and export orientation will be the critical priorities determining ME's operational choices. ME will also upgrade its assistance to research and development. Life sciences, aviation services, marine industries, innovative information and communications industries including bioinformatics and the production of digital games as well as a broad range of engineering industries will feature as priority sectors. ME will also be heavily involved in attracting to Malta foreign investment in education and training services including in the medical and health care sectors, with a view to regional markets.

### **5.2.7 Resource Efficiency Initiative**

Malta continuously seeks to contribute, within the parameters of its realities, towards the agendas of circular economy and sustainable development. These principles are integrated within the workings of Government's actions and measures. The central aim is to achieve the European goals in terms of jobs and growth, environment and sustainable development.

#### ***Waste management***

The Government has continued its efforts in the implementation of its Waste Management Plan 2014-2020 through a number of measures.

Plans are underway for the construction of a waste incineration plant, which will enable the country to process between 35 to 40 per cent of generated waste into energy. A steering committee made up of technical experts and other stakeholders has been appointed in order to ensure that there is a common position on the recommended technology that the country should go for.

The 'Don't Waste Waste' campaign is an extensive educational and awareness raising initiative undertaken by Ministry for the Environment, Sustainable Development and Climate Change (MESDC) in collaboration with Wasteserv and the Environmental and Resources Authority (ERA). The campaign covers a 3-year period and targets all actors of society, including those involved in the waste management chain, from producers (industry), retailers and sellers to consumers, and households, among others.

In 2015, Malta introduced the Organic Waste Pilot project. Presently, this project targets nine localities in Malta and the whole region of Gozo. By the end of 2018, in line with the announced Budget measure, the separate collection of organic waste will be rolled out on a national scale. Besides contributing towards legislative targets pertaining to the amount of municipal solid waste being landfilled, this project will limit landfill void space requirements through the reduction of disposal of organic waste, which also results in the reduction of greenhouse gas emissions.

As set out in the 2018 Budget, a beverage container refund scheme (BCRS) is to be in place by 2019 with the aim of increasing further the current recycling rates, and reducing litter. This scheme will address one of the main streams of packaging waste – beverage containers – given their widespread use, short residence time and low viscosity fluids within. Plastic, metal and glass beverage containers will be returned by consumers after use and in doing so, be refunded of the deposit paid upon purchase.

The Malta Council for Science and Technology (MCST) has launched a scheme that will study technologies that may be used for farm waste treatment. At present, such technology does not suit local conditions, and as a result, modifications to actual ‘on the shelf technologies’ need to be tried and tested before actual information on their feasibility can be drawn up. Moreover, an agreement was reached with the Planning Authority in order to seek advice from the Governance of Agricultural Bioresources Agency (GAB) for the development and approval of applications for farm holdings. The GAB would offer its technical knowledge to the applicant in terms of design for sustainable management of any farm waste.

The EU Ecolabel is a voluntary scheme that awards environmental performance certificates to products and services that meet specific, identified criteria depending on the product groups which reduce overall environmental impact, from production to use and disposal. The scheme is currently open to all products and services, except for food, drinks, pharmaceutical products and medical devices. The Malta Competition and Consumer Affairs Authority (MCCAA) continues to promote this scheme amongst 4 and 5-star hotels in Malta through the implementation of a programme whereby the Authority approaches interested hotels and explains the benefits of the scheme and helps them achieve the pertinent certification.

### ***Transport***

The Malta National Transport Strategy 2050 sets the vision for Malta in the longer-term and creates the strategic framework for the development of Transport Master Plan. The Transport Master Plan, in turn, provides the planning framework for implementing measures which could take the form of policies, action plans or measures that are shorter-term in nature. It defines clear project pipelines for studies, operational changes, infrastructural and organisational measures, and identifies where funds from national, EU and other financing sources can most effectively be invested in the transport system so as to help attain the long range strategic targets. The Plan aims to guide transport’s contribution to the physical, environmental, social and economic development of the Maltese Islands, focusing on delivering a safer, secure, more sustainable and a more environment-friendly transport system over the short-to-medium-term, for the benefit of citizens, businesses and visitors.

