



Malta's National Reform Programme under the Europe 2020 Strategy

April 2013

Ministry for Finance

Minister's Foreword



The main thrust of the New Government's economic policy is aimed towards achieving a sustainable rate of economic growth which would be able to support the main aspirations of the Maltese population including that of convergence towards the median income and living standards of the EU Member States. This is to be obtained on the track of a sound and sustainable budgetary stance.

The measures announced in this National Reform Programme (NRP) for 2013, in conjunction with the Update of the Stability Programme, as well as the measures to be announced in the forthcoming Budget in November, shall be aimed at ensuring that we address the fundamentals underpinning our economic performance, whilst ensuring that the benefits of our economic growth are enjoyed by the widest possible spectrum of our society.

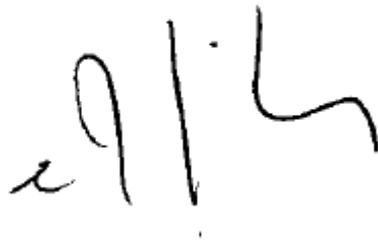
In particular our economic and fiscal strategy shall be based on the following key planks:

1. Raising potential output, in particular through investment in infrastructure, particularly energy, and in the productive capability of the country, including the raising of skill levels, promoting lifelong learning, and the raising of the labour force activity rates.
2. Sustaining public finances and reducing the burden of public debt with an emphasis on strengthening the fiscal framework and combating tax evasion, on the basis of prudent fiscal projections.
3. Ensuring that the financial sector in Malta continues to follow rigorous practices in sustaining its principal economic role whilst continuing to generate employment opportunities.
4. Enhancing the competitiveness and transparency of the products and services markets whilst strengthening consumer protection.
5. Promoting a diversified and balanced economy.
6. Ensuring an efficient and effective public service that generates value for money.

The National Reform Programme for 2013 also covers the progress achieved to date in implementing the Euro Plus Pact measures and in achieving our national targets under the Europe 2020 strategy. In addition, the document places particular emphasis on the implementation of the second set of annual Country Specific Recommendations issued by the European Council last July.

Furthermore, whilst the update of the Stability Programme provides details on Malta's medium to long-term fiscal consolidation strategy, it is pertinent to note that the measures outlined in the National Reform Programme are consistent with the overall fiscal consolidation strategy. Indeed the strategy for economic growth outlined in this document serves to support Government's fiscal consolidation programme.

We are aware that this economic and fiscal strategy is being set against the backdrop of a global economy which has not yet recovered from the aftermath of the international financial crises. But we believe that these targets, whilst ambitious, are also achievable, given the resilience of the Maltese in times of adversity.

A handwritten signature in black ink, appearing to read 'E. Scicluna', written in a cursive style.

Edward Scicluna

Minister for Finance

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List of Abbreviated Terms

AG	Attorney General	AGS	Annual Growth Survey
BCBS	Basel Committee on Banking Supervision	BFID	Benefit Fraud and Investigations Department
BMRI	Biobanking and Biomolecular Resources Research Infrastructure	BPOI	Back-office processing outsourcing
BRB	Building Regulation Board	BRO	Building Regulation Office
BSU	Banking supervision Unit	BTEC	Business and Technician Education Council
CAF	Common Assessment Framework	CBM	Central Bank of Malta
CCGT	Combined Cycle Gas Turbine	CCI	Culture and Creative Industries
CEBS	Committee of European Banking Supervisors	CEF	Connecting Europe Facility
CERN	European Organisation for Nuclear Research	CEWG	Creative Economy Working Group
CLARIN	Common Language Resources and Technology Infrastructure	COLA	Cost-of-Living Allowance
COPRI	Code of Practice for Regulatory Institutions	CRDIV	Capital Requirements Directive IV
CRO	Contract Research Organisations	CRR	Capital Requirements Regulation
CSR	Country Specific Recommendation	DGS	Deposit Guarantee Schemes
DLG	Department of Local Government	DLL	Department for Lifelong Learning
DQSE	Directorate for Quality and Standards in Education	DSG	Domestic Standing Group
DSO	Distribution System Operator	EAFRD	European Agricultural Fund for Rural Development
EAP	Employment Aid Programme	EBA	European Banking Authority
ECB	European Central Bank	ECC	Education Consultative Council
ECOFIN	Economic and Financial Affairs Council	EDPA	Environment and Development Planning Act

EIRA	Environment and Development Planning Act	EoIC	Expressions of interest and capability
EP	Energy Performance	ERA	European Research Area
ERDF	European Regional Development Fund	ESEP	Employment in the Social Economy Project
ESF	European Social Fund	ESL	Early School Leaving
ESM	European Stability Mechanism	ESPD	Employment Support for Persons with Disabilities
ESRB	European Systemic Risk Board	ESTS	Extended Skill Training Scheme
ETC	Employment and Training Corporation	EU	European Union
EWG	Eurogroup Working Group	FASB	Financial Accounting Standards Board
FES	Foundation of Education Services	GAAP	Generally Accepted Accounting Practice
GCHSS	Giovanni Curmi Higher Secondary School	GDP	Gross Domestic Product
Gg	Thousand tonnes	GHG	Greenhouse Gas
GNI	Gross National Income	GPP	Green Public Procurement
GSA	Gas Supply Agreement	HA	Housing Authority
IAS	International Accounting Standards	IASB	International Accounting Standards Board
ICAAP	International Capital Adequacy Assessment Process	IFRS	International Financial Reporting Standards
IMC	Inter Ministerial Committee	ITS	Institution for Tourism Studies
JSA	Job Search Assistance	JTFBR	Joint Task Force to Assess and Review the Bank Resolution and Insolvency Regime II
LCU	Law Compliance Unit	LED	Local Employment Development
LLL	Lifelong Learning	LNG	Liquefied Natural Gas
LSC	Life Sciences Centre	KBIC	Kordin Business Incubation Centre
MATSEC	Matriculation & Secondary Education Certificate	MCA	Malta Communications Authority
MCAST	Malta College of Arts, Science and Technology	MCCA	Malta Council for Culture and the Arts
MCCAA	Malta Competition and Consumer Affairs Authority	MCESD	Malta Council for Economic and Social Development

ME	Malta Enterprise	MEPA	Malta Environment and Planning Authority
MEU	Management Efficiency Unit	MEUSAC	Malta-EU Steering Action Committee
MFEI	Ministry of Finance, the Economy and Investment	MFIN	Ministry for Finance
MFSA	Malta Financial Services Authority	MIP	Malta Industrial Parks
MITA	Malta Information Technology Agency	MoU	Memorandum of Understanding
MQC	Malta Qualifications Council	MQF	Malta Qualifications Framework
MRRA	Ministry for Resources and Rural Affairs	MTO	Medium Term Objective
MW	Megawatt	NCF	National Curriculum Framework
NCFHE	National Commission for Further and Higher Education	NEEAP	National Energy Efficiency Action Plan
NEET	Not in Education, Employment or Training	NEP	National Environment Policy
NG	Natural Gas	NGO	Non-Governmental Organisation
NISC	National Interactive Science Centre	NPL	Non-Performing Loans
NQF	National Qualifications Framework	NREAP	National Renewable Energy Action Plan
NRP	National Reform Programme	NSO	National Statistics Office
NZEBs	Nearly Zero Energy Buildings	OECD	Organisation for Economic Co-operation and Development
PAHRO	Public Administration HR Office	PAP	Personal Action Plan
PCI	Project of Common Interest	PDD	Policy Development Directorate
PES	Public Employment Services	POS	Point of Sales
PPA	Power Purchase Agreement	PPCD	Planning & Priorities Coordination Department
PV	Photovoltaic	RPI	Retail Price Index
R&D	Research and Development	R&I	Research and Innovation
RES	Renewable Energy Systems	RTDi	Research, Technological Development and Innovation
SAWTP	Sant'Antnin Waste Treatment Plant	SBA	Small Business Act
SIS	School Information System	SME	Small and Medium Enterprises

SPA	Special Protected Areas	SPED	Strategic Plan for Environment and Development
SREP	Supervisory review and evaluation process	SLA	Service Level Agreement
SSD	Student Services Department	SSM	Single Supervisory Mechanism
SRM	Single Resolution Mechanism	STEPS	Strategic Educational Pathways Scholarships
TAF	Training Aid Framework	TAS	Technician Apprenticeship Scheme
TFCA	Task Force on Coordinated Action	TFEU	Treaty on the Functioning of the European Union
toe	Tonne of oil equivalent	TSCG	Treaty on Stability Coordination and Governance
TSS	Training Subsidy Scheme	TSSA	Training Subsidy Scheme for Academic Courses
UoM	University of Malta	VAT	Value Added Tax
VET	Vocational Education and Training	YEP	Youth Employment Programme

1. Introduction

The National Reform Programme represents a central pillar of the European Semester, which ensures Member States align their budgetary and economic plans with the Stability and Growth Pact and the Europe 2020 strategy. The Europe 2020 strategy is the European Union's strategy for a more smart, sustainable and inclusive European economy. Both the Annual Growth Survey and the Country-Specific Recommendations made by the European Commission to the member states form part of the European Semester.

The Commission adopted the 2013 Annual Growth Survey on 28 November 2012, thereby kick-starting the 2013 European Semester process for economic policy coordination. The Annual Growth Survey is a key part of the governance structure for the Europe 2020 strategy, setting out what the Commission believes should be at the forefront of the European Union's agenda in terms of economic and budgetary policies and reforms to boost growth and employment.

The main message of the Annual Growth Survey (AGS) this year is that while the European Union policies are beginning to show results continued reform is needed to generate sustainable growth and jobs. That is why the Commission considers that the priorities outlined in last year's Annual Growth Survey remain broadly valid and that efforts at national and European Union level in 2013 should again be concentrated on the following five priorities:

- Pursuing differentiated, growth-friendly fiscal consolidation;
- Restoring normal lending to the economy;
- Promoting growth and competitiveness;
- Tackling unemployment and the social consequences of the crisis;
- Modernising public administration.

Malta's National Reform Programme sets out its agenda for structural reform and growth. It features a number of new measures aimed at enhancing Malta's competitiveness, boosting growth and jobs whilst also improving social cohesion. These measures are meant to address both the Country Specific Recommendations for Malta issued by the European Council last July and the national Europe 2020 targets.

This document also presents Malta's new Euro Plus Pact commitments for 2013. In March 2011, Malta joined the other member countries of the Euro area and six non-Euro area Member States by agreeing to sign the Euro Plus Pact which calls for additional commitments in the areas of competitiveness, employment, sustainable public finances and financial stability, going beyond what has been agreed at European Union level. These national commitments are integrated in the National Reform Programmes and therefore are also assessed within the framework of the European Semester.

The Euro Plus Pact commitments are grouped into four priority areas which have been identified at the European Union level:

- Fostering competitiveness;
- Fostering employment;

- Contributing further to the sustainability of public finances;
- Reinforcing financial stability.

The National Reform Programme can be regarded as the counterpart of the Stability Programme. It is important to note that Malta's Stability Programme contains more details on the medium to long term fiscal consolidation strategy and therefore the National Reform Programme is consistent with this programme. The measures contained in the National Reform Programme take into account the fiscal constraints whereas the growth strategy outlined in the National Reform Programme helps sustain the fiscal consolidation strategy contained in the Stability Programme.

It is worth highlighting that this year's National Reform Programme includes a wide-range of new and updated measures aimed at reaching the set national Europe 2020 targets in the areas of employment, research & development, energy, education and poverty reduction.

The key measures intended to address the employment target include the Employment and Training Corporation's (ETC)'s Active Youth for Employment Programme which is aiming to increase the employability of young people by helping them make informed choices through personalised jobseeker services, increased access to information about services available, training courses and the labour market. Other measures promote youth entrepreneurship, offer specialised training for disabled persons who need further pre-employment training and on-the-job training with a view of integrating them in employment and offer support for youth voluntary work.

Measures under the education target aim to provide more opportunities to promote further specialisation at higher levels of education at a Masters level. It is envisaged that 190 scholarships leading to Masters will be awarded under the new scheme. Other measures offer more financial assistance to youth NGOs and more career awareness, training and continuous development. An early school leaving strategy and a reform of the national curriculum framework are also being proposed.

The main energy related measures include the plan to construct a new highly efficient generating plant and liquefied natural gas (LNG) infrastructure. The new feed in tariffs for PVs not supported through other funding mechanisms are intended to increase the amount of electricity derived from renewable sources by encouraging an increase in the take-up of PVs. Other measures include an autogas scheme and a scheme for the purchasing of solar panels for enterprises. These measures are also expected to reduce Malta's reliance on oil. The indirect effects will be a healthier local population due to cleaner air and less CO₂ emissions hence enabling Malta to reach its climate change targets.

In order to promote social inclusion and reduce poverty this programme includes a range of different measures. These include the income tax deduction for fees paid in respect of residency services in respite homes or centres or for community support services and the home adaptation works support schemes. Furthermore, as announced in this year's Budget, persons whose income tax is computed on the single rate and whose only income throughout the year is the minimum wage and the statutory bonus will not be taxable.

As for research and development, Malta is currently working on an innovation strategy for smart specialisation. The main objective of this strategy is to identify areas within the national economy with the greatest potential for innovation-based growth in order to direct funding and efforts towards building critical mass in these areas.

A number of other measures are intended to enhance our economy's competitiveness and growth potential. These include the schemes run by Malta Enterprise which include B.Start, MicroInvest and MicroGuarantee. This year, Malta Enterprise will also be reviewing the Incentive Guidelines so that licensed hotels may benefit from investment aid of 15 per cent of the capital expenditure in the form of tax credits.

These measures shall be complementing the ongoing measures outlined in previous National Reform Programmes. Further details on the implementation of these measures are being provided in the subsequent sections.

National Targets

Malta's current Europe 2020 targets are:

- Employment: Malta has set its employment rate target at 62.9% by 2020.
- Research & Development: Malta has set its national Research & Development target at 0.67% of the Gross Domestic Product by 2020.
- Promoting social inclusion through the reduction of poverty: Malta's target is to lift around 6,560 people out of risk of poverty and exclusion by 2020.
- Energy: Malta has set the following ambitious targets for energy efficiency, renewable energy and greenhouse gas emission reduction:
 - A maximum increase of greenhouse gas emissions not falling within the scope of the European Union Emissions Trading Scheme of 5% by 2020 (compared to 2005 levels particularly emissions from transport, mainly road transport, waste, agriculture and fuel combustion in industry and commercial and residential buildings).
 - A commitment to achieve by 2020 a share of energy from renewable sources in gross final energy consumption of 10%.
 - A commitment to achieve by 2020 a target of 10% of energy consumed in all forms of transport from renewable sources.
 - An indicative achievement of 22% energy or 237,019toe of energy saved in primary energy by 2020¹.
- Education: Malta has set the following targets:
 - Aiming to reduce school drop-out rates to 29% by 2020.
 - Increasing the share of 30-34 years old having completed tertiary or equivalent education to 33% by 2020.

Malta is currently in the process of revising its targets regarding education (the part concerning early school leaving), employment and research & development, in view of the latest statistical data. On 5 April 2013, Government launched Malta's Early School Leaving Strategy for public consultation. After the public consultation process which is planned to

¹ The baseline for this target is 3% or 23,231toe of energy saved in primary energy in 2010. According to the 2nd NEEAP, Malta has an indicative target of 22% energy or 235,254toe savings target by 2020 with an intermediate target for 2014 of 15% or 144,876toe.

end with the holding of a national conference in May 2013, the Ministry for Education and Employment will be establishing a new target for early school leaving within the context of the Europe 2020 targets.

With respect to the Research & Development target, internal discussions among the various stakeholders are presently ongoing with the aim of establishing a new R&D target. A new target should be available in the coming weeks.

In addition, it should be noted that the Minister for Energy & Conservation of Water has declared the intention of the Government to launch a holistic policy framework on renewable energy by the end of summer in its attempt to reach the 10% target for 2020.

The latest Country Specific Recommendations for Malta

Country Specific Recommendation 1: Reinforce the budgetary strategy in 2012 with additional permanent measures so as to ensure adequate progress towards the Medium Term Objectives and keep the deficit below 3 % of the Gross Domestic Product without recourse to one-offs. Continue fiscal consolidation at an appropriate pace thereafter, so as to make sufficient progress towards the Medium Term Objectives, including meeting the expenditure benchmark, and towards compliance with the debt reduction benchmark, by specifying the concrete measures to back up the deficit targets from 2013, while standing ready to take additional measures in case of slippages. Implement, by end-2012 at the latest, a binding, rule-based multi-annual fiscal framework. Increase tax compliance and fight tax evasion, and reduce incentives towards indebtedness in corporate taxation.

Country Specific Recommendation 2: Take action, without further delay, to ensure the long-term sustainability of the pension system, comprising an increase in the effective retirement age, including through a significant acceleration of the progressive increase in the statutory retirement age compared to current legislation and through a clear link between the statutory retirement age and life expectancy, and measures to encourage private pension savings. Take measures to increase the participation of older workers in the labour force and discourage the use of early retirement schemes.

Country Specific Recommendation 3: Take steps to reduce the high rate of early school leaving. Pursue policy efforts in the education system to match the skills required by the labour market. Enhance the provision and affordability of more childcare and out-of-school centres, with the aim of reducing the gender employment gap.

Country Specific Recommendation 4: Take the necessary further steps to reform, in consultation with social partners and in accordance with national practices, the system of wage bargaining and wage indexation, so as to better reflect developments in labour productivity and reduce the impact of prices of imports on the index.

Country Specific Recommendation 5: In order to reduce Malta's dependence on imported oil, step up efforts to promote energy efficiency and increase the share of energy produced from renewable sources by carefully monitoring the existing incentivising mechanisms and by prioritizing the further development of infrastructure, including by completing the electricity link with Sicily.

Country Specific Recommendation 6: To strengthen the banking sector, take measures to mitigate potential risks arising from the large exposure to the real estate market. Take measures to further strengthen the provisions for loan impairment losses.

Economic Policy

Government wants to strengthen confidence and credibility in Malta's economic and financial policy. It will strive to keep inflation under control. Inflation raises prices to the detriment of the consumer and the productive sectors by eroding the purchasing power and contributes to the decrease of Malta's competitiveness in international markets.

As announced in the budget speech, Government intends to enhance the competitiveness and transparency of both the products and the services markets. For the same objective Government has to ensure that the regulatory structures are functioning effectively in order to eliminate all anti-competitive practices and any other obstacles that could result in higher prices.

Malta must work well, prudently and within a framework of high quality in order to compete on the international markets. There is a need for a continual improvement in Malta's productivity, whilst avoiding unjustified increases in the cost of production.

Government will do its utmost to create and maintain the best possible environment in which Malta's economy could grow in a sustainable manner. Therefore, Government shall strive to create a climate of peace of mind in which, through judiciousness and transparency, economic operators will know where they stand. It is vital that pointless bureaucracy does not create extra costs that weigh down enterprises and hamper economic growth.

Furthermore, Government will be announcing measures intended to stimulate the economy towards economic growth that is closer to its potential. Government wants to see more investment in infrastructure and the productive capabilities of the country, in the skills of the workforce and more workers, both male and female, entering the labour market.

In this context Government will do everything necessary to promote a diversified and balanced economy.

The manufacturing sector must be further strengthened even through channelling it towards the production of high value added goods. Whilst tourism already contributes substantially towards Malta's economy, even in this sector we must open up new markets and seek new niche markets as well as strive to increase competitiveness.

In the financial sector Government will continue to insist on rigorous practices and stability through a policy of measured growth in the sector. Here, the emphasis will remain on quality rather than quantity. The same applies to i-gaming, a sector which Government wants to see expanding in a sustainable manner.