### ***Water Conservation***

Led by the Energy and Water Agency and part-funded under the EEA and Norway Grants, the principal aim of the Malta Water Conservation Awareness Centre project is to generate public awareness, education and appreciation of Malta’s scarce natural inland water resource. Four educational programmes have been developed dealing with the water cycle, water management, water efficiency and the operation of water utilities. Furthermore, three polishing plants have been built at the three sewage treatment plants. All equipment has been installed. The aim of these polishing plants is to further

treat sewage to very high-quality standards (new water) and make it suitable for various non-potable purposes.

### **5.3 Taxation Policy**

The Maltese Government is committed to ensuring a sustainable revenue stream arising from taxation that is supportive to the attainment of its fiscal targets as specified in the Stability Programme, while ensuring a fair and transparent system. The Government will carry on with the transposition of the rules stemming from the Anti-Tax Avoidance Directives agreed recently by all EU Member States.

The Government is also taking steps to broaden the use of equity in corporate financing in Malta. These measures include the launching of the Prospects Multilateral Trading Facility (MTF) operated by the Malta Stock Exchange (MSE), which provides a cost-effective opportunity for SMEs to raise capital by issuing bonds or equity. Shareholders receiving dividends on profits made after 1<sup>st</sup> January 2017 by companies listed on the stock exchange will receive refunds on declared dividends depending on the applicable tax rate. The removal of the tax rate (15 per cent) applicable on gains derived from the disposal of shares listed on the stock exchange, and alternative trading platforms, by shareholders prior listing will also help address debt bias issues.

Furthermore, the Government has introduced a notional interest deduction (NID) regime which is designed to align the tax treatment of the cost of equity with that of the cost of debt, therefore, mitigating the bias between equity and debt financing. Companies will have the opportunity to claim a deduction against their chargeable income for notional interest deemed to be incurred on their equity capital. This regime includes specific anti-avoidance rules to prevent abuse in its application. It includes provisions to mitigate multiple claims in respect of the same capital and shareholders benefitting from this scheme will be deemed to have received an amount of interest income equivalent to the deduction claimed by the undertaking.

The Government recognises that investment is the life-line of the Maltese economy and therefore, a number of incentives have been put in place over a number of years to foster an attractive economic climate. Amongst the new fiscal incentives, a Risk Investment Scheme has been launched aimed for those investing capital in SMEs or in an investment fund spread over a number of SMEs registered on an alternative trading platform such as Prospects on the MSE. This measure aims to further increase investment on the MSE platform.

SMEs are the backbone of the Maltese economy and in order to further support this crucial sector the Budget for 2018 included an increase in the threshold below which SMEs will have the option not to charge output Value Added Tax (VAT) whilst not being able to claim input VAT back. The threshold will be increased from €14,000 to €20,000. The concept of VAT grouping is also being introduced, which means that legal independent entities having fixed establishments in Malta and which have financial, economic and organisational ties between them, can register as a single taxable person for VAT purposes. Moreover, the Government will continue its work on preparing Tax Consolidation regulations that permit groups of companies to calculate their taxable income on a group basis.

Other measures are directed towards tackling environmental concerns, such as targeting vacant properties by extending the stamp duty reduction from 5 per cent to 2.5 per cent on vacant property within an Urban Conservation Area (UCA). This aims to address the issue of idle resources and incentivise owners to restore properties, making them available on the rental market within the context of an ever-increasing demand for rental units. A further measure aimed at reducing expenses for business is the extension of the list of buildings eligible for capital allowances to include office premises. The list currently also includes buildings such as, industrial buildings or structures, hotels and car parks.

Another scheme has been launched with the aim of assisting undertakings that invest in cogeneration equipment. This involves energy efficient solutions that simultaneously generate thermal energy and electrical/mechanical energy. The scheme is a form of tax credit calculated as a percentage of the eligible costs relative to the size of the undertaking concerned; on new equipment installed or upgrades to equipment leading to higher efficiency.

The Government will continue to step up efforts in addressing concerns of tax evasion. A Joint Enforcement Task Force (JETF) has been set up with the aim of continuing the fight against unjust competition in commerce and tax evasion and will ensure action by the Office of the Commissioner for Revenue with the involvement of the Tax Compliance Unit. The Tax Compliance and Investigations Directorate will be actively participating in Working Field 6 of the Eurofisc network. This group is dedicated to a new tool whereby information obtained from three sources is merged to help identify potential fraudulent networks carrying out carousel fraud. Data from the VAT Information Exchange System (VIES) on the web, VIES and Eurofisc is combined to identify possible fraudulent transactions.

Moreover, further resources will be allocated towards the fight against tax evasion and improved tax compliance across all economic sectors. These will include the strengthening of the three types of control: pre-registration, post-registration and control visits, translating into immediate follow-up action on any tax leakage. Further to the fight against tax evasion and unjust competition in relation to the remit of the Customs Department, heavier fines were introduced by both the Court and out-of-Court settlements. These should also serve as a deterrent against the evasion of excise duty.

## **5.4 Sustainability of Pensions**

An ageing population raises important challenges for fiscal sustainability and adequacy of pensions. Policies aimed to raise potential output are crucial to support pension systems and higher living standards as gains in the capacity could yield high economic return over the long-term. Strengthening labour market performance is one of the key policy priorities for the Government in a context of increasing old-age dependency. The robust economic and employment growth recorded over the recent years resulted in the public pension expenditure to Gross Domestic Product (GDP) ratio to decline by 1.4 percentage points since 2012, and stood at 7.8 per cent in 2015. Public pension expenditure remains below the EU and Euro Area (EA) average with a gap of approximately 5 percentage points.

Nevertheless, the Government is conscious of the long-term demographic challenges which necessitate a prudent fiscal stance over the long-term. The Government has

implemented measures to address the sustainability of pensions. The pension age has been increasing gradually from 61 to reach 65 years by 2027. The contributory period was also lengthened from 30 to 41 years. The Government also introduced stricter rules to access the early exit option by capping the number of credited contributions for persons born on or after 1969. Incentives to defer early retirement and lengthening working career were also implemented. Periodic reviews, within intervals not exceeding 5 years, are also in place for which a report is laid on the Table of the House of Representatives with recommendations for achieving further adequacy and sustainability in such a manner that a stable proportion is kept between contribution periods and periods in retirement.

The continued review of the social security also ensures that the pension system reflects a decent adequacy of pensions to combat those at-risk-of-poverty. Persons born on or after 1962, in virtue of the 2006 reform, will now be entitled to a Guaranteed National Minimum Pension that is not less than 60 per cent of the National Median Income. Better credits for child rearing and family growth and the introduction of credits for human capital development and lifelong learning were also put in place in 2016. These are designed to mitigate gaps in the contributory periods, particularly of women, arising due to family responsibilities and as policy instruments contributing positively toward fertility increases. Furthermore, Government has also improved the adequacy of contributory minimum pensions and survivorship pensions.

The Government has also focused on diversifying retirement income and reducing dependency on state pensions. Personal private pension schemes were launched in 2015 and tax benefits for such products were introduced. Accordingly, there are now a number of providers offering personal pension plans. Savers undertaking these plans can receive tax rebates on their savings for retirement. Administrative statistics of the Commissioner for Revenue show that there are 19 qualifying schemes.

In 2017, the Government also implemented a measure intended to incentivise the take-up of voluntary occupational pensions. The Voluntary Occupational Pension Scheme Rules provide tax credits to both employees and employers (including self-occupied persons).

Furthermore, in an effort to further diversify income in retirement and improve its adequacy, an Equity Release Working Group, tasked to come up with proposals on how to introduce Equity Release products in Malta, was set up as explained in the previous chapter.

Preliminary work on a strategic review on the health check on the sustainability, solidarity, and adequacy of the pension health system mandated by the Social Security Act to be tabled at the House of Representatives by the end of 2020 has initiated.

## **5.5 Competitiveness**

The Government introduced a number of structural reforms with the scope of supporting the business environment, reduce bureaucracy and improve the justice system.