The creative economy, which incorporates the sectors of Information Technology, digital gaming and the film industry among others, will be further incentivised because Government believes this could grow into an important pillar that sustains the economy.

Government also believes that there is room for more investment and the creation of quality jobs if the Green Economy is developed in a sensible way. The maritime and aviation sectors are also economic sectors capable of further development, contributing towards the diversification of the economy and the creation of more quality jobs.

In order to stimulate the economy towards economic growth that is closer to its potential, Government announced a number of new major projects. Government will be issuing calls inviting the private sector to participate in projects for a cruise liner terminal and yacht marina in Gozo, for the development of the former Marsa Shipbuilding site for marine related

activities, and for a land reclamation project to create innovative projects and expand the island's footprint. The private sector will also be invited to participate in the open call for two new casino licences, one of which will replace the licence withdrawn for the Casino di' Venezia, while the preference is for the second casino licence to be granted in Gozo.

2. Macroeconomic Context and Scenario

Macroeconomic outlook for the period covered by the programme

On the back of the resilient economic performance recorded in recent years, Malta's GDP growth rate continued to be larger than that registered by the euro area, even though it slowed to 0.8 per cent during 2012. The slowdown reflects a decline of 1.0 per cent registered in the first quarter of 2012, followed by positive growth rates in subsequent quarters. The relative resilience of the Maltese economy, in spite of the ongoing crisis in the euro area is largely the result of a relatively conservative and well-regulated financial sector as well as a well diversified economic structure.

Macroeconomic forecasts show that in 2013 the Maltese economy is expected to continue growing at a rate of 1.4 per cent mainly underpinned by domestic led growth and to a marginally lesser extent by external demand². Macroeconomic forecasts in line with those used in the Update of Stability Programme 2013-2016 are presented in Table 1.

Table 1 - Macroeconomic Forecasts

Indicator	Unit	2012	2013	2014	2015	2016
GDP at constant prices	Yearly growth (%)	0.8	1.4	1.6	1.9	1.9
Private consumption	Yearly growth (%)	-0.6	0.9	1.0	1.5	1.7
Public consumption	Yearly growth (%)	5.5	0.6	0.5	1.1	1.6
Gross fixed capital formation	Yearly growth (%)	-2.5	0.5	3.2	3.0	2.8
Exports of goods and services	Yearly growth (%)	5.2	2.1	1.6	1.0	0.7
Imports of goods and services	Yearly growth (%)	4.4	1.6	1.2	0.7	0.6
Labour force participation	%	0.6	0.7	0.7	0.7	0.7
Employment	Yearly growth (%)	3.4	0.7	0.9	0.7	0.9
Unemployment	%	6.5	6.6	6.4	6.1	5.7

Source: MFIN

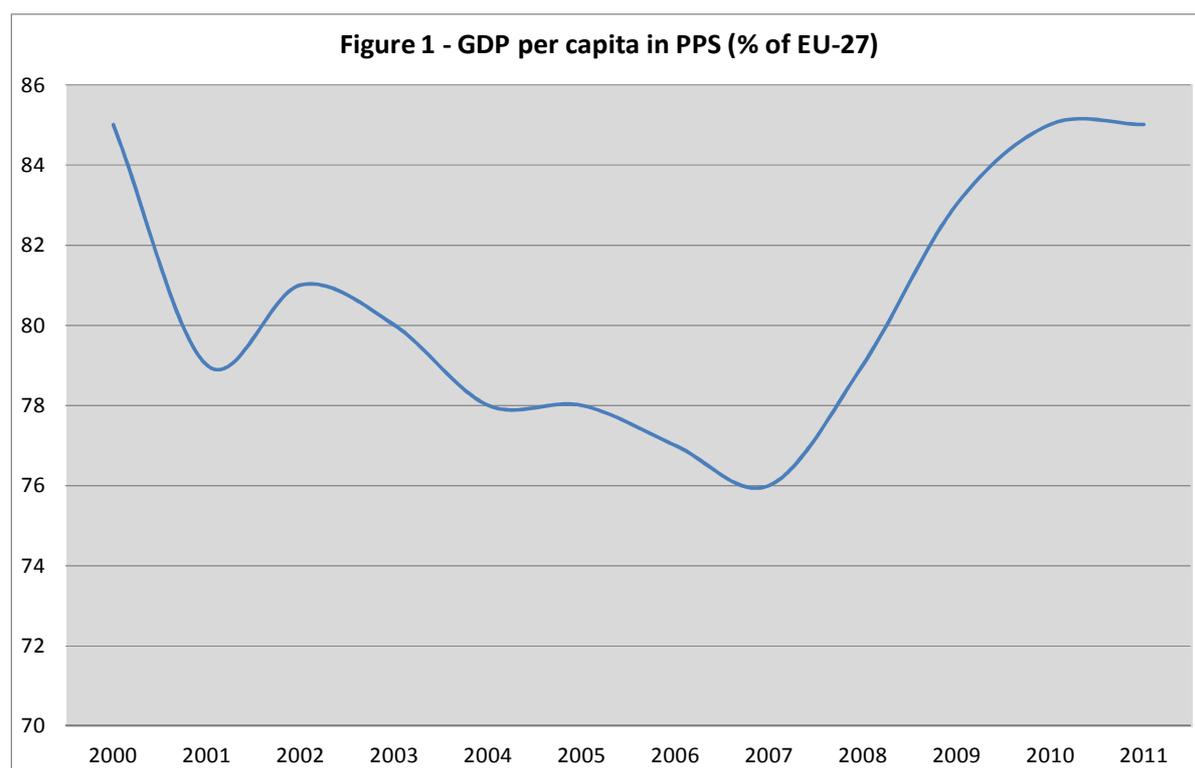
After registering negative growth in 2012, private consumption expenditure is expected to increase by 0.9 per cent in 2013, sustained by the expected positive performance in employment growth and also by moderate increases in wages. Moderate growth in private consumption expenditure is expected to be sustained in 2014 but is then expected to increase by 1.5 per cent and 1.7 per cent in 2015 and 2016, respectively. Meanwhile, growth in Government consumption is projected to increase by 0.6 per cent in real terms in 2013 and by 0.5 per cent in 2014. For 2015 and 2016, growth in government consumption expenditure is expected to increase to 1.1 per cent in 2015 and to 1.6 per cent in 2016.

Gross fixed capital formation is expected to increase marginally in 2013 and more strongly in the outer years of the forecast. Indeed for the medium term, investment is expected to increase by around 3.0 per cent with private investment gradually becoming the major contributor to overall investment.

² See Economic Review 2013, Ministry of Finance. The assumptions underlying the forecasts are generally based on the views based by international institutions, mainly European Commission, International Monetary Fund (IMF) and Consensus Forecast.

The unemployment rate is expected to increase marginally to 6.6 per cent in 2013 and to decline thereafter. Despite the slowdown in employment growth expected over the medium term, the unemployment rate is still expected to remain relatively low as increases in labour force participation are mitigated by the projected declines in the working age population.

A longer term perspective shows that the Maltese economy has been converging to the EU-27 since the onset of the global economic slowdown in 2008, with the country's GDP per capita level reaching 85.0 per cent of the EU-27 average in 2010 and remaining close to that level in 2011. In addition, as noted in an earlier publication of the NRP, Malta's Gross National Income (GNI) as a percentage of GDP has been declining consistently since 2002. To a large extent, this reflects the increased presence of foreign companies operating in Malta that remit large proportions of their profits abroad.



Competitiveness and Imbalances

In recent years, the Maltese economy has shown encouraging signs of improving international competitiveness. In part, this is reflected by the notable improvement recorded in the current account balance. With the exception of 2009, Malta deficit in the current account has been declining and eventually turned positive in 2012. The improvement is mainly attributable to the goods balance, in particular reflecting a slowdown in the import-intensive construction sector. In addition, increased services exports also contributed positively to the improved external balance, driven by tourism, financial services and remote gaming. At the same time, Malta's external balance sustainability also benefits from a positive net international investment position (NIIP), largely reflecting large investments by banks in foreign debt instruments.

Table 2 - External Competitiveness Indicators

Indicator	Unit	2006	2007	2008	2009	2010	2011
Current account balance	% of GDP	-9.5	-6.2	-4.9	-7.4	-4.9	-0.3
Net international investment position	% of GDP	27.4	17.7	2.6	14.4	9.2	7.5
Share of world exports	5 Year % change	-9.5	-12.1	-10.8	11.2	19.4	11.9
Nominal unit labour cost index	1 Year % change	3.5	1.4	2.8	6.6	-0.1	1.5
Real effective exchange rate	3 Year % change	4.0	3.2	7.0	5.9	0.7	-3.0

Source: Eurostat

Malta's improvement on the international market is also reflected by gains in the export market share in services. In fact, the improvement in the trade balance largely reflected changes in the economic structure of the Maltese economy as economic growth was increasingly generated by less import-intensive services, particularly recreational services, legal and accounting services and IT. On the other hand, Malta's export market share in goods was on the decline, particularly in machinery and electrical equipment as well as textiles.

Most of the observed developments reflect the structural shift that the economy underwent away from the traditional manufacturing sector towards the higher value-added activities in both industry and services sectors. Internal studies show that the expansion recorded in the higher-value added activities was generally able to absorb the new entrants into the labour force as labour market participation increased, largely on the back of increasing female participation. As a result, the unemployment rate remained relatively low and stable when compared to that of the EU-27.

Despite the improved performance in the trade balance throughout the past decade, Malta's cost competitiveness as measured by the cost of labour needed to produce one unit of output has been gradually deteriorating. Table 2 shows that the nominal unit labour cost index increased every year with the exception of 2010. This reflects increases in compensation per employee accompanied by moderate growth in labour productivity. The growth in nominal unit labour costs was counteracted by improvements in price competitiveness. In fact, the real effective exchange rate – a measure of the economy's price competitiveness against a group of competitor countries – depreciated after the crisis. This has a positive impact on the country's competitiveness as more than 40.0 per cent of exports is extra-EU.

Albeit at a much lower level than the euro-area average, Table 3 shows that Malta's government debt exceeds the reference value of 60.0 per cent of GDP outlined in the Stability and Growth Pact (SGP). To a large extent, the increase in the debt-to-GDP ratio was the result of the debt-crisis in the euro-area as well as some slippages in the recurrent expenditure. In addition, it must be noted Malta's ageing population may pose a risk to the country's sustainability of public finances. However, when compared to the rest of EU member states, the increase in Malta's debt level was rather moderate.

Table 3 - Internal Imbalances Indicators

Indicator	Unit	2006	2007	2008	2009	2010	2011
General government gross debt	% of GDP	62.5	60.7	60.9	66.4	67.4	70.3
Private debt	% of GDP	193.5	192.0	200.7	213.1	209.3	209.9
Private credit flow	% of GDP	17.1	4.6	18.1	11.3	6.8	2.2
House price index - deflated	1 Year % change	18.6	18.7	7.5	-6.7	-2.0	-2.3
Unemployment rate	%	6.9	6.5	6.0	6.9	6.9	6.5
Total financial sector liabilities	1 Year % change	14.3	22.3	10.0	-0.4	18.5	1.4

Source: Eurostat

Private sector debt was also increasing over the past decade, but declined in the year following 2009. The increase was mainly driven by growing household indebtedness related to the property market. Despite the steady increase, household debt levels in Malta remain well below the euro area average.

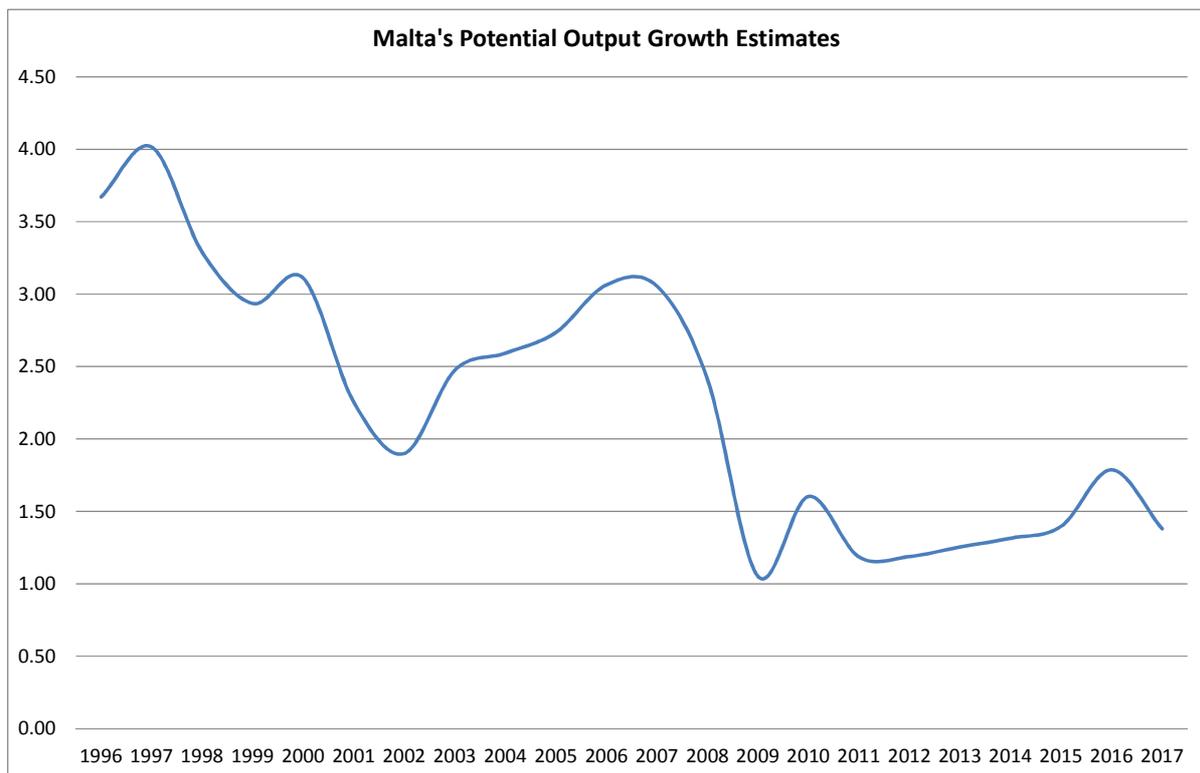
Table 3 also shows that the yearly growth of nominal house prices increased significantly in the run up to euro adoption. However, an adjustment in housing prices began at the end of 2009. Despite the potential negative impacts of this partial correction, these problems do not seem to have resulted in any major problems in the financial sector. Importantly, as noted in the previous NRP, the share of gross value added generated by the construction sector has increased more slowly than in other EU Member States throughout the decade.

Turning to the financial sector, it is noted that this sector expanded very rapidly following Malta's membership in the EU with the growth in total financial sector liabilities peaking at 22.3 per cent in 2007. Within this context, it must be noted that the Maltese banking sector is very diverse in terms of inter-linkages with the domestic economy. In fact, more than 60.0 per cent of gross liabilities are accounted for by internationally oriented institutions that have almost no links with the domestic economies. This limits the potential risk to domestic financial stability that they may carry. Nonetheless, these banks appear to be profitable and are well capitalised. Core domestic banks (whose financial liabilities amount to around 80.0 per cent of GDP) do not appear to be exposed to the volatility on international financial markets.

Macroeconomic impact of structural reforms

On-going and planned structural reforms have an important impact on the country's potential output. This is a summary indicator of the economy's capacity to generate sustainable, non-inflationary, growth. Figure 2 below shows that global economic slowdown – which started in 2008 – has had a negative impact of Malta's long term potential growth rate. The Maltese Government has since introduced a number of measures aimed at enhancing the capacity of the Maltese economy generate sustainable growth. In fact, from 2012 onwards Malta's potential output is expected to follow an upward trend, peaking at 1.8 per cent in 2016.

Figure 2



This section presents estimates of the impact of planned new measures outlined in this NRP on Malta's potential output. However, estimates presented below include only a selection of measures for which the impact was quantifiable. These include:

- MicroInvest.
- MicroGuarantee scheme.
- B-Start.
- Tax incentives for licensed hotels.
- Selected measures related to CSR 5, which include the electricity interconnector, the development of an electricity distribution network and the use of smart meters.

The estimates were generated on the basis of a commonly-agreed method which is based on a Cobb-Douglas production function, distinguishing between labour, capital and total factor productivity. However, it must be noted that the estimation of the output gap is subject to an element of uncertainty since potential growth is not directly observable while actual GDP is subject to revisions. Given the uncertainty surrounding output gap estimates, due care must be taken in interpreting their size and evolution.

Figure 3

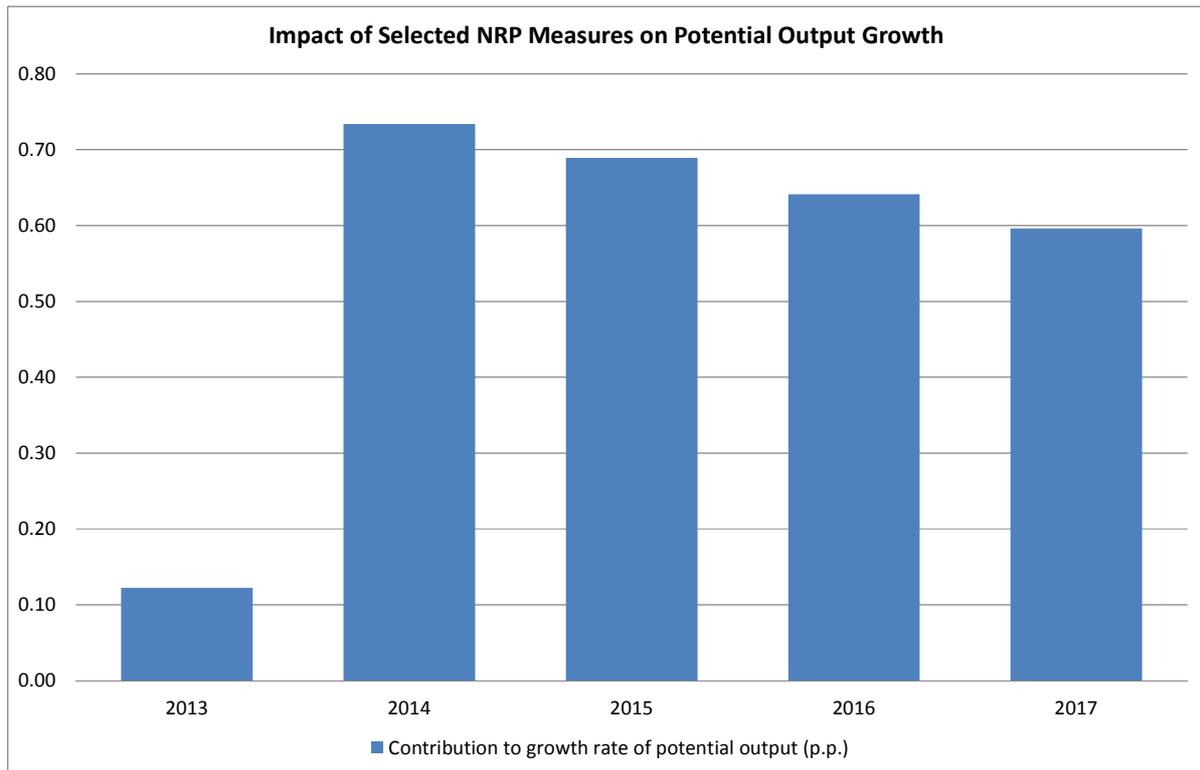


Figure 3 above shows the estimated contribution of the selected measures to potential output growth. It shows that in 2013 these measures will account for around 0.12 percentage points of the growth rate in Malta's potential output. This is expected to increase to 0.73 percentage points in 2014 and then to follow a moderate downward trend until it reaches 0.60 percentage points in 2017. A detailed discussion on the included measures is presented in the respective thematic sections.

Measures to address Growth Bottlenecks and Economic Imbalances³

The 2012 NRP presented a number of measures aimed at addressing the country's thematic imbalances and bottlenecks to growth. These measures are ongoing and their progress is reported below.

Public Capital Expenditure

Government capital expenditure constitutes an essential element in the productive capacity of any economy and changes in public investment have implications on both short-term and long-term economic growth. Indeed, investment is an important determinant of economic growth because it increases aggregate demand in the short-term and expands the economy's capital stock in the long run. The increase in expenditure on gross fixed capital formation recorded in 2012 will be sustained in 2013, such that gross fixed capital formation is forecast to increase by 0.5 per cent in 2013 and to remain relatively stable over the medium term.

Developing Quality Management in the Public Administration through CAF

This measure is aimed at developing the skills and competencies of public officers in the application of the Common Assessment Framework (CAF) and central competencies within the MEU to lead CAF implementation in the Public Administration. This will be achieved primarily through training and networking with experienced CAF users and experts. The application of CAF in Maltese government organisations will nurture a culture of self-assessment in Malta, while giving government organisations a strong total quality management framework.

CAF is based on the premise that excellent results with respect to performance, customers, people and society are achieved through leadership driving policy and strategy, that is delivered through people partnerships, resources, processes and change management. This measure which commenced in the first quarter of 2012 is expected to be completed by the second quarter of 2014, with a total budget of €325,354. MEU has been awarded ESF funds for this project.

To date the following activities have been undertaken:

- To date 96 public officials have been trained in the CAF methodology and 14 MEU personnel followed a train-the-trainer course.
- 2 Manuals have been published. The first Manual was the CAF 2013 Manual while the second publication was an External Feedback Manual for use during the certification audits.
- There has been the registration of 3 CAF user organisations in Malta and Gozo. These organisations are carrying out the second self-assessment which will lead to these organisations achieving the CAF Label Certification.
- A CAF web site has been created.

³ The measures 'Private Investment Incentives – VAT Registration Obligations' and 'Strengthening Market Structures' were reported as 'completed' in the NRP for 2012. Hence they will no longer feature in Malta's NRP.

Quality+

This scheme has been established to encourage SMEs to engage in the continuous improvement of the quality of their products, services and processes. Malta Enterprise may approve tax deductions representing 150% of the eligible expenditure incurred for achieving the required improvement. The fiscal support that will be available through this scheme should facilitate businesses to carry out investments that lead to superior products, services of higher value or more efficient processes.

This scheme started on 17 January 2012 and it is planned to end on 31 December 2013.

In 2012, one application was received by Malta Enterprise which is in the process of being evaluated.

Gateway to Export

This initiative started in 2011 and it is open ended. Its main aim is to give participating enterprises the skills, know-how and confidence to excel in the international marketplace.

By the end of 2012, 27 companies have benefitted from this assistance benefitting from €10,800 worth of advisory services.

Social Economy

The Government of Malta has embarked on a project which analyses in detail, the social economy sector in the country. This is also in agreement with the work which is currently being undertaken by the European Commission on social entrepreneurship, including the Communication on the European Social Entrepreneurship Funds.

A study that was completed in January 2012, provides a snapshot of the local situation, existing legislation and the nature of organisations in the sector in Malta, while it also includes a number of recommendations whose implementation will provide opportunities for the growth of the social enterprise sector. Following this report, Government plans to publish a White Paper for consultation. The White Paper will include a draft law based on the actions identified in the study and will have as its objective the setting up of a regulatory framework. In fact, work is in hand to prepare a draft Social Enterprise Act and a first draft should be finalised in the second quarter of 2013, following which it will be submitted to the other Ministries for their input and then to Cabinet for general approval. Following this, it will be included in the White Paper for public consultation.

Smart Fiscal Consolidation

The new Government is committed to continue controlling the deficit in public finances with the aim of keeping it at a sustainable level within the framework of the fiscal pact. Fiscal consolidation will be aided by a strong macroeconomic environment which will in turn provide the necessary financial flexibility. For this reason, Government policy in this sector is founded on various pillars. It is imperative that the economy continues to diversify and grow as much as possible in line with its potential, propelled by productive investment and exports, against the backdrop of a sound financial sector which is very prudent and which functions within a very strongly regulated framework that inspires confidence. Government

spending will be reviewed to ensure the achievement of improved efficiency in public spending, reduce waste and ensure value for money, thus ensuring greater financial discipline and fiscal accountability in the public sector in particular public entities and Local Councils. Moreover, Government is strengthening and stepping up its efforts towards curbing fiscal abuse and to increase efficiency in revenue collection. This shall be achieved through the strengthening and hastening of the process of consolidating the various functions of Government revenue into one authority in order to improve efficiency in tax collection.

Government acknowledges the important role that national fiscal frameworks may play in sustaining budgetary retrenchment. In particular, a new revised national fiscal framework will be adopted, which will see the introduction of a new clause in the Constitution regarding a balanced budget. Government also aims to reach a balanced budget in the realistically shortest time possible. In addition, an independent Fiscal Council will be set up with the aim of evaluating the Government's fiscal projections and to guarantee more transparency in the budgetary process and prudence in the macroeconomic forecasts. Further details of the Government's medium term fiscal consolidation strategy and on the strengthening of the national fiscal framework are included in other sections of this document as well as in the most recent update of the Stability Programme.

Pensions Reform

Details on the said measure can be found under CSR 2 below.

Public Infrastructural Projects

Development of the TEN-T network and external links are crucial for Malta's tourism and export-oriented economy as well as to ensure the mobility of persons. In this respect, the continued development and completion of the TEN-T network, the development of maritime links and ports (freight) and aviation links and ports (tourism/business) continue to be crucial for Malta.

Between 1999 and end of Q1 2013, 22.4km of the TEN-T road network across the islands of Malta and Gozo have been reconstructed and upgraded.

Access network upgrading for two of Malta's sea ports as well as the upgrading and refurbishing of international port infrastructures is planned with a view to improve cargo and passenger capacity. Since transport is such an important factor in the mobility of goods and persons both within the Maltese islands and externally with our trading partners, Malta recommended, and the Commission accepted, an extension to its present 51km TEN-T road network which has been more than doubled.

Government shall be undertaking to prepare and implement a national traffic management plan aimed at alleviating road traffic bottlenecks on the TEN-T and other strategic roads. Appropriate road infrastructure measures shall be introduced to improve the safety of pedestrians and to ensure that road infrastructure is accessible for all.

Maritime infrastructure upgrades designed to maximise both capacity and safety within the current constraints of the Mġarr harbour and Ċirkewwa terminal will provide a crucial maritime link between the TEN-T road networks on each island, so essential to ensure the mobility of persons and goods in a timely manner. The terminal upgrades will provide modern facilities for the current 4 million passenger and 2 million vehicle annual movements

and their expected increase in the coming years. Ċirkewwa terminal landside works are now complete and in operation, while dredging of the third berth is expected to be completed by mid-2013.

The Valletta breakwater refurbishment was completed by Q1 2013. The Marsaxlokk breakwater refurbishment is also at an advanced stage of completion and together these aim to guarantee appropriate shelter of the two main commercial ports of Malta for the longer term. Other planned maritime infrastructure measures shall include the improvement of existing facilities for cruise liners and the development of new cruise liner facilities in Gozo.

Planning for the longer term, Malta is seeking TEN-T funding to support a full-scale feasibility study of options to further improve the links between Malta and Gozo. In this respect calls for tenders for the supervision of this feasibility has recently closed and is under adjudication, and these consultants will assist Malta's procurement of the feasibility studies necessary for this analysis.

Private Investment Incentives

Tax Credit Schemes

The MicroInvest scheme supports micro-enterprises and self-employed that invest in their business, innovate, expand, implement compliance directives and/or develop their operations. For further details, kindly refer to Section 5 – Euro Plus Pact below.

CREATE aims to support creative businesses whose economic performance is directly linked to the creative talent of those involved in the business. For further details, kindly refer to Section 5 – Euro Plus Pact below.

Industrial Parks

A brief description of the works carried out per industrial estate is provided below:

Bulebel: The first phase of the estate was undertaken through the European Regional Development Fund ERDF2004-2006 programme. The works in relation to the second and final phase which include general upgrading of the roads and service infrastructure, increased parking facilities, better rainwater collection system, street lighting and the extension of the fire hydrant system in the estate are at an advanced stage of completion.

Hal Far: Works with respect to Phase 1 and 2 which entail upgrading of the road and service infrastructure are at an advanced stage of completion.

Furthermore, works in relation to the New Roads Phase are completed and are now being checked to see whether they are compliant with specifications.

The civil works for the pump room and reservoir are completed.

Mosta Techno Park: Works on the construction of a childcare centre facility within this highly serviced industrial zone is ongoing. More details on the said childcare centre can be found in Section 4 – Employment below.

Kordin (KBIC location): Works are ongoing on both the upgrading and embellishment of the industrial estate as well as on the construction of the Childcare Centre. More details on the childcare centre can be found in Section 4 – Employment below.

Xewkija: Whilst works on the estate embellishment are ongoing, those on the construction of the childcare centre have not yet started. More details on the childcare centre can also be found in Section 4 – Employment below.

Apart from carrying out works in industrial estates falling under Government's direct responsibility, MIP also undertook the provision of basic services to non-Government owned industrial estates such as cleaning and landscape maintenance, repair of street lights and patch repairs to roads and pavements.

In addition, MIP completed re-surfacing a stretch of roadway at Ħandaq Industrial Zone. Other road works were planned but award of tenders was held up in the procurement process so these are envisaged to take place during 2013.

The next one in line is a side road in Ħal Far industrial Estate, tender to be awarded.

Business First

Business First provides assistance on the schemes/incentives currently offered by Malta Enterprise and also provides other/additional information relating to business set-up and daily running of the business. Continuous training is being given to personnel to be able to handle queries received via telephones, emails and walk-ins. Continuous ongoing training is also necessary since Business First is always seeking ways and means how to expand the services it currently provides.

Between January 2012 and January 2013, Business First has received over 3600 queries. In total, Business First received and processed 485 applications for the various services offered. Based on the Service Level Agreements (SLAs) with a number of government entities and hence, the monitoring system of such agreements, it has been noted that 25 defaults (not maintaining the timeframe as per SLA) have been registered amongst these service providers, representing 5% of the total applications. The most queries received were in relation to MicroInvest, general information about the Business First Services, Get Qualified, MicroGuarantee and ERDF schemes.

Kordin Business Incubation Centre (KBIC)

Work on the refurbishment of the KBIC continued with a view to introduce new and improved services in order to attract and facilitate the setting up of more innovative businesses in Malta. Collaboration with the University of Malta and MCAST to embrace more students into the KBIC system and obtain valuable input from professionals is ongoing. Concurrently, the KBIC management is continuously working with other Units within Malta Enterprise to categorise start ups, establish their requirements and propose new means of assistance.

ME is currently working on other training and mentoring programmes for start-ups. A tender in relation to reception and back office administration services will be issued soon. During

2013, ME also aims to form a partnership with different stakeholders to offer incubation services at KBIC. Consultation with Malta Industrial Parks is currently being carried out to enhance the refurbishment exercise at KBIC.

ERDF Funded Grant Schemes

The implementation of the project is progressing and 80% of the funds have now been committed. Up to September 2012, €13 million worth of claims have been processed of which €11 million have been disbursed. Malta Enterprise is currently processing over €1 million worth of claims each month.

Applications under the 3rd call of the ERDF R&D Grant Scheme, and the 4th Call of the ERDF Start-Up Grant Scheme, ERDF International Competitiveness Scheme, and the ERDF Innovation Actions Grant Scheme have been processed during 2012 and resulted in an allocation of over €4.5 million in aid. Table 4 below illustrates the current number of complete and ongoing projects per scheme and the Grant Value allocated. In the coming weeks ME will be issuing a new scheme supporting investments in photovoltaic panels. Refer to Measure “European Regional Development Fund (ERDF) Scheme for the purchasing of solar panels for enterprises” under Section 4 – Energy target.

Table 4

Scheme	Value of Projects (Gozo) €	Number of Projects (Gozo)	Value of Projects (Malta) €	Number of Projects (Malta)	Total Value of Projects €
E-business	-	-	2,544,016.83	63	2,544,016.83
Energy	1,077,050.55	23	11,130,301.04	189	12,207,351.59
Environment	412,596.41	4	676,203.04	13	1,088,799.45
Innovation	820,427.06	11	5,679,850.66	73	6,500,277.72
Int. Comp.	167,238.89	3	4,064,401.04	68	4,231,639.93
R&D	-	-	3,318,696.52	29	3,318,696.52
Start-up	120,705.64	2	1,536,729.92	29	1,657,435.56
Grand Total	2,598,018.55	43	28,950,199.04	464	31,548,217.59

Online Government Services

This information compliments the explanation of the Next Generation eGovernment Framework with actual figures of online availability and usage is shown in table 5 below.

Table 5 - Number of eServices

	Downloadable	Fully Online		
		Web	eForms	Total
2008	76	55		55
2009	76	79		79
2010	76	99		99
2011	76	99	62	161
2012	* 1121	** 136	*** 159	295
2013	1121	** 136	*** 180	316

* In 2011 the Management Efficiency Unit (MEU) and the Malta Information Technology Agency (MITA) conducted a survey of front-office administrative forms existing in the public sector. All those which were not converted to eForms were made available online in downloadable form.

** This number is calculated differently from previous years since it counts some individual services in websites where more than one service is offered and previously counted as just one.

*** A number of forms were withdrawn after the service was stopped

myBills

To date MITA have completed integrations with Controlled Vehicle Access, the Local Enforcement System, Trade Licenses and fees payable by public service garages. Work is ongoing to integrate utilities billing (ARMS) and lands and estate management (Government Property Division).

Table 6 - Usage and Percentage change (with 2008 being the base year)

	Value (€) of Transactions		eID		mGov	
	Amount	%+	New eID	%+	Amount	%+
2008	300,424		4,197		132,709	
2009	347,703	57.91%	5,907	40.74%	173,027	30.38%
2010	361,222	73.43%	7,241	72.53%	283,024	113.27%
2011	382,668	84.88%	7,940	89.18%	541,641	308.14%
2012	411,628	101.42%	17,400	314.58%	542,686	308.93%

Total current number of issued e-IDs: **45,201**

Culture and Creative Industries (CCIs)

Malta has developed a national strategy for the cultural and creative industries. The strategy prioritises 4 pillars: education and professional development; route to market; internationalisation; and governance. The aim of the strategy is consistent with the vision of Malta's new cultural policy in transforming the cultural and creative sector into the most dynamic facet of Malta's socio-economic life in the 21 century, with the first national milestone being the hosting of the European Capital of Culture in 2018.

During the first year of operation, the Creative Economy Working Group (CEWG) devised the mapping and strategic framework for the Culture and Creative Industries (CCI) Strategy. The National Cultural Policy was officially launched in 2011, enshrining the development of the creative economy as one of Government's key policy targets. During the second half of 2011, the drafting of the CCI strategy was finalised. Following a number of presentations and internal discussions during the first half of 2012, Cabinet approved the strategy and a public consultation was launched in the beginning of August. The full strategy is currently available online www.creativemalta.gov.mt. The consultation process included focused meetings open to the general public, focussing on the separate sections of the strategy.

The CEWG has finalised the draft following feedback from stakeholders and will be presenting it to Government. Work on the implementation of the legislative amendments is also underway, with progress registered on the drafting of the new Festivals Malta Regulations and the revised Malta Council for Culture and the Arts (MCCA) Act. 17 actions from the 42 actions identified in the strategy have already been implemented or are ongoing initiatives.

In addition, a document, entitled 'Our shared objectives' was finalised in early March 2013 to serve as an overarching strategic document for the period 2013-2020 that bridges cultural policy programmes, the programme for the implementation of the European Capital of Culture and the creative economy strategy. The aim of this exercise was to ensure continuity

in the change of legislator after the March 2013 national elections, leading the way towards the implementation of projects and programs leading to the European Capital of Culture year in 2018.

Rural Development Programme

Training, Information and Diffusion of Knowledge (Measure 111 of the Rural Development Programme)

This Measure seeks to improve the competitiveness and the sustainability of the agricultural sector by investing in human potential. The main aim is to provide the opportunity and the means for farmers and other adult persons involved in agricultural activities and those working within the agro-food industries to be trained and to improve their skills, thus meeting the challenges that result from the new standards and demands of the rural economy.

Through this measure, service providers are being engaged to provide training to key potential stakeholders, mainly those operating in the agricultural sector or processing. Training is free of charge whilst the measure covers the expenses incurred by the service provider. Training started in the third quarter of 2011 and as at end 2012, 2540 farmers were trained out of which 2361 were successful.

As at end 2012, three beneficiaries were contracted, for a total amount of €276, 207.36. The total Public Expenditure disbursed as at 2012 amounted to €276,207.36, with a European Agricultural Fund for Rural Development (EAFRD) contribution of €207,155.52. During 2012 €194,717.36 were disbursed, with an EAFRD contribution of €146,038.02. The co-financing rate for this measure is 75% EAFRD and 25% funded by Maltese government.

Modernisation of agricultural holdings (Measure 121 of the Rural Development Programme)

This Measure seeks to support farm investment to assist agricultural holdings to improve their economic performance through better use of the production factors including the introduction of new technologies and innovation, targeting quality, organic products, including non-food sectors and energy crops as well as improving the environmental, occupational safety, hygiene, and animal welfare status of agricultural holdings. Furthermore, this Measure is also intended to facilitate investments that are made in order to comply with the newly introduced Nitrate Directive that has come into force in Malta.

After the 2008 call, 344 eligible applications were received and 280 applicants were contracted as at end September 2012 for a total public expenditure of €15,318,668.10. As at end 2012, €13,684,960.06 was disbursed, with an EAFRD contribution of €10,263,720.05. During 2012, €1,629,299.61 was disbursed out of which €1,221,974.71 of EAFRD contribution. Contribution rate for this measure is 75% EAFRD and 25% Funded by Maltese government. Aid intensity for the first call was 50% up to a maximum of €150,000 which is to be changed for the second call.

With respect to the 2nd call, a total of 509 applications were received: 402 in Malta and 107 in Gozo. The applications are foreseen to be contracted Q2 2013. As at end of 2012, 35

applicants were selected for funding with a total requested amount of €8,582,025.83 and a grant amount of €3,938,275.53. Moreover, there are still 304 eligible applicants on the reserve list with a total requested amount of €34.4 million.

Adding value to agricultural products (Measure 123 of the Rural Development Programme)

This Measure aims at rendering agro-processing enterprises more competitive. It complements Malta's strategic direction of increasing the value added by Maltese enterprises and builds on other funds which address this same priority for the manufacturing industry. It is specifically orientated at facilitating improvements in processing and marketing of agricultural products and concerns investments aimed at improving efficiency, opening new market opportunities, introducing new technologies, putting emphasis on quality, and improving environmental protection, occupational safety, hygiene and animal welfare.

For the first call, 25 beneficiaries were contracted for a total of €2,238,903. During the first quarter of 2012, one of the contracts was withdrawn, leading to 24 beneficiaries currently being contracted for a total amount of €2,088,903.10.

For the second call for which a programme modification was carried out due to the weak response obtained following the first call, a total of 38 applications were received: 30 in Malta and 8 in Gozo. As at end 2012, 22 beneficiaries were selected for funding with a total requested amount of €8,674,430.14 and an eligible grant amount of €4,046,209.15. None of these applicants had been contracted as at the end of the period under review but the contracting process is foreseen for Q2 2013.