### **5.5.1 Business environment and public administration**

The Government launched Business First in 2012 to address issues of bureaucracy. It is a one-stop shop for business intended to act as a catalyst for the reduction of

unnecessary administrative burdens. Furthermore, this initiative has an active outreach programme whereby it keeps direct contact with the business community focusing on start-ups and SMEs. In 2017, the one-stop-service was introduced in the industrial sector, through the setting up of Business First Ltd. This new enhanced service makes use of a central Government framework which is intended to cut-down on turnaround time for the delivery of government services. In 2017, 665 new accounts and 321 new prospects were generated, referring to new clientele and submission of requests for assistance, including registration of businesses and accessing incentives to industry.

The commitment to modernise Public Administration is evidenced by the progress registered in the e-Government services sphere. This initiative, using ICT in the Achievement of Government's Simplification and Reduction of Bureaucracy Agenda, will improve the accuracy and timeliness of the data capture and reduce the physical visits by citizens to the Social Security Department and area offices. Furthermore, the Courts offer various real time services to citizens and the legal profession with the scope of increasing the case clearance rate and decreasing the disposition time. The Government has also been providing training for continuous improvement and adoption of a total quality management model in departments and entities.

The Government continued with the implementation of reform measures with the aim of improving efficiency and providing a better service to customers. Such reforms include, increasing the number of judges and judicial staff, the assigning of a full-time experienced lawyer (court attorney) [who has pre-defined performance indicators] to each Judge, the extension and renovation of judicial facilities to increase the number of halls to address the shortage of halls available in view to the constant increase in the number of sittings held, the establishment of a Commercial section of the Civil Court (which specialised Court shall be assigned applications falling within the competence of the Civil Court and which relate to matters regulated by the Companies Act), the promotion of Alternative Dispute Resolution Mechanism (ADRs) and mediation, the extensive use of ICT Technologies to cut down on bureaucracy and delays in the civil courts, the simplification and modernisation of procedures, the enhancement of the legal aid system and the setting up of a new law court in Gozo.

Furthermore, the Government launched concrete initiatives addressing the backlog of judicial cases. An accurate review of the clearance rate, disposition time and pending cases of each individual judge or magistrate in both the civil/commercial and criminal sphere was undertaken. Furthermore, through the orders of the Chief Justice, a redistribution of duties within the judiciary was carried out. In particular, two members of the judiciary were tasked to tackle pending cases without being assigned new cases until the pending case load was dealt with according to timeframes and performance indicators. Another initiative is the setting up of a National Insolvency Register on the EU e-Justice Portal for the good functioning of cross-border insolvency proceedings. The project allows the courts and the MFSA to align the Maltese National Insolvency Registers to the requirements of the Insolvency Regulations.

In addition, the Government implemented an incentive to encourage post-secondary graduates to open a new business through the removal of the burden of audit of accounts on companies as long as turnover does not exceed €80,000 annually. To be also noted, that Government is advancing with its plan to redevelop the Ta' Qali Crafts Village with the objective to nurture the growth potential of SMEs and support employment creation.

The main works contract has been awarded in 2017 and preparatory works have been initiated.

### **5.5.3 Strengthening Governance**

In the past five years, the Government has introduced reforms to strengthen good governance; targeting issues such as corruption, the quality, independence and efficiency of the national justice system, political party financing, safeguarding whistle blowers, and the removal of the prescriptive period of corruption offences committed by politicians.

Some of the key legislative and constitutional developments in Malta include:

- The removal of the prescription of corruption offences committed by politicians (as implemented through the Criminal Code (Amendment) Act and the Protection of the Whistleblower Act both enacted in 2013);
- The introduction of the right of appeal from decisions of the Attorney General on the choice of court in the case of arraignment for drug and money laundering crimes (enacted in 2014 through the Various Laws (Criminal Matter) (Amendment No 2) Act enacted in 2014);
- The enactment of the legal regulation of political party financing (through the Financing of Political Parties Act enacted in 2015);
- The implementation of the Fourth Anti-Money Laundering Directive and the Capital Requirement Directive implemented through the Prevention of Money Laundering (Amendment) Act enacted in 2017 together with the following Legal Notices: Prevention of Money Laundering and Funding of Terrorism Regulations; Trusts and Trustees Act Regulations; Companies Act (Register of Beneficial Owners) Regulations; Civil Code (Register of Beneficial Owners Associations) Regulations and Civil Code (Register of Beneficial Owners- Foundations) Regulations.

During 2016, the Government also adopted Act 44 of 2016, entitled 'Constitutional Reforms (Justice Sector) Act', which passed through Parliament on 20 July 2016. This Act seeks:

- to promote the separation of powers between the executive and the judiciary through a new system of judicial appointments;
- enhance the accountability of the judiciary as a result of the extension of disciplinary proceedings in case of breach of ethics; and,
- further uphold the independence of the judiciary through the introduction of an adequate pension scheme that honours the service of retired members of the judicial bench and their widows/ widowers.

In addition, this piece of legislation also makes provision for the setting up of two new Committees working under the remit of the Commission for the Administration of Justice, namely the

- sub-Committee on the appointment of members of the Judiciary;
- sub-Committee on the discipline of the Judiciary. (This sub-Committee is completely made up of sitting members of the Judiciary which are elected by the members of the Judiciary itself.)

The overall aim of the Act is to increase transparency in the method of appointment of members of the Judiciary and to increase the accountability of the members of the Judiciary. Recently, the Government also passed a law providing for pre-appointment parliamentary hearings with respect to important public appointments to Ambassadorships and to leading roles in regulatory authorities.

The World Governance Indicators (WGI) suggest that the level of governance indicators in Malta is inherently high, reflecting the strong rule of law and government effectiveness. In 2016, the percentile rank score for voice and accountability, political stability, government effectiveness and rule of law marks approximately in the 90<sup>th</sup> percentile. On the regulatory quality and control of corruption, Malta's score is on the 85<sup>th</sup> percentile and 76<sup>th</sup> percentile, respectively. In some indicators, Malta performs much better than the EU average whereas in other clusters Malta is at par with the average of the EU.

When assessing year-on-year movements in the governance indicators a word of caution is warranted, due to the statistical uncertainty associated with the measurement of governance. This is particularly relevant for Malta since the estimates are characterised by the highest standard errors across all EU Member States. Indeed, the indicators for Malta have an average standard error of 0.21, which is 16 per cent higher than those registered by the other EU Member States. Consequently, cross-country comparisons or comparisons between two points in time for the same country would lead to erratic interpretations if the margin of error is not taken into account.

In addition, in its latest credit rating report published on 28<sup>th</sup> February of this year, Fitch commended Malta's high governance indicators based on a composite of six World Bank Governance Indicators used in the Sovereign Rating Model: Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence. Malta's governance indicator was higher than the 'A' median and higher than some of the similarly rated countries. These results, it remarks, reflect a strong rule of law and Government effectiveness.

## **5.5.4 International Investment Programme**

The IIP Unit is responsible for the administration and promotion of the citizenship-by-investment programme, with its core offering being the programme's due diligence (DD). Since 2014, this dedicated unit has acquired a wealth of experience, knowledge and skill. The most recent development by the team is an industry first risk matrix, which allows for a systematic and structured risk assessment process for IIP applications. This ensures a consistent, evidence-based, thorough review of every application.

There are four tiers to the DD process:

- Law enforcement agency (LEA) checks (1<sup>st</sup> tier): These are performed through local LEAs, including, the Malta Security Services, Counter Terrorism Unit, Criminal Intelligence Unit, Criminal Records Office and the National Stop List. Local LEAs liaise with their international counterparts enabling checks against the respective databases. Furthermore, third-country nationals are subjected to normal Schengen checks and regulations.

- Standard CDD (2<sup>nd</sup> tier): Licenced agents are required to conduct their own CDD, thus obtaining identification documents and verifying the authenticity of the documents gathered. Typically, this involves searches on international risk management databases (IRMDs) and OSINT. This information is then shared with the IIP Unit, as part of the residency application. The IIP unit requests LEA checks using the data acquired. Applicants must visit the IIP offices to have their biometric data captured at this stage.
- Two background verification reports (BVRs) (3<sup>rd</sup> tier): Commissioning two BVRs from two separate specialist service providers (SPs) of international repute. All forms and documents are shared with the SPs to allow for further authenticity checks.
- Final Checks (4<sup>th</sup> tier): this is split in four stages:
  - The 1<sup>st</sup> stage of the process consists of a review of the statutory forms and supporting documentation, ensuring that everything has been correctly filled in and that all documents are authentic, certified and were applicable, apostilled.
  - The 2<sup>nd</sup> stage of the process requires that this intelligence is processed through the risk matrix, allowing risk officers to systematically identify the risks associated with each application.
  - The 3<sup>rd</sup> stage of the process consists of a peer-review of every application by the DD team, thus ensuring a homogenous evaluation of every application.
  - The 4<sup>th</sup> stage of the process entails presenting the application to a board for a final review, if deemed necessary. Subsequently, a recommendation to the minister is made, who after conducting further checks, makes a final decision.