A total of €1,909,214.59 was disbursed by 4th quarter of 2012 of which EAFRD contribution amounted to €1,431,910.96. During 2012, €458,910.20 was disbursed of which EAFRD contribution amounted to €344,182.66. Co-financing rate for this measure is 75% EAFRD and 25% funded by Maltese government. Aid intensity depends on size of enterprises as follows: for small enterprises 50%, for medium enterprises 40% and for large enterprises 25%.

Better Regulation

- **Identification, measurement and reduction of administrative burden in the priority areas as well as 100 simplification measures across line Ministries.**

As part of a European Social Fund (ESF) project, in this respect, Malta carried out all the measurements of the administrative burden costs in the chosen priority areas. This revealed that the costs involved to comply with legislative obligations amount to €116 million. Administrative Costs in the areas of Environment, Company Law and Value Added Tax (VAT) represented 66% of the total administrative costs in the selected priority areas.

The target of reducing administrative burden on businesses by 15% in select priority areas (as committed by Malta in the NRP 2008) was surpassed and in fact 15.6% administrative savings were registered by December 2012.

62 Simplification initiatives were undertaken in this respect. The nature of such simplification proposals were:

- 38% Introduce an integrated approach
- 35% ICT solutions and services
- 14% Remove, reduce, merge or improve regulations
- 12% Simplify the process to comply with regulations

The top 6 simplification initiatives were:

- The reduction of population and electronic submission of information in respect of the application for permit to discharge trade effluent from trade premises into the public sewage system. This initiative resulted in an annual savings of €2,423,000.
- Standardisation of tender documents and forms between contracting authorities, simplification of tender forms, data sharing with other Government entities and online submission. This initiative resulted in an annual savings of €2,234,000.
- Electronic filing with respect to the submission of the annual return to the Registrar in line with the 7th Schedule. This initiative resulted in an annual savings of €1,856,000
- An online system for submission of VAT returns for those registered under Register A in respect of submission of a tax return for every tax period. This initiative resulted in an annual savings of €1,507,000.
- Removal of the obligation to undergo training every time a person registers to act as a food handler, allowing submissions of applications to be done online and using data-sharing as a means to access information about food handlers, especially those re-registering. A savings of €1,329,000 resulted from this initiative.
- Simplifications affected in Company's return. This return of income together with and containing documents as may be necessary enables such persons income and allowable deductions and the tax payable by or repayable to that person to be readily ascertained. This initiative resulted in an annual savings of €1,026,000.

Further initiatives in other non-priority areas, targeted at both the business and citizens were undertaken. These resulted in a reduction in administrative burden of €1,368,821.

All simplification initiatives, implemented in priority areas, resulted in a decrease in burden of €18,202,000 and a release in man-hours of 641,402 hours for businesses to pursue in productive work.

- **Training of more than 350 public officials in better regulation principles, tools and techniques including the Standard Cost Model.**

As part of an ESF Project, 411 public officers received training in the Standard Cost Model and Better Regulation processes. Public officials receive this training as part of a continuous exercise to instil in them the quality leap that will result in a more efficient and effective public administration. This course and similar training on Consultation and Legal Notice Check List will help ministries to formulate legislation based on Smart Regulation Principles.

- **Developing 'best-in-class' standards for regulators to address the high degree of variation in the capacity of regulators.**

As part of an ESF Project, the Code of Practice for Regulatory Institutions has been completed.

With the application of the Code of Practise for Regulatory Institutions (COPRI) Government will be strengthening transparency, consistency, better safeguards of rights of the customer/citizen and businesses and adoption of the Better Regulation Principles.

- **The consolidation of the above three measures into Ministry Better Regulation Plans and its continuing recalibration, review and improvement through the central Better Regulation Unit.**

All Ministries have a Ministry Better Regulation Plan which includes information about Better Regulation initiatives (those falling within priority areas and those falling within non-priority areas) falling within their Ministries portfolio and the status of implementation, as well as information regarding the Ministries Capacity Building plan to ensure future sustainability in carrying out Better Regulation activities.

This plan was built up gradually with the implementation of this ESF project and was finalised upon completion of the project.

Strengthening Financial Stability

In response to the global financial crisis, a Framework for the Management of Financial Crisis Situations was established under a Domestic Standing Group (DSG) composed of participants from the then Ministry of Finance, the Economy and Investment (MFEI), the Malta Financial Services Authority (MFSA) and the Central Bank of Malta (CBM). A sub-group to the DSG, a Joint Task Force to Assess and Review the Bank Resolution and Insolvency Regime II (JTFBR) was also established with close cooperation of participants from the MFSA, CBM, MFEI, and the Office of the Attorney General (AG). The JTFBR has been following developments in European fora, particularly the European Commission proposals for a Bank Recovery and Resolution Directive and for a Deposit Guarantee Scheme Directive with the aim of providing coordinated national feedback to the ongoing drafting and discussions, as well as with the aim of transposing such Directives into national law following the finalization of the drafting process which is tentatively set at the end of June 2013.

Following recommendations from the European Systemic Risk Board (ESRB) on the macro-prudential mandate of national authorities, on 25 January 2013, the Malta Financial Services Authority (MFSA) and the Central Bank of Malta (CBM) signed a Memorandum of Understanding (MoU) agreeing on the setting up of a Joint Financial Stability Board which would be composed of representatives from the MFSA and CBM as well as possible participation by the Ministry for Finance (MFIN) upon invitation. The aim of the Board would be that of enhancing the cooperation between the responsible bodies in order to assure the stability of the local financial system through the strengthening of the resilience of the latter and in order to mitigate the build-up of systemic risks. The mandate of the Board also includes the development of mechanisms for identifying possible risks to financial stability as well as the establishment of the required tools for conducting macro-prudential policy. In addition the Board will also be able to make recommendations to the MFSA or CBM on macro or micro prudential matters while also being responsible for the follow-up of recommendations made by the European Systemic Risk Board (ESRB).

Malta is also represented on the Task Force on Coordinated Action (TFCA) where discussions take place, in conjunction with the Eurogroup Working Group (EWG), relating to the finalization of the framework for the direct recapitalization function of the European Stability Mechanism (ESM) including a definition of legacy assets. The technical finalization of the ESM direct bank recapitalization instrument by the EWG and TFCA is tentatively planned for April-May 2013 with endorsement by the EWG on 14 June (tentative) and endorsement by the Eurogroup on 20 June (tentative).

Work is also ongoing with respect to the negotiations for the agreement on the legislative package of the Capital Requirements Directive IV (CRDIV) and the Capital Requirements Regulation (CRR) with further rounds of negotiations taking place on technical aspects of the legislative package before a fully agreed compromise is reached. The legislative package will represent a further step towards creating a sounder and safer financial system with the CRDIV governing the access to deposit-taking activities and the CRR establishing prudential requirements. Following the approval of the CRDIV and the CRR by the European Council, the legislative package is currently under consideration by the European Parliament and will be drafted and transposed to national law once adopted.

Together, the aforementioned initiatives also form part of a wider context which includes the implementation of a full Banking Union within the European Union with direct supervision by the ECB (together with National Authorities) of all banks in the Union applying a Single Rulebook, a Single Supervisory Mechanism (SSM), a Single Resolution Mechanism (SRM) and with a common system of Deposit Guarantee Schemes (DGS). Given the degree of interdependence for the functioning of such initiatives, Malta continues to strive towards a timely adoption, providing the relevant input as required and remaining ready to make the necessary additions to national legislation for the safeguarding and strengthening of financial stability.

Improving the Regulatory Environment for Small Businesses

The Small Business Act (Malta) (SBA) was enacted through Parliament in June 2011 through Act XI of 2011. On 10 November 2011, Circular MF 9/2011 was issued. This explains the coming into force of parts of the legislation through [Legal Notice 410](#) and [Legal Notice 429](#). The legislation to bring into force the remaining provisions of the Act is awaiting Cabinet approval. These provisions are expected to come into force in the second quarter of 2013.

The implementation of the “SME Test” requires that legislation is vetted to identify potential impact on enterprises and that suitable measures are taken to mitigate or remove any identified negative impacts especially on the smaller firms, as far as possible. The SME Test requires the carrying out of a regulatory impact assessment which will try and quantify as much as possible the economic impact of the legislation. It will also have the objective of reducing the administrative burden on the SME. The implementation of the SME Test required the setting up of a central entity which has now been set up as the SBA Implementation Unit. This Unit is operating and is already vetting proposals for legislation to ensure compliance with the Small Business Act (Cap 512)’s requirements currently in force.

Eco-Gozo Strategy⁴

The Promotion of Niche Tourism Markets

The initiatives under this measure related to the resumption of an international marketing campaign on Gozo as a unique diving destination and focused on the United Kingdom (UK), German and French markets. All the initiatives (Broadcast UK, Gozo Supplement in Unterwasser Magazine, Dive Inside Gozo Project, and the development of a Gozo Diving Guide distributed with Destination Plongée) have been finalised. The expenditure earmarked to promote niche markets amounted to €149,153.

The Upgrading of Tourism Infrastructure - Implementation of the Ċittadella Master Plan Recommendations

The project envisages the implementation of the key actions identified in the Ċittadella Master Plan, a policy document for the protection and management of this site. The project aims to upgrade Ċittadella and thus support the upgrading of the Gozo tourism product. The project is intended to give a new lease of life to the Ċittadella through the conservation, enhancement, better presentation and effective utilisation of the historical buildings and open spaces within this walled city. The Project Cost is €14,584,500. The project was approved by PPCD for ERDF co-financing on 20 February 2012.

Furthermore, a further project focusing on the Ċittadella is currently underway. Co-financed through the ERDF039, this project addresses the restoration of the entire perimeter of the external fortified walls and military structures of the Ċittadella. The project is subdivided into four phases or components as follows:

Phase 1 Documentation of the Ċittadella Fortifications: Following the issue of a public call for tenders, works were carried out between June 2009 and March 2010.

Phase 2 Appointment of Geotechnical Consultant in connection with the consolidation of the unstable terrain underlying the Ċittadella fortifications: At present the appointed consultant is assisting the Restoration Directorate in the supervision of the rock consolidation works being currently carried out by the appointed works contractor. As part of his remit the appointed consultant also provides on-going advice to the Restoration Directorate on any revisions to the structural design proposal deemed necessary during the execution of the said consolidation works.

Phase 3 Restoration of the Ċittadella Land front Fortifications: The works carried out to date amount to 97% of all the works covered by this contract. It is envisaged that works will be completed by May 2013.

Phase 4 Restoration of the Northern Enceinte of the Ċittadella and the Consolidation of the Underlying Unstable Terrain: Following the issue of a public call for tenders the contract with the successful contractor was signed in October 2011 and the on-site restoration and ground consolidation works are currently underway. The works carried out to

⁴ Part (d) of the Eco-Gozo Strategy 'Development of a Human Resource Strategy for Gozo' was reported as 'completed' in the NRP for 2012. Hence it will no longer feature in Malta's NRP.

date under this design and build contract amount to 53% of all the works covered by this contract. It is envisaged that works will be completed by September 2013.

Note: For further details about each phase, kindly refer to the April 2012 NRP.

Various other Eco-Gozo initiatives were carried out in the period under review. These included works in relation to the transformation of the Gozo Experimental Farm into a centre for research development and innovation in agriculture and environmental management. During 2012, the work on the erection of the new greenhouses and the installation of the computerized fertigation system were completed and are in use. A trial on biofumigation started in Spring 2012 and will be completed in the second quarter of 2013.

Where the Hands-on Farming Programme is concerned, works at the Xewkija Experimental Farm have been completed and currently, around 50 students attend hands-on farming sessions on a weekly basis. Where research on local/Mediterranean species is concerned, research continued on the characterisation of local carob trees and holm oaks, results of which were analysed by the University of Malta and the University of Catania during the fourth quarter of 2012. With respect to the Creation of a Genetic Reserve of Fig Varieties, 100 fig varieties were procured to form part of the Genetic Reserve.

With regard to the cleaning and upgrading of water catchment areas for the storage of rainwater project, expenditure between 2010 and 2012 amounted to €328,210. During 2012, studies on particularly sensitive valleys were undertaken and MEPA applications submitted. This new cleaning work is expected to be conducted during 2013. Furthermore, 12 new reservoirs were built and through the 'Alter Aqua' project, funding was secured from the Coca-Cola Foundation to install 4 new Rainwater Harvesting systems in 4 government primary schools in Gozo and to reinstate 5 existing reservoirs located in 3 schools and at the Government Experimental Farm.

Water Policy

The Environmental Report was finalised in January 2012 and may be downloaded from the MRRA website www.mrra.gov.mt.

In line with the requirements of the Strategic Environmental Assessment Regulations, 2010 (LN 497 of 2010), an eight-week public consultation on the Environmental Report was launched by MRRA on 28 February 2012.

Following the end of the public consultation period, the comments received were analysed. The results of this analysis were communicated to the SEA Consultants who amended the Environmental Report. The final policy document was subsequently presented to the SEA Audit team. Thus, the Water Policy was officially launched on the 5 June 2012. The Policy document can be downloaded from the MRRA website.

The Water Policy Document presents a framework of action in the water sector. The implementation of the Policy Objectives identified is spelt out in sector specific action and management plans. These include (amongst others):

- Malta's Water Catchment District Management Plan;

- The Climate Change Adaptation Strategy;
- The Nitrates Action Plan;
- Management Plans of the Water Services Corporation; and
- The National Flood Relief Programme.

As regards to sewage treatment, the Water Services Corporation has identified the processes, plant locations and infrastructure necessary to treat waste water beyond the basic tertiary level. The plants will cater for all the wastewater treated at the North and Gozo Sewage Treatment Plants and for 12,000m³/day at the South Sewage Treatment Plant. Financing is envisaged to be through the ERDF for secondary uses. The Corporation has presented the Water Re-use project for EU funding under the ERDF 07-13 on the 30 August 2012 and application was approved on the 3rd April 2013. MEPA permits are still pending.

New Measures to Address Growth Bottlenecks and Economic Imbalances

Revision of Tax Bands

In this year's Budget, Government announced that as from this year the maximum rate of income tax will be reduced from 35 per cent to 25 per cent, for income below €60,000. This will be done in a way that ensures that the financial targets of Government are not prejudiced.

Therefore, in the coming three years Government is widening the tax bands of single, joint computation and parents, so that income up to a maximum of €60,000 will be taxed as shown in table 7 below.

Table 7: Tax bands for every type of computation

	Single computation	Joint computation	Parent computation
0%	0 - 8,500	0 - 11,900	0 - 9,300
15%	8,501 - 14,500	11,901 - 21,200	9,301 - 15,800
25%	14,501 - 19,500	21,201 - 28,700	15,801 - 21,200
32% (2013)	19,501 - 60,000	28,701 - 60,000	21,201 - 60,000
29% (2014)			
25% (2015)			
35%	60,001	60,001	60,001

Persons whose income tax is computed on the single rate and whose only income throughout the year is the minimum wage and the statutory bonus, will not be taxable. This will come about through a specific adjustment whereby persons whose income derived solely from employment, including the bonus, does not exceed €8950 during 2013 will not be liable to income tax. These changes will come into effect retrospectively from 1 January 2013.

MicroGuarantee Scheme

Malta Enterprise can provide businesses employing up to 20 people with a guarantee on a loan of up to €100,000. These funds can be used to facilitate new investments and business development or as the short-term working capital required to kick-start these projects.

B.Start

Malta Enterprise will be introducing a scheme B.START, through which established business concerns will be given a reduction in tax up to a maximum of €30,000 on capital investment in new enterprise approved by Malta Enterprise. The aim of this scheme is to further encourage start-ups and to incentivise established businesses concerns to invest in seed capital in new companies.

This scheme, to be implemented in 2013, will create an opportunity for what is called crowd funding.

Tax Incentives for licensed hotels

This year, Malta Enterprise will be reviewing the Incentive Guidelines so that licensed hotels may benefit from investment aid of 15 per cent of the capital expenditure in the form of tax credits. Therefore for every €100 investment, they will be able to deduct €15 from their tax account without any capping on the amount. This should give direct support to hoteliers in our country in a bid to make this industry more sustainable in the long term. This benefit will apply from the basis year 2013.

Clusters and Networks

This scheme will kick start in 2013 with the aim of promoting clusters and network infrastructures. It will cover the initial expenses for the setting up of the group, such as renting of buildings, and development of e-tools. This scheme should help local businesses to take up the opportunity of the free European markets.

Grant Scheme for Sustainable Tourism Projects by Enterprises

This scheme directs funds towards the economic development of the tourism sector. The scheme aims to strengthen the competitive advantage of Malta's tourism offer through investments carried out by the enterprises and co-financed through this scheme. This scheme supports sustainable tourism projects which also seek to increase the use of information and communication technology for tourism, apply environmental technologies and practices within the tourism enterprises and projects which are innovative for Malta's tourism or for the enterprise engaging in tourism activity.

Project activities included in the project proposals submitted for consideration to be co-financed through this scheme must fall under one of more of the following intervention areas:

- Product upgrade and investment in equipment;
- Investment in environmentally friendly measures;
- Investment in information and communication technology;

- Investment in entrepreneurship;
- Investment in marketing.

This scheme has a total budget of €10 million, €8.9million of which were already allocated over three calls. The three calls were launched in February 2009, October 2009 and October 2010 and projects were closed off by the end of 2011, 2012 and 2013 respectively. For these calls there were 104 beneficiaries.

Due to an amount of savings carried forward from all three calls, a fourth call was launched in January 2013 with the indicative amount of €1,029,699.30. The call closed on 18 March 2013 and 88 applications were submitted. These will be evaluated in line with the set evaluation procedure. The successful projects will be implemented by September 2014.

For more information: www.tourismschemes.gov.mt

Palazzini – Luxury Heritage Tourism Accommodation - Pilot Project

This initiative aims at catalysing the conservation and rehabilitation of historic properties by encouraging their adaptive reuse as luxury heritage accommodation. It aims at instigating private sector investment to establish heritage accommodation within historic buildings with a view to offering a product tailor-made for the needs of a higher spending and more discerning tourist who is looking for relaxation, luxury and exclusivity within a very unique environment.

Through this pilot project, a new accommodation niche will be created in Malta. This will be done by utilising the beautiful and historical properties of architectural value found in Malta's towns and villages. Through safeguarding Malta's cultural heritage and making use of its unique beauty to the country's economic advantage, visitors to Malta will be presented with the opportunity to experience life in our towns and villages by staying in one of these Palazzini. These properties will exude luxury through design and showcase the beautiful architectural heritage of the Maltese Islands.

Entrepreneurs may encounter issues and obstacles in setting up such unique accommodation establishments. This pilot project seeks to assist interested entrepreneurs through personalised and tailor-made guidance with respect to financial incentives and non-financial incentives (including administrative processes).

Start date: Expression of interest was issued in 2012 and applications were received by 11 January 2013. For more information: <http://www.mta.com.mt/palazzini>

Annex 1

A summary of the state of play as well as the estimated impact (qualitative and/or quantitative) of all ongoing and new measures mentioned under this section, can be found in Annex 1.

3. Implementation of the Country-Specific Recommendations

This section outlines the implementation of the policy actions adopted and planned in response to the country specific recommendations (CSRs).

CSR 1: Reinforce the budgetary strategy in 2012 with additional permanent measures so as to ensure adequate progress towards the MTO and keep the deficit below 3 % of GDP without recourse to one-offs. Continue fiscal consolidation at an appropriate pace thereafter, so as to make sufficient progress towards the MTO, including meeting the expenditure benchmark, and towards compliance with the debt reduction benchmark, by specifying the concrete measures to back up the deficit targets from 2013, while standing ready to take additional measures in case of slippages. Implement, by end-2012 at the latest, a binding, rule-based multi-annual fiscal framework. Increase tax compliance and fight tax evasion, and reduce incentives towards indebtedness in corporate taxation.

Strengthening Malta's Fiscal Stability

After the peak in 2008, the general Government deficit narrowed gradually, reaching 2.8 per cent of GDP in 2011, below the 3 per cent of GDP reference value. Accordingly, following an overall assessment, and having regard to the Treaty on the Functioning of the European Union and to the recommendation from the European Commission, the Council of the European Union decided that the excessive deficit situation in Malta had been corrected.

During 2012, the deficit-to-GDP ratio increased by 0.5 percentage points to 3.3 per cent of GDP. Although above 3 per cent of GDP, the ratio remains close to the reference value. Developments in 2012 were influenced by several factors which impinged negatively on public finances. In particular, higher expenditure towards compensation of employees and social benefits on account of the higher cost-of-living-adjustment due in 2012 compared to 2011 and the sectoral and public service collective agreements which were finalised during 2012, as well as the equity injection in the national airline, resulted in a higher ratio of expenditure to GDP. Meanwhile, possibly due to economic uncertainty in the local and international context in 2012, consumers postponed their dealings in durable goods, most notably motor vehicles and property, which resulted in a loss of Government revenue from applicable taxation.

The increase in the general Government balance above the 3 per cent of GDP reference value is expected to be temporary and exceptional. Indeed, it is to be noted that in 2012, revised GDP figures suggest that actual growth in GDP fell short of the potential growth rate. Over the medium-term, GDP growth is however expected to exceed potential. Moreover, as the economic recovery becomes more sustained as from 2013, the deficit is expected to fall below the 3 per cent reference value to 2.7 per cent of GDP. Components of expenditure of a recurrent nature are expected to remain relatively stable, while the pension reform initiative legislated in 2006 is expected to lead both to revenue increases in terms of national insurance contributions as well as lowering pension expenditure thus putting public finances

on a more sustainable footing. Revenue is also expected to rebound, in particular as the loss of revenue from subdued economic activity in specific sectors last year is expected to be recovered in 2013.

Over the medium term, the general Government deficit is expected to decline further as Government's fiscal policy objective remains that of ensuring a sustainable fiscal position by gradually but consistently reducing the fiscal imbalance. Indeed, the decline in the ratio of general Government deficit-to-GDP is expected to be sustained and the fiscal imbalance is expected to be reduced further from 2.7 per cent in 2013 to 2.1 per cent and 1.6 per cent in 2014 and 2015, respectively.

The envisaged fiscal consolidation will primarily be aided by a strong macroeconomic environment and a strengthened national fiscal framework. Nonetheless, Government spending will also be reviewed to ensure the achievement of improved efficiency in public spending, reduce waste and ensure value for money, thus ensuring greater financial discipline and fiscal accountability in the public sector in particular public entities and Local Councils. Moreover, Government is strengthening and stepping up its efforts towards curbing fiscal abuse and to increase efficiency in revenue collection. This shall be achieved through the strengthening and hastening of the process of consolidating the various functions of Government revenue into one authority in order to improve efficiency in tax collection. In this context, it is nonetheless worth noting that the formal budget consultation process undertaken with the general public and interested stakeholders as a result of which the strategic policy direction will be translated into more specific budgetary measures, will be initiated in the coming months.

Current functions of the Tax Audits/Tax Compliance Unit:

- Identify optimal system of risk analysis and target taxpayers for investigations: Risk based audits have proven to be the most cost effective audits. Focusing on data capturing and analysis has enabled us to identify not only those sectors where tax evasion is rampant but also taxpayers within sectors which are declaring below the expected profit. Ratio analysis and comparative analysis help to identify these risk areas.
- Initiate primary investigative and other ancillary or related actions as required.
- Collate and analyse data arising from third parties/Plan audits and investigations according to established time frames: Pre audit planning is carried out in more detail in order to identify risk areas and prepare a more targeted audit plan. This approach has helped to increase the effectiveness of audits and also reduce the average time taken to conclude audits. As a result of more focused planning taxpayers are informed at the very beginning of the audit of the information required to carry out the audit. Additional information is only requested if during the audit the audit officer becomes aware of other risk areas not identified in the planning stage. Taxpayers are benefitting from reduced costs incurred to obtain information and professional fees (tax representatives) as a result of more focused audits.
- Carry out audits and investigations with the least administrative burden on taxpayers: Appointments with taxpayers under investigation are as far as possible kept to a minimum. Information is requested at the beginning of the audit process and risk areas identified at the pre-audit stage are immediately discussed with taxpayers – this helps to avoid fishing expeditions. Tax audits should take more time than necessary.

- Assist in enhancing tax audit software: Both off the shelf and tailor made software is used to help audit officers carry out their work in a more efficient and accurate manner.
- Monitor and refine applied risk analysis methods: As stated above risk based audits require proper data capturing and analyses. The whole audit process is monitored and documented which helps to identify areas for improvement.
- Liaise with other Government departments and foreign tax authorities to carry out local audits and foreign multilateral controls: many Businesses are no longer local but global which makes the audit process more difficult since information is more difficult to obtain. Both tax treaties and EC Directives provide the necessary tools to obtain information from foreign tax authorities.
- Review objections and conduct further investigations as required: the objection stage provides guidance on the initial audit process. Problems identified at the objection stage are communicated to all audit staff which helps to refine the initial audit process.
- In house training: This normally includes updating audit officers on developments in fiscal legislation, discussing interpretation of current legislation and sharing of experiences between officers.

Plan for more Compliance and to combat Tax evasion:

- Simplify fiscal legislation and increase effectiveness and enforcement of sanctions: There is a need to find the optimum balance between reducing taxpayers' compliance costs and curtailing tax evasion and avoidance. A certain level of complexity is inevitable to deter tax avoidance; however, one must not create a vicious cycle that leads to more and more complex rules and increasingly sophisticated and complex avoidance strategies. A simplified tax law should lower taxpayers' costs of complying with the tax system in terms of time, money and mental distress, thus reducing the overall burden of taxation and reduce both unintentional and intentional non-payment of taxes and tax evasion. It would likely also make it easier to enforce the law.
- Continuous review and updating of existing tax legislation and methods adopted in carrying out tax audits, taking into account changes in business processes and transactions which are becoming more complicated due to, for example, e-commerce. Tax audits help to identify gaps and flaws in the law which are exploited by tax advisors. Information and knowledge obtained through tax audits is documented and communicated to the technical department that is responsible for drafting tax law, and as a result the latter would be able to recommend more effective amendments/updates to the tax law. A review of the tax law is in fact being carried out and a sector analysis is being undertaken to identify areas for improvement. One such sector is the property renting sector which has now been identified as a high risk sector. At the same time, measures are also being drafted so as to fight tax evasion in such sector.
- Audit case selection exercises through liaison with other Government departments and entities: A lot of information is available through other government departments and entities and this could be utilised to carry out a risk analysis for the purpose of case selection (example: amount paid by Government entities in the form of rent or consultancy fees). The IT Department is currently developing new in-house audit tools and enhancing the data-warehouse in order to enable the Tax Compliance Unit to identify the endangered tax in various sectors and also specific taxpayers. This is part of a

more comprehensive project that is currently underway in the amalgamation of the Revenue Departments.

- Increase off site income tax inspections and enhance enforcement of collection: Visits to business premises helps the gathering of valuable information such as the level of turnover, capital investment, number of employees and business capacity.
- Provide more guidance and information to citizens explaining their rights and obligations under the relevant laws: The tax department will provide more information to taxpayers to encourage more tax compliance. Such information would include explanations on the interpretation given to complex provisions of the law and its application while also making taxpayers more aware of tax benefits (tax credits, exemptions and reliefs) which are available.
- Invest in more human resources in the investigation/compliance function of Inland Revenue Department and Tax Compliance Unit. Training is ongoing – sessions are being held every fortnight and include presentations by the accountants and other technical personnel within the Tax Compliance Unit. Knowledge and experience is also shared between all tax officers, following attendance to seminars and exchanges organised by Fiscalis and IOTA.
- Provide more training to auditing staff: This will include both in-house training and seminars provided by various institutions. It will ensure that auditing staff are aware of all the risks involved and are also up-to-date with developments in the area of taxation. As a result, this would ensure that they carry out audits in the most effective manner.
- Liaison with foreign tax authorities to minimize cross border tax evasion.
- Maintain double tax agreements with EU/Non EU countries: Double taxation agreements serve the purpose of exchanging information with foreign tax authorities. This enables the auditing department to obtain information which would otherwise not be available.
- Amalgamation of revenue earning departments into one authority: The Tax Compliance unit is responsible for both VAT and Income Tax investigations while the VAT department and Inland Revenue confine their audits solely to their respective legislation (Value Added Tax Act/Income Tax Acts). Taxpayers sometimes are subject to simultaneous investigations by the two departments, which puts a lot of burden on taxpayers. The administration of VAT and Income Tax are governed by two separate laws which also makes compliance very burdensome for taxpayers. Amalgamation of the revenue departments should help to reduce these problems.

The VAT Department is currently in the process of:

- a) Enhancing the risk analysis programme which identifies cases of potential tax evasion/avoidance to be referred for investigation. This programme is an automated system which analyses the VAT declarations, allocates points according to established parameters and subsequently ranks cases to be investigated according to tax risk. The parameters which were being used have been reviewed. Although the exercise which is currently underway is an extensive one, it is envisaged that this should not be a one-off exercise since such programmes require constant adjustments according to findings. The enhancement process is still work in progress.

- b) Analysing and evaluating the work processes which are in place in order to improve the Department's performance thereby resulting in increased efficiency and effectiveness. All work processes (Investigations, inspections, audit trail exercises etc.) which are performed within the Operations Directorate (which is directly involved in enforcement) are being reviewed. This involves a walk through of each process and identifying areas of improvement. The aim of this exercise is to improve this Department's efficiency – to do more with less. Meeting in this regard have started, but due to the fact that the Revenue Departments will eventually merge in the future, only limited changes were introduced in view of such development.
- c) Examining recommendations of a study which was commissioned to evaluate the current situation regarding the use of phantom-ware and zappers in Malta (Phantom-ware and zappers are programmes which are used by fraudulent traders to modify sale records with intention to defraud the government). In this regard, a committee was set up and a meeting was also held in order to examine the recommendations and decide on a way forward with regard to their implementation.
- d) This study has documented a description of risks which need to be mitigated at a macro and micro level (The latter are risks relating to the use of a Point of Sales (POS) system which arise at several stages in the processing of a sales transaction while macro level risks are those which are not specific to the actual process of recording a sale transaction but are more related to a higher level). The report has made recommendations to improve the current local environment, covering strategic, tactical, organisational changes and changes to regulations and legislation. It also presented the required skill profiles to support the recommendations and to achieve an effective audit and inspectorate process.
- e) Strategic recommendations put forward include the establishment of a 3-tier framework for approved fiscal cash registers (ECRs) and POS system environments which address risks to the VAT Department and allow businesses to utilise IT solutions that suit their environments. Voluntary compliance approach has also been recommended.
- f) Tactical recommendations concern improvements to the current practices in connection with ECRs and POSs e.g. enhancement of the inspection process by implementing procedures which have been recommended in the report.
- g) Several organisational recommendations were put forward. These include the setting up of a pool of IT skills at the Ministry for Finance to commence specific audits on POS systems, training of VAT inspectors in forensic work and period checks on ECRs and POSs.
- h) Several legislative and regulatory changes have also been recommended e.g. Update regulations to introduce the parameters on which a POS system can be audited and an exemption granted and the granting of exemptions only in cases where it is not feasible to make software compatible with fiscal printers.
- i) The study did not quantify the local use of zappers and phantom-ware but it quoted a 2010 study by a professor based in the United States of America which claimed that potentially, in Malta €12.5 million is foregone in VAT through the use of such technologies.
- j) There is an increase in requests for exchange of information and co-operation with other Member States both for the purpose of local investigations and from

other activities resulting from EU groups, example: Eurofisc. Last year, Malta has managed to reply to all requests for information from tax authorities of other Member States within the stipulated time limit.

Various initiatives are contributing to curb undeclared work and encourage more people to enter the formal economy.

The Maltese Public Employment Service is one of the players that strives to ensure that persons registering for primary employment and employers engaging local and foreign employees abide to their respective legal obligations. Efforts to enhance effectiveness by the Law Compliance system at ETC are continuous through desk investigations and more targeted inspections. The Law Compliance Unit (LCU) works hand in hand with the Department of Social Security, Tax Compliance Unit, Vat Department as well as the Police Force in order to ensure better law enforcement.

Inspections carried out by the Law Compliance Unit (LCU) at places of work are generally conducted following internal investigations and reports from other government entities and the general public. Most of the on-site surprise inspections carried out are targeted inspections i.e. the location of the abuse is known.

Between January and December 2012, a total of 3,831 inspections were carried out during which 2,727 law infringements were identified, and therefore a success rate of 71.2%. Between January and December 2012, the Corporation registered 875 strike-offs from its employment register. Most of the cases of law infringement were linked to Maltese workers found working at establishments without ETC having been notified by their employer of their employment and hence they were deemed as illegal employees. Since most of the inspections are targeted inspections, the success rate is high. This should not however be interpreted to mean that undeclared work or abuse is substantial since undeclared work has a wider definition and covers other areas other than just law compliance inspections. On the contrary, this should be viewed as an efficient and effective use of the limited resources available within the inspectorate arm of the ETC in curbing abuse or undeclared work.

In addition to the work carried out by ETC, the Benefit Fraud and Investigations Department (BFID), also investigates when social security benefit fraud is suspected or reported. In 2012, BFID continued to focus its resources on investigating all reports of alleged abuse in Social Security benefits and on identifying new trends in social benefit abuse. Reports on alleged social benefit fraud are received from two main sources: the general public and the Department of Social Security (DSS). BFID also takes the initiative to investigate groups of beneficiaries where benefit fraud is suspected.

During 2012, BFID conducted through its Inspectorate, 846 on-site inspections. (During January 2013, BFID conducted 183 on-site inspections). The operations of BFID during this period included two specific investigative exercises that targeted Social Assistance beneficiaries. The first covered beneficiaries who are listed as shareholders and/or directors of companies, while the second concentrated on beneficiaries that have an active VAT number.

From the on-site inspections and from all other investigations conducted during 2012, the Department concluded investigations on 942 cases. Also, during this same period BFID received feedback from DSS that acting on BFID recommendations, DSS had suspended a total of 779 social benefits. (During January 2013, 26 social benefits were suspended)

BFID estimates that during 2012, it contributed to savings of €2,827,459, (during January 2013 it is estimated that BFID contributed to €80,763 in savings) which brings the total savings generated by its operations since January 2006 to €24,555,869. The cost/savings ratio for the period 2006-2012 was of €7.30: €100.

In September, the Department engaged four Inspectors, thus it now has the full complement of five Inspectors.

Legislation in Malta also obliges registered jobseekers to accept employment or training opportunities offered to them. If they refuse, they are removed from the employment register.

The Community Work Scheme is also contributing towards tackling the problem of undeclared work since it is likely that persons who refuse to participate in such scheme may be engaged in undeclared work while receiving unemployment benefits at the same time. From 2009 to date a total of 868 persons (678 in Malta and 190 in Gozo) were called in for an interview to participate in the Community Work Scheme, of which 400 persons are currently actively enrolled in the scheme in Malta and Gozo. Through the project, to date, 52 strike offs from the unemployment register have been made, 19 persons have lapsed from registration, 28 persons were referred to the Department for Social Security for Social Assistance, and 47 persons said they had found employment or were self-employed when they were called in for the initial interview and were therefore never enrolled in the scheme.

Malta is evaluating any possible debt bias of direct taxation systems. While it recognises the general international trend of highlighting the tax distortions that arise from the incentives that tax rules in many countries offer to debt (over equity) financing, Malta will endeavour to find, within the context of its present realities and future challenges, an optimal solution that is geared towards balancing its economic, budgetary, competitiveness and social objectives. It will also strive to introduce any possible changes at a pace that is suited to the local economy and the circumstances induced by the current perilous economic climate in order to avoid unnecessary disturbing exogenous shocks.

In addition, this issue needs to be framed in the context of specific features of the Maltese economy. In an economy where small and medium enterprises (SME) account for 99.9 per cent of total enterprises in Malta and where the proportion of micro enterprises in Malta is higher than the EU average, one must acknowledge the important role played by bank loans as a source of financing relative to larger economies. SMEs have problems accessing equity finance, and this can hold even in most advanced economies that can boast of very sophisticated financial markets. The problem is even more acute in economies like the Maltese with its relatively underdeveloped culture of equity finance.

In fact, even in the case of enterprises from the larger economies of the Euro Area, bank loans constitute a key source of financing for SMEs. A survey on access to finance for SMEs by the European Central Bank indicates that between April and September 2012, 33% of SMEs relied on bank loans as an external source of finance, alongside overdrafts and credit lines, trade credit, leasing, hire purchasing and factoring. In addition, it is to be noted that access to finance is considered to be most pressing problem by 18% of SMEs in the Euro Area. Thus, the issue of reliance on bank debt need not necessarily reflect features of the Maltese tax code but may indeed be reflective of the structure of the Maltese economy. Hence one need to consider the extent to which changes in incentives that may be built in the tax code may have a material effect on the profitability of small and micro enterprises in Malta in the current challenging economic climate.

CSR 2: Take action, without further delay, to ensure the long-term sustainability of the pension system, comprising an increase in the effective retirement age, including through a significant acceleration of the progressive increase in the statutory retirement age compared to current legislation and through a clear link between the statutory retirement age and life expectancy, and measures to encourage private pension savings. Take measures to increase the participation of older workers in the labour force and discourage the use of early retirement schemes.

Pension reform has been on the agenda of policy-makers in Malta for a relatively long time as can be attested by the 2006/2007 Pension Reform and the Periodic Review and current discussions under way since the Pensions Working Group (PWG) proposed new recommendations for further pension reform in its Strategic Review report. In fact, in 2006, Government implemented a set of reforms directed to secure the sustainability and adequacy of the pension of future generations. The parametric changes to the First Pension introduced in 2006 are deemed to have fulfilled their role as they braked what was an accelerated degeneration of the average pension replacement rate and thus stemmed the pension system from collapse.

First part of the Recommendation: Take action, without further delay, to ensure the long-term sustainability of the pension system, comprising an increase in the effective retirement age, including through a significant acceleration of the progressive increase in the statutory retirement age compared to current legislation and through a clear link between the statutory retirement age and life expectancy, and measures to encourage private pension savings.

The Post-Consultation Report of the Pensions Working Group

One of the most important measures addressed by the 2006 Pension Reform Process was the entrenchment of review process of the pension system in Malta. In fact Article 64B of the Social Security Act (Cap. 318) requires the Minister responsible for the Department of Social Security to ensure that every five years a strategic review of the pensions system is tabled in the House of Representatives. This report is expected to review the workings of the pension system over the past five years and present recommendations, “with a view of achieving further adequacy, sustainability and social solidarity” (extract Article 64B of the Social Security Act of Malta). The same Article 64B required that the first report was to be submitted by not later than 31 December 2010. In preparing this Report and the accompanying Supplementary Papers, the Working Group held a wide-ranging consultation process with constituted bodies, stakeholders and engaged the World Bank to carry out studies on its behalf.

A draft Strategic Review of the Maltese Pension system was drawn up by the Pensions Working Group and placed for public consultation. Following the public consultation process, the Pensions Working Group finalised the Post-Consultation Report with all relevant projections, studies and recommendations. The Final Report was presented to Minister responsible for the Department of Social Security and thereafter to Cabinet. Following deliberations, Cabinet decided to place the final report for the consideration of social partners in the Malta Council for Economic and Social Development.