## 5.6 Infrastructural Investment

Infrastructural investment remains pivotal for sustained economic growth and improved standards of living. It contributes towards effectively addressing policy challenges, including those having a long-term impact on climate change, the guarantee of a reliable supply of energy and a well-connected transportation network.

### 5.6.1 Roads Agency

The legislative process is currently underway for the setting up of Infrastructure Malta, the new agency earmarked to develop and improve the road infrastructure. This Agency will be gradually absorbing the infrastructural responsibilities of Transport Malta, Local Councils and other entities currently involved in the development and maintenance of roads and related structures and resources. This Agency will be advising the Government on the formulation of policies relating to road infrastructure in Malta and make recommendations to the Government on action to be taken.

Infrastructure Malta will be entrusted with the investment of €700 million over 7 years for road construction and upkeep with a target set for 170 streets over a three-year period. It will also ensure that maintenance works are carried out on arterial and distributary roads.

## **5.6.2 Rehabilitation of Tunnels**

The general infrastructure of tunnels in Malta requires upgrading so as to ensure that the overall road network in Malta reaches EU standards. In this respect, the Government is providing additional funding for the rehabilitation, the road worthiness and safety levels of tunnels that experience substantial volumes of traffic daily, in particular the St. Venera Tunnels, Regional Road tunnels and Kirkop tunnels.

## **5.6.3 Upgrading of Ferry Landing Sites**

In order to improve the public transport system and the respective intermodal connections with the inter-harbour scheduled ferry services, Transport Malta (TM) is in the process of upgrading the existing ferry-landing sites. It is also in the process of introducing new ferry services from other maritime towns and villages in order to ease road traffic congestion. These initiatives, which form part of the SMITHs (Sustainable Multimodal and intelligent Transport Hubs) Project, funded through ERDF funds, include the upgrading of the Sliema Ferry landing site, the Marsamxett and Cottonera landing ferry sites.

The upgrading will include: the improvement of berthing facilities (thus reducing the number of days when the ferry is unable to operate due to inclement weather conditions); the introduction of passenger waiting facilities (with structures extended onto the sea side); and the introduction of Intelligent Transport System (ITS) equipment (resulting in real time information electronic signs for bus and ferry services users). In addition, in the pertinent locations, TM will also introduce car and bicycle sharing services, Pedelec sharing, bicycle racks, as well as public transport bus stops where these are not available. Furthermore, the concept as indicated above will be replicated in three new locations, namely; St. Paul's Bay, St. Julian's and Ta' Xbiex. In parallel with the works to be carried out at these locations, TM will introduce ferry services between the existing and new locations.

## **5.6.4 Multi Modal Initiatives**

Other multi modal and modal shift initiatives are being undertaken which include a standardised ticketing system for both public bus and ferry transport as well as the STREETS Project. The STREETS Project's aim is to overcome the current bottlenecks identified within/between Malta and Sicily (Italy) which are closely linked to inadequate land and air infrastructure, limitations due to logistic and commercial constraints. The project identifies the supply chain needs in order to maximise the system's inherent ability to absorb an increased Sicilian-Maltese commutership of passengers and goods through a re-organisation of the entire network. The project is led by the Region of Sicily (Italy), with the contribution of ARCES Collegio Universitario (Research Centre) and TM. Specific deliverables concentrate on gathering spatial data related to the multimodal transport network to provide efficient connections between the ports, land and air transport models and superimposing the data on a topographic map and other remote sensed imagery data.

New planning designs for bus shelters have been approved and the procedure leading to the issuance of planning permits for the installation of these shelters is underway. The procurement process is underway for the main terminus of route buses. It is noteworthy that the installation and maintenance of up to 500 bus shelters is being conducted

through a public private partnership. Installation program is planned to commence by mid-2018.

TM is in the process of introducing two safe cycling routes which are based on the Sharing the Road concept. These two safe cycling routes will be introduced as a pilot project and if successful, the concept will be implemented nationwide. The routes will be upgraded to implement cycling safety measures which shall include a varying speed limit between 20 and 30 km/hr depending on the street section, introduction of automatic number plate recognition (ANPR) speed cameras to enforce the speed limits in real time, introduction of frequent traffic calming measures along the route, and the introduction of ITS equipment at specific junctions to give priority to cyclists over vehicular traffic. This project is at pre-tendering stage.

### **5.6.6 Transport to be Safe and Secure Strategy**

The aim of the Transport to be Safe and Secure Strategy is to reduce injuries and loss of life in road transport collisions. A road safety strategy, published in 2014, is the foundation for a long-term plan aimed at improving road safety. This strategy seeks to achieve a 50 per cent reduction in fatalities, 30 per cent reduction in grievous injuries and 20 per cent reduction in slight injuries by 2024. The Road Safety Strategy embraces the basic concepts of safety through engineering, enforcement and education. For instance, the roads and side roads are being designed and maintained to reduce the risk of collisions and to reduce the severity of injury when a collision occurs. A priority is also the promotion of safe road user behaviour through road safety education and skills including the driver licensing, enforcement and penalties.

The maritime and aviation sectors already have highly developed accident analysis mechanisms which have contributed towards a significant improvement in safety standards. Road transport in Malta is responsible for the highest number of accidents each year. Backdated information on road traffic accidents is now also available, complying with EU CARE database requirements. The data collection carried out is also required to classify severity of injury under the Maximum Abbreviated Injury Score (MAIS) format, so that serious (MAIS3+) can be analysed at EU level.

Since 50 per cent of all air accidents occur just before the threshold of runways, the continued maintenance of the public safety zones in the final approach to the runways is imperative. In this regard, an important measure indicated in the Transport Master Plan 2025 is to keep the national aviation safety programme updated. The national aviation safety programme is an essential component which ensures the continued safety of the aerodrome and the aircrafts registered in Malta. The safety programme requires routine review to ensure that it is maintained in an up-to-date status at all times. Moreover, a study on improved airside traffic circulation will be undertaken to introduce suitable airside traffic regulation including traffic management and control mechanisms. Legislation will be updated to include provisions safeguarding the aerodrome against activities and developments in the vicinity that may cause unacceptable risks for aerodrome operations.

## **6. Institutional Issues and Stakeholder Involvement**



## 6. Institutional Issues and Stakeholder Involvement

In order to implement the country-specific recommendations and attain the Europe 2020 targets, the commitment of the Government as well as that of social partners, local Government and non-governmental organisations, is required. As in previous years, Government has actively consulted the Malta-European Union Steering Action Committee (MEUSAC) and the Malta Council for Economic and Social Development (MCESD), two forums which bring together the main social partners in Malta. In fact, these stakeholders were consulted by the respective Ministries on various measures and initiatives presented in the National Reform Programme (NRP) and they were also invited to attend an ad hoc meeting on the NRP to discuss the strategic underpinnings of the overall report.

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

The Ministry for Finance was responsible for coordinating the required input from the relevant Ministries and key stakeholders, participating in seminars and discussions on issues concerning the EU 2020 Strategy and providing updates on the progress achieved in the NRP. This collaborative process proved to be successful and has led to the drafting of a comprehensive yet concise NRP with increased ownership from line Ministries. In addition, the Ministries and entities responsible for the implementation of the NRP document, the respective Local Councils and the Local Councils' Association, were consulted as necessary. A copy of the NRP will be submitted to the Malta Fiscal Advisory Council. Subsequently, the NRP will be made available to the public after submission to the European Commission. The 2018 NRP document was discussed and approved by Cabinet on the 10<sup>th</sup> of April 2018.