The Report was presented to the Malta Council for Economic and Social Development near the end of May 2012 with all partners given the opportunity to present their formal reactions to the final report and recommendations therein.

Following the meeting with the Social Partners in May, the Pensions Working Group held further informative discussions with other stakeholders. By the end of July the Pensions Working Group had received formal feedback from the General Workers' Union, the Union Haddiema Magħqudin, the National Council for the Elderly, the Alliance of Pensioners and the Malta Chamber of Commerce.

As a result of the Report currently there are no changes in government revenue and expenditure. The situation regarding the future impact can be indicated only once the final decisions regarding the reform process are defined. Following the feedback received from the social partners, the Pensions Working Group submitted its final report to Government for consideration in August 2012.

In view of the inherent sensitivity of the matter, intensive discussions need to be held within Government on this matter since now that the technical work has been done, the next step pertains to the charting of the political way forward.

Setting up of the Pensions Strategic Unit within the Department of Social Security

Cabinet approved the setting up of the Unit and recruitment started taking place. External recruitment will also take place now that a new Government is in office.

The objectives of the Pensions Strategy Unit are:

- Undertakes economic and social research on matters pertaining to the pensions framework.
- Undertakes policy development research and briefing including major in-house/external demands such as the 5 year strategic review as mandated by the Social Security Act; the development of raw policies and the way they are delivered on matters including, but not limited to:
 - Drivers of savings behaviour;
 - Increasing the active participation rate generically and specifically across population cohorts;
 - Extending working lives;
 - Pensioner poverty;
 - Policy inputs as appropriate.
- Undertakes modelling and forecasting of pension policy instruments directly or through the Economic Policy Department of the Ministry for Finance as the case may be.
- Monitors and analyses policy progress and relevant policy developments in the broader economy and society that will impact the pensions framework.
- Undertakes and/or participates in strategic cross-cutting policy domain research on policy areas that impact pensions policy design as stated earlier.

- Works with and liaises in policy design with other Government entities that impact the pension value chain.
- Undertakes evaluations of pension policy and programmes and recommends improvements, calibration et al.
- Designs, introduces and monitors education and information campaigns on pensions and savings for pensions.
- Participates in and monitors pensions policy matters at the European Union and Commission level.
- Works with the Malta Financial Services Authority and other stakeholders to design education and information campaigns to facilitate informed choice on second and third Pension Pillars respectively.
- Leads or participates in policy design and development work on matters arising from strategic review reports on pensions.
- Acts as the secretariat to any ad hoc Working Groups, Task Forces, etc that a Government may establish with regards to pensions review generally or pension issues specifically.
- Carries out consultations on policy options with constituted bodies, et al.
- Works with the National Statistics Office on data elements required and carries out directly or through the National Statistics Office surveys on aspects that relate to the pensions framework.

Setting Up of the Commission on Financial Literacy and Retirement Income

The setting up of the Commission was approved by Cabinet and members of the Commission have been appointed.

The formal objective of the Commission is to design and implement a financial literacy strategy directed to help people achieve the following:

- Be able to make financial decisions related to home ownership, saving, preparing for retirement, et al.
- Attain a better level of understanding with regards to financial services products that they own, may yet purchase and in preparation for the introduction of a Mandatory Second Pension.
- Attain a level of knowledge that allows for the placement of smart attitudes and habits such as asking appropriate questions prior to making an investment choice.
- Recognise miss-selling and other unethical behaviour as well as the ability to interpret the fine line details that accompany a financial services product.
- Understand the basics of how the market operates and the principles of risk and reward that may result when making financial investment decisions.
- Understand how inflation, interest rates and fees associated with saving, investment and debt work.

Following the first meeting of the Commission for Financial Literacy which was held on 8 October 2012, a Working Group has been set up to assist the Commission in designing and carrying out a survey to assess the level of financial literacy in Malta. The Working Group has met three times in the course of 2012 with a view to formulating the questionnaire that will be used for the baseline study to assess the level of financial literacy in Malta. The survey questionnaire is almost finalised and this has been modelled on the template used by the OECD in other countries. Advice and guidance were also sought from the National Statistics Office (NSO) in view of their considerable experience in carrying out surveys of this nature. In the meantime a proposal was received from the NSO, who are likely to be engaged to carry out this survey. This proposal is currently being reviewed and will shortly be presented to the Commission for Financial Literacy.

Active Ageing Policy

In relation to the drawing up of an Active Ageing Policy, this task is currently under auspices of the Parliamentary Secretary for Rights of Persons with Disability and Active Ageing which falls under the Ministry for the Family and Social Solidarity. The fact that the new Government has appointed a Parliamentary Secretary responsible for Active Ageing underlines the importance Government is going to give to this issue.

The Office of the Parliamentary Secretary is currently in the process of reviewing and expanding an existing work-in-progress Strategy which, previously, fell under the responsibility of an ad hoc Inter-Ministerial Committee, set up under the stewardship of the former Ministry for Health, the Elderly and Community Care. Malta's policy on active ageing is based on the three principles of participation in society, employment, and independent living - in line with the Guiding Principles for Active Ageing and Solidarity between Generations, annexed to the Council Declaration on the European Year for Active Ageing and Solidarity between generations (2012): The way forward. The policy is a priority matter for Government and will form part of Malta's efforts to sustain the continued well-being of older persons, as well as implementing strategies that improve their quality of life.

The preparation of this Policy is at an advanced stage and a draft should be shortly presented for Ministerial consideration, followed by public consultation with relevant stakeholders and the general public. The Policy is scheduled to be launched in October 2013.

It will build on existing measures, programmes and actions in the area of active ageing, by proposing further initiatives aimed at ensuring the sustainability of the pension system, increasing employability in later life, improving healthy life expectancy, ensuring social participation and social inclusion, as well as addressing independent living to enable more older persons to 'age in place'. The Policy will act as a catalyst for maximising health life expectancies for women and men, reducing dependency levels through the implementation of health promotion and disease prevention, and providing further opportunities for physical activity in later life. Initiatives that build on sustainable principles, and which seek to provide adequate incomes in later life and strengthen the financial autonomy of older people will also be included.

Furthermore, work is underway on a Strategy on Dementia as well as a National Health Strategy with a focus on increasing efficiency and health system performance monitoring.

Planned Measure: Final decisions of Reform

It should also be noted that Malta has recently undergone a change in administration, which is currently in the process of evaluating developments in this area prior to considering further steps in the reform of the pension system.

Concluding Remarks

Malta has already undertaken action to address the issue of long-term sustainability of the pension reform. Indeed, the sustainability and adequacy of pensions in Malta has been high on the political agenda in Malta for the past few years.

Moreover, parametric pension reform measures were adopted in 2006. Some of these measures come into force in 2007 while others came into force as on 1 January 2011. This reform has addressed multiple issues and led to:

1. An increase in pensionable age to 65 for both genders by 2026 and lengthening of the contribution period.
2. A change in the calculation of pensionable income from the best three years out of the last 10 years to the best ten years from the last 40 years.
3. A Guaranteed National Minimum Pension payable at a rate of not less than 60% of the Median Income which was introduced for persons born after 1 January 1962.
4. The Maximum Pensionable Income for persons born after 1 January 1962 will follow a more dynamic path with an indexation of 70% to Wage Growth and 30% to Inflation.

Through this ongoing reform which was initiated in 2006 and which will continue up to 2030, it is projected that the life expectancy of 60 year olds will increase by 3.3 years and 3.1 years for males and females, respectively. The increase in the average exit age from the labour market is expected to exceed the gains in life expectancy by 2030. Therefore this shows that the gradual increase in retirement age adopted in the 2006 Pension Reform remains valid (it is projected that as a result of the 2006 Reform, the average exit age will increase by 4.8 years over the period 2006-2030). Thus the parametric changes to the First Pension introduced in 2006 are deemed to have fulfilled their role as they braked what was an accelerated degeneration of the average pension replacement rate. Therefore, pending the current ongoing discussions taking place at national level on further pension reforms, we do not think that there is any particular urgency in further accelerating the progressive increase in the retirement age as suggested the first part of the recommendation.

Furthermore, as outlined above, Malta has carried out a Strategic Review of the pension system in 2010 as mandated by the Social Security Act. The completion of this Strategic Review meant that the Pensions Working Group put forward 45 possible recommendations as a continuation of this reform. A Post Consultation Report was also commissioned and largely confirmed the recommendations of the review. Both reports were the fruit of extensive consultations with a variety of stakeholders.

As yet, the proposals emanating from the Strategic Review are still recommendations. Government is currently analysing these recommendations together with the feedback received following an extensive consultation process with stakeholders represented in the Malta Council for Economic and Social Development (MCESD) and other groups that lay outside this Council.

However, it should be noted that with regard to the introduction of a third pillar of private pensions, legislation has already been approved by Parliament and it will come into force in due time. This Act will be supported by a number of Legal Notices covering different aspects as well as by Directives/Rules to be issued by the Malta Financial Services Authority, which were submitted for consultation on 1 April 2013. These are subject to a six week consultation period, following which they will be submitted for publication in accordance with established procedures. It is foreseen that the Retirement Pensions Act will enter into force concurrently with these rules and procedures.

Given the above, while the long term sustainability of the pension system in Malta is a priority to Government, overtly prescriptive proposals may adversely affect sensitive consultations being undertaken with social partners. Furthermore, having outlined the main developments in this area it is important to benchmark any policy decisions against long-term budgetary projections. In this regard, the Ageing Report 2012 indicates that total age-related expenditure for Malta is projected to rise by 2.4 percentage points of GDP between 2010 and 2040. Meanwhile, age-related expenditure is projected to rise by a total of 8.2 percentage points over the period 2010-2060. These results are indeed indicative that though the increases in expenditure relative to ageing are not insubstantial, these increases are concentrated over the outer years of the projections i.e. the years 2040-2060 and hence are subject to a higher degree of uncertainty relative to projections applicable for the period 2040-2060. These results are also consistent with the outlook for life expectancy up to 2030, as described above.

Second Part of the Recommendation: Take measures to increase the participation of older workers in the labour force and discourage the use of early retirement schemes.

With regard to the participation of older workers in the labour market, new legislation was introduced in 2008 through which persons of pensionable age under the age of 65 are now able to work without losing their pension entitlements, irrespective of the amount of earnings and irrespective of their age. EUROSTAT data indicates that these measures have been effective with the employment rate for persons aged 60-64 years rising from 10.8% in 2000 to 15.1% in 2011.

It is to be noted that as part of the ongoing pension reform, Government has introduced a new medical assessment as part of the criteria for qualification to the invalidity pension to ensure that the system will not lead to early exit from the labour market with a significant amount of savings (of roughly €10 million) being made on pension expenditure while the pension population has been substantially reduced thereby acting as an effective deterrent to labour market exit.

During 2012, Government has also introduced a psycho-social assessment which is carried out by a multi-disciplinary panel to ascertain the working capacity of persons making claims for social benefits as a result of work incapacity.

Another measure that was introduced in the Budget for 2012 aimed at encouraging older people to remain active in the labour market was the entitlement to those pensioners working part time with Government to a reduction rate of 15% in income tax. This reduced rate was already applicable to those working part-time in the private sector.

The Employment and Training Corporation provides a significant number of schemes and initiatives aimed at increasing the participation rate of older persons in employment. The measures which older people can benefit from include: the Employment Aid Programme, the Training Aid Framework, and the Community Work Scheme. Furthermore, the ETC offers

other schemes which provide benefits such as up-skilling and re-skilling of participants' competences and which contribute to the promotion of lifelong learning participation by adults, hence increasing their employability in a dynamic and competitive labour market. These include the Enhancing Employability through Training Programme, the Work Trial Scheme, and the Employment in the Social Economy Programme. Meanwhile, ETC has been developing new measures aimed at providing focused attention to the particular needs of various target groups including older workers. Motivational seminars, newsletters and other adult initiatives in Soft Skills and Job Hunting Skills (including CV and interviewing skills as well as trade advice) will be organised in 2013 for adult jobseekers (50+) and very long term registrants.

Government is also undertaking a number of measures to promote adult participation in lifelong learning, which will also serve to enhance participation of older people in the labour market. For details on these measures please refer to the part entitled 'Lifelong Learning Strategy' under CSR 3 below.

As can be seen from the above, Malta is already addressing many of the concerns raised by the Commission in this Country Specific Recommendation, although as pointed, further work is still needed on the matter.

CSR 3: Take steps to reduce the high rate of early school leaving. Pursue policy efforts in the education system to match the skills required by the labour market. Enhance the provision and affordability of more childcare and out-of-school centres, with the aim of reducing the gender employment gap.

The following can be considered as the key measures Malta is undertaking to meet the requirements of this CSR:

Early School Leaving Strategy

On 5 April 2013, the Ministry for Education and Employment launched an Early School Leaving Strategy aimed at reaching the Europe 2020 targets. The consultation process for this strategy was also launched and will come to an end in mid-May with a national conference. It is expected that following this process, the Ministry for Education and Employment will be establishing a new target for ESL within the context of the Europe 2020 targets. The strategy aims to shed light on the reasons why students leave school at an early age and develop policies that motivate them to continue their studies.

Even though significant improvements in the early school leaving rates were made, there is still a major challenge ahead in order to reach the Europe 2020 target of 10%. The current ESL rate in 2012 was 22.6%, following an NSO revision earlier this year.

The strategy will be based on the following main principles:

- Proactive, supportive, timely and accessible measures to tackle ESL by schools and all other structures involved.
- Focus on a multi-stakeholder approach including parents, NGOs and local community groups.
- Development and maintenance of appropriate structures and early warning systems.
- Parity of esteem between academic and vocational pathways.
- Focus on flexible exit and entry points into the education system.

The aim is to monitor early school leaving through collaboration with the National Statistics Office and to use from EU 2014-2020 multi-financing framework to develop a robust statistical framework for monitoring progress on ESL.

The coordination of policies on ESL will be achieved through the Inter-Ministerial Committee on Early School Leaving, an Early School Leaving Monitoring Unit in the Ministry for Education and Employment and an Advisory Early School Leaving Board for targeted supply of schools.

Specific research on the different aspects and factors influencing ESL to facilitate the development of targeted measures to tackle ESL will be undertaken.

Preventative measures against ESL will include the implementation of the National Curriculum Framework; the provision of more opportunities for VET in compulsory education; strengthening of the Validation of Informal and Non-formal Learning and development of new forms of teaching and learning, such as e-Learning.

Intervention measures will include the review of existing measures with a focus on school, parent, teacher collaboration; the development of a multi-stakeholder approach to address the needs of particular groups of students at risk of ESL and further strengthening of guidance throughout compulsory education.

Compensation measures will include the review of second chance and re-integration programmes and the provision of comprehensive support.

As from January 2013, the National Statistics Office will publish both methods for ESL figures as agreed with EUROSTAT. A new methodology for the computation of ESL figures will be used when ISCED 2011 comes into effect into January 2014.

Reform of the National Curriculum Framework (NCF) in Malta

The process of reviewing and updating the National Curriculum was launched in March 2008. The process was finalised in December 2012. The NCF is founded on six general principles, namely: entitlement; diversity; continuum of achievement; student-centred learning; quality assurance; and teacher professional support. In harmony with these principles, the National Curriculum Framework in Malta aims at developing learners who are capable of successfully developing their full potential as lifelong learners; learners who are capable of sustaining their chances in the world of work; and learners who are engaged citizens in constantly changing local, regional and global realities.

The NCF aims to:

- Encourage children, young people and teachers to work together and learn from each other.
- Sustain individual attention, so that all children fulfil their capacity.
- Support schools to fulfil the expectations of children and their parents.
- Provide quality time for social interaction, non-formal learning and peer activity.
- Direct education leaders to rationalise the content of Learning Programmes so as to ensure quality and not magnitude.
- Ensure that, in the context of holistic entitlement of the Learning Areas, young people in compulsory education have as an indispensable prerequisite, mastery in Maltese and English, Mathematics, a Science subject and Digital Literacy.
- Help children to regard social justice and solidarity as key values in the development of the Maltese society.
- Empower parents and young people to work towards the acquisition of a formal qualification in key competences as the foundation for Lifelong Learning.
- Support education leaders to successfully implement the NCF and systematically monitor its development at classroom level so that national targets are achieved within established timeframes.
- Request teachers to regard children as Malta's future workforce and therefore ensure that positive attitudes towards excellence, commitment, responsibility,

flexibility and entrepreneurship form part of the learning process.

As part of the national curriculum, Malta has worked on introducing vocational subjects in the secondary school cycle. In this regard during 2010, the Ministry of Education and Employment, signed a Memorandum of Understanding with Pearson Education Ltd. expressing the intention to collaborate on the provision of BTEC (Business and Technology Education Council) qualifications for the schools sector in Malta. The collaboration agreement covered the supply of qualifications and associated teaching and learning resources, training of staff as appropriate to enable the delivery of the qualifications in Malta, training in quality assurance methodology and practice to ensure high quality standards in the delivery of all programmes, support for the promotion and marketing to parents and learners, and advice and guidance to support the establishment and implementation of the vocational and core programmes. Four vocational subject areas (Engineering, Health and Social Care, Hospitality, and Information Technology) were identified and scheduled to be piloted in six state colleges and 4 non-state schools from September 2011. From September 2013, the aim is to extend this Pilot project to other schools. The medium-term objective was to develop a VET qualification suitable for Malta. By 2015, the implementation of VET is expected to be using a locally developed qualification awarded by MCAST which was always the target for Malta.

Other measures in the NCF Implementation Strategy which will start as from this year include:

- The setting up of a NCF Implementation Review Board charged with establishing strategic direction; establishing strategic priorities for the NCF implementation.
- The establishment of a programme of studies for the Early Years which includes the setting up of the Panel for the Early Years Cycle of Education to provide guidelines about appropriate programmes leading to the achievement of the Early Years outcomes (Kindergarten 1-Year 2).
- The setting up of a Learning Outcomes Framework Board responsible for the setting up of Learning Areas Panels for the designing of the learning outcomes and monitoring of the different learning areas.
- A new Literacy Strategy which will be launched in Q3 2013.
- The Benchmark examinations replaced the Junior Lyceum examinations in 2011. Students in Year 6 sit for the Benchmark examinations and are assessed in the three core subjects: Maltese, English and Mathematics. In Maltese and English, students are assessed in the four skills (listening, speaking, reading with understanding and writing) and in Mathematics they have a mental and written paper. For the June 2013 sessions, Access Arrangements will also include a reader for the Maltese and English Reading Comprehension components in addition to Mathematics. The provision of a scribe for the transcription of illegible words will also be available on request for the Maltese and English writing components. Such arrangements will make the benchmark examinations more inclusive and will enable students to perform to their potential.
- A further push in the hours of hands-on teaching science education at a primary level.

The above two measures (i.e. the Early School Leaving Strategy and the Reform of the National Curriculum Framework in Malta) will also contribute to the achievement of Malta's education target.

Follow up exercise with 4th and 5th Formers

As from June 2012, the college career advisors and the trainee career advisors contacted all students in their last year of compulsory education within their respective college who did not sit for the Secondary Education Certificate (SEC) Exams. The aim is to encourage students to register with the Youth Inc. Programme or other post secondary institution and to explore different careers/work options. As from scholastic year 2011-2012, Form 4 students with already high rate of absenteeism also started to be contacted and in certain colleges, students with low academic achievement started to be provided with career sessions.

As from scholastic year 2012-2013, the College and trainee career advisors started another process to identify those Form 5 students who are not interested in sitting for the Matriculation and Secondary Education Certificate (MATSEC) examinations. This process was initiated towards the beginning of the scholastic year to give ample time to the professionals involved to meet each student individually and formulate an individual career plan focusing on their interests and capabilities and thus ensure that more students continue and are channelled with their lifelong education process.

Walk in Service

An additional service which is also being offered to 5th Formers during the summer months is the Walk in Service. Preparation and promotion of the service started before the summer recess: talks were held with 5th Formers before they finished school and in certain Colleges, meetings were also organised for parents. Students could set up an appointment with the Trainee Career Advisors and those who wished to be accompanied by parents, could also do so. In these cases, the session turned into a family gathering where the student could feel that his/her career was very 'important', not only to oneself, but also to the family as a whole. From a psycho-social perspective, this contributes directly to enhancing the self-esteem concept.

The students' response to this service was very encouraging. In fact, during Summer 2012, Career Advisors held one-to-one sessions with 370 students across the Colleges of Malta.

For the first time, a walk-in service was also offered during the summer at the Giovanni Curmi Higher Secondary School (GCHSS). Career guiding service was offered to all the students who sought advice regarding the post-secondary courses at GCHSS. The number of students who sought this service was 283.

The role of the Career Guidance Section as well as school-based Guidance Teachers, Trainee Career Advisors and College Career Advisors in this scenario is to help students identify their own strengths and weaknesses, as well as the most suitable post-secondary trajectory that would meet their particular needs and interests.

For further detail refer to measure 'Tackling absenteeism by strengthening student services' under Section 4 – Education.

Broadening Access in Education: An Initiative by the University of Malta

A Broadening Access to Education Initiative was set up at the University of Malta in October 2011 to increase participation in post-secondary and tertiary education in regions with low level of participation, with a particular focus on Cottonera. In 2011-2012 the Working Group on this initiative undertook the following activities:

- Launch of the initiative in a public seminar in November 2011.
- A mentoring programme by University students for a group of young people at Fortini Youth Club ending with a scavenger hunt and meeting with Rector at University in January 2012.
- An orientation/shadowing visit at University by Form V students (16-year olds) attending St Margaret's College.
- An intervention study with 12 students, 4 each from the three cities in Cottonera (11-15 year olds, mixed gender), with work starting in February 2012, including amongst others
 - Interviews and questionnaires with the 12 students, which were identified as having a high potential at risk of being hampered from continuing their education by certain problems related to their socio-economic background, their teachers their parents.
 - Mentoring programme for the 12 students led by University trained mentors under the supervision of university lecturers.
 - Family and community support programmes for the families of the 12 students.
 - School support in the form of career guidance and personal counselling for the 12 students.

The intervention study is now in its second year (2012-2013) and is now led by the Cottonera Resource Centre, a new centre established by the University of Malta. The Cottonera Centre is presently undertaking an evaluation of the first phase of the project, while Professor Carmel Cefai, Director of the Centre for Educational Resilience and Socio-Emotional Health is publishing a journal paper in Q4 2013 on the first phase of the project.

- Degree Plus accreditation of the mentoring programme, both for the current cohort of mentors as well as for the coming years.
- Identification and procurement of St Margaret's College Principal office in Fortini as the premises of the Cottonera Resource Centre.
- Establishment of the Cottonera Resource Centre in July 2012.
- Organisation of Discovery Week in Cottonera in November 2012, with a number of initiatives in the three cities led by University.
- Organisation of the Kids on Campus programme for 24 children aged 9-12 from Cottonera (July-August 2012); the 12 children were sponsored by the University. This initiative is being repeated in July-August 2013.
- Organisation of work placements for Cottonera upper secondary students as a joint venture between the Faculty of Engineering and St Margaret's College.
- Establishment of an initiative at the EuroCentre for Educational Resilience, in collaboration with the Cottonera Resource Centre, for increasing access to University at a national level. The EuroCentre for Educational Resilience will be taking a number of initiatives in this regard subject to availability of funding.
- Plans for a Degree Plus programme in teaching English in informal settings.

The Cottonera Resource Centre, besides continuing the activities started by the Working Group, is also broadening the objectives of the initiative to include other activities to celebrate the richness, diversity and strengths of Cottonera and its citizens. The University of Malta Cottonera Resource Centre has been set up to act as a bridge between some of the communities in the inner harbour area and the University of Malta. It seeks to act as a hub that co-ordinates links between these communities and the University, facilitating resource-transfer and capacity building.

The main aims of the Centre are to promote higher and tertiary education among these communities by building on existing skills and resources, providing information as well as support and guidance to those interested in furthering their education. At the same time, the Centre's remit is to promote the area's potential, in the form of skills, trades and other forms of heritage that are particular to the region.

In future, the Centre will be working on the organisation of conferences, seminars and similar activities related to the Cottonera area; collaborating with local councils and civil society on projects, initiatives and events that seek to promote the area; conduct or facilitate research on issues or topics related to the area, as well as making existing research results more accessible to the community. It will be assisting in the logistical aspects of courses organised by the University at all levels in the communities in question and/or Cottonera Resource Centre; managing community-based educational initiatives, both formal and non-formal; and building networks with entities active in the community, especially those dealing with educational institutions, agencies looking after the interests of groups facing social disadvantage, and entities that help in career guidance and in the promotion of employment.

The Centre aims to have an intergenerational focus to allow for a range of ages to benefit from its initiatives. It further seeks to facilitate contact and cooperation between researchers available at the University of Malta and community members/entities. It will operate through a community-centred approach and will continue developing according to what the community identifies as a priority.

Utilisation of EU Funded Projects to address the Challenge of Skills mismatches in the Labour Market

MCAST ESF-Funded Projects

Between the period 2008 and 2015 the Malta College for Arts, Science and Technology has benefited from seven European Social Fund projects addressing the challenge outlined above with a total allocation of over EUR 33 million. In particular 3 of these ESF projects are addressing the skills mismatch between education and the labour market:

ESF 1.34 - Addressing skills mismatch in the Aviation Maintenance Industry: The scope of the project is to offer basic training in EASA PART-66 Category A aircraft maintenance, EASA PART-66 Category B1 aircraft maintenance advanced, EASA PART-66 Category B2 avionic systems and Aircraft Structures and Composites training.

ESF 2.85 - Industrial Needs and VET to Optimise Human Capital: The project addresses current and anticipated education needs of ten industrial sectors and identifies potential skills gaps and shortages of present workforce. Lacunae will be addressed through the implementation of specific training.

ESF 3.102 - Inclusion for Employment: A substantial upgrading exercise within the context of Vocational Education is being conducted. A number of existing courses are re-designed so as to become more relevant to current economic needs. Furthermore new courses are also designed and launched to make the offerings of the Malta College for Arts, Science and Technology more attractive to a larger audience.

The seven European Social Fund projects implemented by the Malta College for Arts, Science and Technology span from 2008 to 2015. Concretely ESF project 1.34 - Addressing skills mismatch in the Aviation Maintenance Industry was implemented from October 2008 to December 2012; ESF project 2.85 - Industrial Needs and VET to Optimise Human Capital is being implemented from July 2010 to July 2013; (a request for which has been made to extend this project to the first quarter of 2015); and ESF 3.102 - Inclusion for Employment is being implemented from 2011 to 2014.

Employability Programme

The overall objective of the Employability Programme is the reintegration of jobseekers and the inactive into the labour market and the provision of assistance to employed persons to secure and advance their position within the labour market. For further details on this programme please refer to measure 'Strengthening Employability Prospects – (d) Employability Programme under Section 4 – Employment.

Though this project has reached its end, the Corporation has applied for another project, of approximately €3.4 million, to offer further training as from the coming months until the end of 2014. This project has been included as a new measure under Section 4 – Employment.

Training Aid Framework

The Training Aid Framework (TAF) is co-funded through the European Social Fund and addresses the challenges faced by Malta in the provision of LLL, while at the same time providing training that is most relevant to the labour market. For further details on the TAF please refer to measure 'Strengthening Employability Prospects – (e) Training Aid Framework under Section 4 – Employment.

Provision and affordability of Childcare Centres

The National Childcare Unit was created in March 2010 within the Foundation for Educational Services (FES) which falls under the remit of the Ministry of Education and Employment. This Unit currently coordinates the management of the operations of Smartkids Childcare Centres and also co-manages the centres in which government has a public private partnership agreement.

Childcare services are offered to children aged between three months and three years. A personalised service of quality care for all children is offered and special attention is given to children who are at risk of poverty or social exclusion. The childcare centre coordinators work closely with other professionals and with the families to help ameliorate the families' situation. Regular information sessions/workshops are organised for the service users and the general public.

The childcare centres follow the National Standards for Child Day Care Facilities (2006). The service is not offered on a first come first served basis, but is offered to the families who need it the most. Therefore, all applications are assessed and prioritised accordingly. Family contribution for the service is means tested.

Indeed, the childcare service is not offered on a first-come first-served basis, but is offered to the families who need it the most and to women returning to the labour market. All applications are assessed and priority is given to families which fulfil the following criteria:

- Mother or father trying to re-enter the workforce;
- Mother or father intending to follow a course or start training;

- Parents/legal guardians who work within the school college where the childcare centre is situated;
- Children coming from families where primary caregiver/s suffer/s from mental health difficulties, physical impairments, severe health conditions that might affect the child's upbringing;
- Children whose parents or legal guardians do not have a support system;
- Children in foster care;
- Children with educational, physical, medical, psychological and emotional concerns that affect the child's progress;
- Service users referred from social services agencies, residential homes, referrals from speech therapists, occupational therapists, and the Child Development Assessment Unit amongst others;
- Children from migrant families who need to work;
- Children of teenage parents who need to work or continue their studies.

FES tries to create balance between service users. Although there are the criteria mentioned above and placements are limited, working mothers and service users who fulfil several criteria are given priority.

During 2011, Government Childcare Centres extended their operational hours until 1600hrs so as to be more accessible for working parents.

To date, there are 12 active centres (Vittoriosa, Birkirkara, Qawra, Siggiewi, Pembroke, Cospicua, Santa Venera, Floriana, Marsa and Qormi, Naxxar and San Ġwann).

FES is also a partner in the running of three other childcare centres on a Private/Public Partnership situated within three different state schools. The centres are situated in Luqa, Għargħur and Paola.

During 2012, placements stood according to the figures as shown in Table 8 below.

Table 8:

Smartkids Childcare centres	2011	2012
Smartkids Access Vittoriosa	63	75
Smartkids Access Qawra	84	68
Smartkids Birkirkara	43	85
Il-Bejta, Cospicua	65	61
Il-Merill, Pembroke	75	104
Id-Denfil, Siggiewi	65	95
Il-Bebbuxu, Santa Venera	79	132
It-Tgħanniqa, Floriana (opened January 2012)	10	67
It-Tbissima, Qormi (opened March 2012)	N/A	88
Il-Pespus, Marsa (opened	N/A	67

June 2012)		
Naxxar	N/A	N/A
Total	484	842
PPPs		2012
Għargħur	114	96
Luqa	109	125
Paola	59	49
Total	282	270

There are also Government-funded centres within the Employment and Training Corporation, the MCAST, the University of Malta and the Water Services Corporation.

Newly-planned projects:

The University of Malta has also started the works to open a childcare centre on the grounds of the Junior College in Msida.

In Gozo, there is an ongoing major building project of a new Civic Centre next to the Gozo General Hospital. This will incorporate a childcare centre within the new building. The Nadur Local Council also has a project (presently at MEPA stage) to build a new childcare centre. The Malta Enterprise also has a number of childcare projects as part of the re-generation of the Industrial Parks in Mosta, San Ġwann, Corradino, Hal Far and Xewkija (Gozo). For further information on the Malta Enterprise projects please refer to measure 'Childcare Centres' under Section 4 – Employment..

Private or Church-run childcare centres:

There are 39 private/church-run centres which are registered. All of the childcare centres have to follow the National Standards for Child Day Care Facilities (2006) and the Occupational Standards (2012).

Accessibility of childcare

Public centres:

The operational hours of the Smartkids Childcare Centres are between 0730hrs and 1600hrs.

Private or Church-run centres:

All centres are open from Monday to Friday. These have varying opening and closing times. Opening times range from 0500hrs to 0900hrs with the vast majority opening between 0700hrs and 0800hrs. Similarly, closing times range between 1215hrs and 1830hrs, though most centres close on the hour between 1500hrs and 1800hrs.

Two centres offer their services 24 hours a day, but the service must be booked in advance. An additional two centres have indicated the possibility of extending their service beyond closing times, but this must be booked in advance.

Operational hours for all registered childcare centres:

- 23 centres operate between 8.5 and 10.5 hours daily;

- 1 centre operates 12 hours daily;
- 1 centre offers its services for 13 hours daily;
- 2 centres can remain open for up to 24 hours;
- 23 centres only offer their services between 3.5 and 7.5 hours a day. Of these, 6 centres operate between 3.5 and 5 hours daily, while 17 centres operate between 5.5 and 7.5 hours a day;
- 4 centres are open during the weekend (2 open on Saturday only, while the other 2 centres are open on Saturday and Sunday). The 2 centres open on both Saturday and Sunday are open 24 hours, while those open on Saturday only offer their services between 0800hrs and 1300hrs and between 0800hrs and 1400hrs respectively.

Affordability of Childcare:

Currently, public childcare is provided free to families whose income does not exceed €10,000 a year. Beyond that threshold, childcare is subsidised to families with other income brackets as per table 9 below:

Table 9:

Combined Family Income based on yearly gross salary	Monthly Contribution	Payment according to use, number of days per week				
		1 day /week	2 days/ week	3 days/ week	4 days/ week	5 days/ week
0 - € 10,000	Nil	Nil	Nil	Nil	Nil	Nil
€10,001 - € 12,000	€40	€8	€16	€24	€32	€40
€ 12,001 - € 14,500	€65	€13	€26	€39	€52	€65
€ 14,501 - €19,500	€90	€18	€36	€54	€72	€90
€ 19,501 plus	€150	€30	€60	€90	€120	€150

Family-friendly measures aimed at encouraging the use of childcare facilities and thus reducing the employment impact of parenthood:

Current measures include:

- Parents who paid fees for childcare services to centres which are registered or otherwise approved by the Department for Social Welfare Standards or the Directorate for Quality and Standards in Education or is a service provided by the Foundation for Educational Services in respect of their children who are below the age of 12, are eligible for a deduction equal to the lower of €1,300 for every child or the amount of fees paid during 2012 upon the filing of the income tax return.
- Through the childcare subsidy scheme, the Employment and Training Corporation offers a subsidy of €1.50 per hour on childcare services availed of by individuals during the period of training offered by the Corporation. The amount of hours eligible for subsidisation are calculated from one hour prior to one hour following the duration of the training course and is available to all individuals having parental responsibilities. In all cases, the subsidy shall only apply for the days and times during which a parent/guardian is attending for an ETC training course.
- To further increase the number of women employees and women returning to work, with effect from the year of assessment 2011, employers can claim a deduction, upon the filing of their income tax return, in respect of expenditure incurred as from 1 January 2010 on the construction of a childcare facility or the acquisition of childcare equipment at the workplace. This deduction is capped at €20,000 and is allowed against the employer's income derived during the year in which the costs are incurred. Any unutilised deduction shall be carried forward to future years.

Planned measures include:

- Families in Malta and Gozo will have the opportunity to send their children to childcare centres free of charge. This project will be carried out with the involvement of the private sector.
- Families who opt to send their children to private childcare centres will benefit from an income tax deduction of €2,000 on childcare centre fees.

Afternoon School Service/Programmes in the Community

FES has been providing an after-school care service – Klabb 3-16 – since October 2009. The service aims to provide an after-school care service within school structures; to bridge the gap between day school and regular working hours of parents in employment; and to utilise schools after regular school hours. It is a service for school-age children (3 to 16 years old) which runs throughout the year.

The Foundation for Educational Services is offering the Klabb 3-16 service from within sixteen schools, and is planning to open a further 14 new centres in 2013. In total, Klabb 3-16 service will be offered from 30 localities in Malta and Gozo. Transport will be provided from localities without Klabb 3-16 centre. The service will also undergo an organisational restructure to accommodate and ensure the provision of a quality service. Since opening the centres, uptake has been increasing gradually in all centres. A pattern in the use of service

could be observed with use of service starting at around 10-15 children a day and increasing to an average of 25 a day during school days and 200 during the summer months.

New localities are being identified for new Centres to be opened between 2013 and 2015. In the meantime, initial preparatory meetings were held with College Principals and school administrators in order to discuss the setting up and running of the new centres. The procedure for recruitment of full-time staff within the service is also underway.

In order to promote this service to the community and therefore increase participation, various meetings were held with college principals, school administrators and even parents. The launch of a new FES website and the setting up of a Facebook page aim to raise the visibility of FES and its services. The website offers other services to community members, such as providing information about the service, FAQs about after-school service geared towards parents and employers as well as the option for parents to register and pay online for the after-school service. Facebook, on the other hand, is providing more interaction with people who use FES services, with regular updates and parents posting queries which are instantly responded to by FES staff members.

Accessibility:

The service is offered daily, from Monday to Friday between 1430hrs and 1800hrs during school days; and from 0715hrs to 1715hrs during school holidays. This is open to everyone who would like to make use of this service – be it parents whose children attend public, private or Church schools.

Placements in Klabb 3-16 are not limited by the residence of the parent/s. Parents have the flexibility to use the service in any locality which is more convenient for them.

There are no waiting lists in Klabb 3-16.

Parents can register and start using the service when they require.

Affordability:

The Klabb 3-16 service is provided at an affordable fixed rate of €1.20 per hour. In addition to this, there is a subsidy which families can apply for if they fall within the categories, as explained below.

1. A person who attends education and training during the times in which Klabb 3-16 is offered so that s/he can seek employment.
2. A person who is about to enter gainful employment, which takes place during the time of the service.
3. A person who is responsible of another person suffering from serious illness or disability and who would like to enter gainful employment.
4. The subsidy can be offered to those parents who are referred from other agencies or professionals.

Table 10 below shows the applicable subsidy rates.

Table 10:

Combined Family Income	Subsidy Rate
0 - €10,000	75% of expenses
€10,001 - €12,000	60% of expenses
€12,001 - €14,500	45% of expenses
€14,501 - €16,500	30% of expenses

Klabb Sajf:

Klabb Sajf is similar to Klabb 3-16, however this is offered from one locality (Floriana) during the summer and is available to children of public service employees only.

Klabb 3-16 and Klabb Sajf were both made available during summer 2012 with the number of registrations amounting to 1200. The service was provided from Monday to Friday, from 0715hrs to 1715hrs in 8 centres.

Incentives to Attract More Inactive Women to the Labour Force

The introduction of incentives aimed to attract inactive women to enter the labour market are proving to be successful, as a result of which according to the Labour Force Survey (Q4 2012) female participation has increased from 41.1% in 2011 to 45.4% in 2012.

Maternity leave has been increased from 14 to 16 weeks in 2012 and further increased from 16 to 18 weeks in 2013. The extra weeks are payable from public finances with a fixed weekly rate of €160. In addition, employees who were on maternity leave on 1 January 2013 but have commenced the maternity leave before the said date were also automatically entitled to this increase.

As from 1 January 2012, adoption leave has been increased from 5 to 16 weeks. This entitlement has been extended to 18 weeks as from 1 January 2013. As with maternity leave, employees are entitled to their full salary for the first 14 weeks adoption leave. If the employee chooses to avail oneself of leave beyond the paid 14 weeks, the additional 2 weeks as from 1 January 2012 and 4 weeks as from 1 January 2013 will be considered as special unpaid leave and payable at a fixed weekly rate equivalent to the Maternity Leave allowance. Adoption leave may be availed of by both the mother or the father. It can also be shared between them. Adoptive parents may also utilise 1 year unpaid parental leave for each adopted child and a once only career break of 5 years unpaid leave for the same purpose.

A new concept was also introduced whereby in terms of Legal Notice 503 of 2011, employers cannot force pregnant employees to work overtime. Furthermore, employees shall not be obliged to work overtime for a 12-month period, either from the birth or from the effective date of the adoption of their child.

Another measure is being partly undertaken by the Employment and Training Corporation through the INT scheme (Ibda Negozju Tiegħek) which is aimed to assist individuals interested in starting their own business. This initiative includes guidance, training in businesses-related issues and mentoring. Participants who have completed the training programme and presented a viable business plan are awarded an enterprise grant of €2,330. In order to encourage further uptake of this scheme, since February 2012, the financial grant was increased from €2,330 to €5,000. This scheme is offered to male and female clients. Between January and December 2012, a total of 33 persons applied to receive training and mentoring in this area, of which 15 were women.

Moreover, training programmes aimed to assist individuals who have a small business or are interested in enhancing their business management skills are also organised.

Publicity campaign to attract more women to the labour market

The project was a campaign (called NISTA) spanning two years which included a 13-week TV series promoting financial independence for women and the greater involvement of men in the sharing of non-remunerated family work. It targeted employers by highlighting the benefits that increased work-life reconciliation measures at work can have for both employers and their employees. The NISTA campaign also included a study which, amongst others, analysed the reason for the low female employment rate in Malta.

The campaign aimed to:

- Increase the female employment rate by promoting the benefits of financial independence for women through formal employment and self-employment; sharing of non-remunerated work at home; and a second income for the family, to achieve a better standard of living.
- Decrease the feminisation of poverty through dependence on the State and/or their spouse/partner where financial matters are concerned.
- Promote a change in the workplace mentality by targeting employers on the benefits and win-win solutions that can be achieved through the introduction of various work-life reconciliation measures in their organisations.

Phase 1 of the campaign was targeted towards the Society in General. During this phase, the existing stereotypes about women and men's roles in the family and at work were challenged. The idea that 'through proper work-life reconciliation, a family can achieve a better balance' was promoted. Such promotion was made through TV and radio spots and billboards. Phase 1 was completed in September 2011.

Phase 2 of the campaign was targeted towards women. During this phase, women were encouraged to consider their re-entry into the labour market. The advantages of becoming more financially independent were highlighted. Phase 2 also addressed the consequences of dependency on state benefits for the whole society. All TV spots were aired.

Phase 3 of the campaign focused on Promoting Men in the Family sphere. This part of the campaign focused on challenging traditional gender roles and more specifically men's roles within the family which are often limited to their bread-winning role with limited sharing of non-remunerated tasks. Therefore, this part of the campaign targeted men through a number of television adverts and testimonials, radio adverts and billboards which promoted the benefits of their greater involvement in the family.

Phase 4 focused on Employers for work-life balance. Employers were targeted through television spots and articles in specific magazines targeted to employers. This campaign aimed to highlight best practice employers who have implemented measures favouring better work-life reconciliation for their employees, and demonstrated the benefits that work-life reconciliation measures have for businesses, thus creating a win-win solution for all

involved. Phase 4 has commenced in August 2012 and the planned television programme has been produced and aired.

As to date, the campaign is finished, thus all the phases are completed.

Family-friendly measures in the public sector

Government has been at the forefront of translating its work-life balance commitment into effective family-friendly policy solutions. To that effect, Government aims to foster a better balance between workplace and workforce needs to create a family-friendly work environment which is conducive of social inclusion and employment opportunities for all.

The following family-friendly measures are currently in force in the public sector:

Maternity Leave: A pregnant employee may apply for maternity leave for an uninterrupted period of eighteen weeks.

Adoption Leave: Public employees may apply for paid adoption leave for an uninterrupted period of eighteen weeks. In those cases of international adoptions which involve lengthy processing abroad, special consideration will be given for the granting of additional separate periods of unpaid leave, which should not exceed three months in aggregate.

Breastfeeding Facilities: The conditions of work of breastfeeding employees should be facilitated through the temporary adjustment of the work environment and/or the hours of work. In case of requests for breastfeeding facilities, employees should be provided with adequate, clean and private facilities for the expression and storage of milk. Employees are to avail themselves of a maximum of 1 hour each working day for the expression of milk, without incurring any loss of pay.

Release to attend ante-natal examinations: Pregnant employees are entitled to time-off without loss of pay or any other benefit to attend ante-natal examinations if these are conducted during office hours.

Paternity Leave: Male employees are entitled to 2 working days paid leave on the birth of each of their children.

Parental Leave: Employees who have at least 12 months service are allowed to avail themselves of a maximum of 12 months unpaid parental leave on the grounds of birth, adoption, legal custody, and foster care of children who are under 8 years of age. The period of parental leave chosen may only be taken in one period and may be shared by both parents. The maximum of 12 months unpaid leave may be availed of in respect of each child.

Career Break: Parents/legal guardians are allowed a total of 5 years unpaid career break to be utilised for the care of a child/children under 8 years of age. The 5 years must be utilised in aggregate, and may be reduced by multiples of three months. If the 5 years are not availed of in one whole period, the outstanding balance of leave may only be taken for the care of another child/children. Unpaid leave from the entitlement of 5 years may be shared once by both parents, for each child.

Responsibility Leave: Employees may avail themselves of unpaid responsibility leave to take care of dependent elderly parents, sons/daughters, or spouses, for a period of one year, renewable yearly.

Teleworking: Employees may work on a teleworking arrangement if their job performance, traits and skills as well as the nature of their job are suitable for telework.

Work on reduced hours: Employees may be allowed to work on a reduced timetable, which may vary between 20 to 35 hours per week.

Urgent Family Leave: Employees may avail themselves of 16 hours from their vacation leave entitlement as urgent family leave in cases of sickness or accident which require the immediate presence of the employee.

Leave to accompany spouse on Government-sponsored courses or assignments: A maximum of four years unpaid leave renewable on application yearly, may be granted to public service employees to accompany their spouse abroad on government sponsored courses or assignments.

Leave for a special reason: Employees may avail themselves of a maximum of 30 days special leave without pay for a special reason, including any special family-friendly reason, in any period of 12 months.

Flexi-time: Employees may be granted permission to work on a flexi-time system, so long as the number of working hours is satisfied.

N.B. Unpaid leave entitlements are subject to an overall maximum aggregate of eight years unpaid leave, whether the unpaid leave is taken at a stretch or interrupted by periods of resumption of duty.

Family-friendly measures in the private sector:

Some private sector entities are adopting family-friendly measures, among which one finds:

- Telework;
- Unpaid parental leave;
- Special leave on humanitarian grounds;
- Flexible hours;
- Examinations leave plus study leave for related to work subjects;
- Examinations leave for apprentices;
- Maternity and adoption leave.

Lifelong Learning Strategy

The Directorate for Lifelong Learning is drafting a Lifelong Learning Strategy. It is planned that the Draft will be ready by Q3 2013. As soon as the Draft is presented, it will be made available for public consultation by beginning of Q4 2013. In the meantime, in the implementation of the adult learning courses, the Directorate is following the final outcomes of the Budapest Conference (March, 2011) on implementing the Action Plan on Adult Learning and the plan for Implementation of the European Agenda for Adult Learning.

The main measures to promote adult participation in lifelong learning in Malta include:

The National Implementation of the European Agenda for Adult Learning: The Directorate for Lifelong Learning had been entrusted to implement the EU Agenda for Adult Learning in

Malta (2012-14). Taking into account the specific circumstances within each Member State, and in accordance with national priorities, Member States were invited, where appropriate with the support of the Commission, to focus on 5 areas outlined below and which are most relevant to their particular needs:

- Making lifelong learning and mobility a reality;
- Improving the quality and efficiency of education and training;
- Promoting equity, social cohesion and active citizenship through adult learning;
- Enhancing the creativity and innovation of adults and their learning environments;
- Improving the knowledge base on adult learning and monitoring the adult-learning sector.

The project presented by the Department for Lifelong Learning (DLL) was fully accepted by the EU Commission. This project in Malta aims to reach these focus areas by organising a number of actions with the intention of:

- Raising awareness of the European Agenda for Adult learning in Malta with a focus on promoting basic skills among adults.
- Networking the different stakeholders (government, private and informal and non-formal sector) in the adult education sector to raise awareness as well as to encourage more low skilled or low qualified adults (employed, unemployed and inactive) to participate in lifelong learning to upgrade their skills and educational level.
- Collaborating with the various stakeholders to identify the low skilled and/or low qualified adults, their training needs, and to develop actions to motivate them to participate in adult learning basic skills.
- Investing in capacity building related to basic skills actions for key stakeholders.
- Developing campaign material to promote lifelong learning among adults in basic skills.
- Sharing own successes and initiatives for validating adult education courses at Levels 1 and 2 of the Malta Qualifications Framework.
- Participating in relevant transnational Peer Learning Activities organised by other National Coordinators to share experiences.

Target groups of the project include Ministries, policy makers, adult education providers, adult educators, employers, workers, unemployed and inactive, adult education professionals, and adult citizens who are low skilled.

The end aim of this national project is that by the end of the project Malta will have carried out a stock-taking exercise of the most real adult learning situation in Malta.

The Adult Learning Unit within the Directorate for Lifelong Learning recruits 410 adult educators within its different sectors, namely the 8 Evening Classes Centres, the Morning Classes Centre at the Lifelong Learning Centre in Msida and adult courses offered at community level. By October 2012, 15,614 learners registered for courses offered by the Adult Learning Unit, of which 64% were female participants and 36% were males. Overall, there was an increase of 18% in the number of participants over the previous year.

Several initiatives taking place parallel to each other are planned throughout 2013. The focus shall be on actions related to identifying low skilled and/or low qualified adults and

design the training needs for them. In the coming year, the focus shall be on promoting basic skills learning among the groups identified.

Hence, throughout 2013:

- A National Conference shall be organised to launch the European Agenda on Adult Learning.
- An Inter-Ministerial Committee is set up to map present state of formal, informal and nonformal adult learning. The Committee shall identify where there are low-skilled and/or low qualified workers in the various sectors.
- A network of stakeholders in Adult Learning for Basic Skills is set up. There shall be three subgroups: one for public entities, one for private work sector and the third one for adult learning providers (formal, informal and nonformal).
- Work shall start on a report to map the Adult Learning providers and adults taking part in lifelong learning across the various sectors in basic skills.
- A capacity building through training programme for adult educators related to andragogy shall be initiated.
- Campaign material to be used by employers and other organisations to promote action by employers and NGOs shall be published. This is part of corporate social responsibility to promote lifelong learning and upskilling of workers in basic skills.
- As from 2013, one Local Council, one Public Entity and one Enterprise shall be celebrated for promoting lifelong learning in basic skills. This celebration will become an annual event.

Adult Evening Classes: As one of the leading providers of Adult Learning in Malta and Gozo, the Adult Learning Unit of the Directorate for Lifelong Learning, offers a number of courses in the 8 key competencies for lifelong learning throughout the different Evening Classes Centres. All these courses vary in levels, type and depth and in the comprehensive number of learners attending evening and adult classes amounting to 794 adult classes.

Evening Classes are also referred to as second-chance opportunities for adult learners. For the 2012-2013 courses, the number of adult learners who registered for the Evening Classes courses was 9,318, an increase of 38% on previous year.

Adult Morning Classes: By October 2012, 1,241 adult learners registered for one or more courses offered at the Lifelong Learning Centre in the morning – an increase of 33% on previous year.

This Morning Classes Centre offers a range of 30 subjects mainly focused on languages as well some vocational, health and civic related subjects and hosts 55 classes in the morning weekly.

Adult Courses in the Community: During 2012, the Directorate for Lifelong Learning (DLL) and the Department for Local Government (DLG) continued collaborating together on the scheme called 'Lifelong Learning in the Community' which was first launched in 2010. Besides the Adult Literacy (Maltese & English) and Numeracy (Maths) courses hosted by local councils, the DLL offered other courses amongst which: Energy Saving Initiatives, Maltese Lace Bobbin, Arabic, Spanish, Italian, French, German as well as English and Maltese as a Foreign Language.

Besides courses offered at the Local Councils, the DLL offers lifelong learning courses to a number of organisations and NGOs amongst which, ACCESS (Qawra and Birgu), Caritas (Dar Sant'Anna), FES (Youth.Inc.), FITA, HSBC (Swatar Call Centre), NCW, Paolo Freire Institute, SVDP, Aġenzija Sapport, the Malta Downs Syndrome Association and St Jeanne Antide Foundation.

The total number of participants reached 1,093, an increase of 3% on previous years.

Adult Basic Literacy and Numeracy and basic IT skills courses: It is the aim of the Directorate for Lifelong Learning to decentralise courses leading to MQF Level 1 into the community. These courses include the Adult Basic Literacy (Maltese and English) and Numeracy Skills (Mathematics) course as well as basic ICT (Computer Awareness). The basic literacy courses are aimed at adults who fell back in the compulsory schooling and ended up with no qualification in any of these basic subjects. These courses aim to reach Level 1 on the Malta Qualifications Framework.

Moreover, the DLLL considers basic computer literacy as another skill to be offered to adult learners, so much so that a number of courses called 'Computer Awareness' reaching the Level 1 (basic) on the Malta Qualifications Framework are also on offer.

Learners of adult basic skills courses were encouraged to sit for the final assessment and thus acquire their first qualification. Table 11 below shows the number of learners who sat for the formal assessment in basic Maths, English and Maltese courses and the Computer Awareness courses.

Table 11:

	Maltese	English	Maths	Computer Awareness
Number of learners sitting for assessment	391	462	258	181
Number of learners who passed the assessment	309	342	198	135

Professional Staff Development, Training and Quality Assurance: In order to identify the strengths and weaknesses of the adult teaching profession within the Directorate for Lifelong Learning, during 2013 a number of in-service training and staff development sessions are planned. The training shall focus on the National Qualifications Framework (NQF), its impact on the adult learning sector, the drafting of course descriptions and the assessment procedures of the learning outcomes for new subjects on MQF and VET.

For Centre Coordinators, the continuous Professional Development shall take place on a monthly basis. The focus is on ensuring the quality in adult learning and how to mentor new adult educators.

Planned New and Extended Measures

Government has announced a number of new measures which also address this CSR, namely the Child Development Centre, Parenting Credits, the 'Enhancing Employability through Training' programme and the New Scholarship Scheme.

Details on each measure can be found under Section 4.

CSR 4: Take the necessary further steps to reform, in consultation with social partners and in accordance with national practices, the system of wage bargaining and wage indexation, so as to better reflect developments in labour productivity and reduce the impact of prices of imports on the index.

Prior to 1990, industrial relations in Malta were characterised by a degree of instability in both public and private sectors of the economy. One main, though not sole, contributor to this climate was the practice of an annual discretionary grant of cost of living adjustments mandated by Government in the Budget Speech over and above the increases stipulated by collective agreements. In particular, a high profile dispute involving a major operator in the tourism accommodation sector led to the closing down of the activities. Such tensions led to a voluntary agreement between employer organisations, unions and Government on the cost of living adjustment (COLA), known as the National Agreement on Industrial Relations of December 1990. This agreement is reflected in the Employment and Industrial Relations Act (Cap. 452) that provides for the increases in wages declared by the Minister by notice in the Government Gazette to be of general application to all whole-time employees.

Methodology for Computation of COLA

The methodology for the computation of COLA, as agreed in the National Agreement on Industrial Relations is as follows:

12-Month Moving Average Inflation Rate as at September * Base Wage

where the inflation rate is measured on the basis of the Retail Price Index (RPI) while the base wage represents a wage level determined in the 1990 Agreement and that have since then been updated annually by the COLA. The resulting sum is then rounded to the nearest Lm0.25 and subsequently converted in Euro.

For example, during the Budget Speech 2013, the Minister for Finance announced that the COLA for 2013 would be equal to €4.08 per week. This is computed as follows: the 12-month RPI average for the period October 2011-September 2012 stood at 105.84, while the average for the same period 12 months earlier stood at 103.46. This gives an inflation rate of 2.30 per cent as at September 2012.

Applying this inflation rate to the base wage for 2012 (€182.27 or Lm78.25), a weekly cost of living compensation of Lm1.80 (€4.19) is obtained. When rounded to the nearest Lm0.25, the final figure for the cost-of-living compensation for 2013 stands at Lm1.75 or €4.08 per week. These calculations are illustrated in Table 12 below.

Table 12 - The Calculation of COLA in 2013

Retail Price Index December 2009 = 100			
	2009/2010	2010/2011	2011/2012
October	100.65	102.39	105.37
November	100.26	102.70	105.13
December	100.00	103.25	105.44
January	99.49	102.20	104.11
February	99.86	102.13	104.74
March	100.43	103.13	105.17
April	101.44	103.89	106.59
May	101.61	104.78	106.61
June	101.21	104.55	106.82
July	101.07	103.94	106.13
August	100.96	104.15	106.49
September	101.65	104.45	107.47
12-month average	100.72	103.46	105.84
Increase (%)	0.80	2.72	2.30
Base Wage	75.75	76.25	78.25
COLA for 2013			
COLA (Lm)			1.80
Rounded COLA (Lm)			1.75
COLA (Euro)			4.08

It is to be noted that the COLA of €4.08 per week is a fixed amount granted irrespective of wage levels. To illustrate, the Cost of Living Adjustment for the CEO of a major company and a worker on the shop floor would result in the same compensation of €4.08 per week. Thus, the impact of the COLA on wage growth is inversely proportional to the level of the actual wage. In addition, it is to be noted that the base wage, the wage level upon which COLA is based, is a relatively low wage, standing at around 15% higher than the national minimum wage of €158.11 per week in 2012, but representing merely 61% of the average gross weekly salary of €297.52⁵.

This shows that COLA is based on a mechanism that is distinct from wage indexation as observed in other European countries. Indeed, COLA represents an increase in wages by a flat amount, independent of the wage level, rather than an indexation of all wage levels to inflation.

⁵ Labour Force Survey: Q4 2012

Features of COLA and Employment Legislation in Malta

The National Agreement on Industrial Relations provides for opt-out clauses from the granting of COLA in response to situations related to the restructuring of the economy and competitiveness challenges. An opt-out clause at macro level can be invoked by agreement among the social partners due to extraordinary circumstances such as higher inflation than trading partners, negative GDP growth and/or declines in private sector employment. The Agreement also provides for an opt-out clause at micro level, where, subject to the consent of employees concerned or their representatives, enterprises facing financial difficulties can ask for exemptions from wage increases stipulated in collective agreements. In case no agreement is reached, an independent Financial Arbitration Tribunal can be asked to deliberate on the matter.

Furthermore, it is important to note that in addition to the opt-out clauses allowed by the Incomes Policy agreement, the Employment and Industrial Relations Act (EIRA) also allows for temporary suspension of conditions of employment to preserve employment, subject to the Director of Industrial Relations approval. Such opt-out clauses have been used in the past allowing Malta to enjoy a certain degree of wage flexibility at firm level when it is most needed.

Results of the Study on the Impact of COLA on the Maltese Economy in fulfilment of the request to review the COLA mechanism by the Country specific recommendation on wages in 2011

The Maltese Authorities have conducted an in-depth analysis of the impact of COLA on the functioning of the labour market and the underlying competitiveness position with an emphasis on Malta. In this regard, the analysis took both a micro and a macro focus in order to ensure that all the underlying dynamics are studied. The analysis tested the hypothesis that the mechanism as applied by the National Agreement on Industrial Relations and the EIRA differentiate the wage adjustment process in Malta from the presumably rigid wage adjustment process in other countries in the EU that have wage indexation mechanisms in place. Preliminary results emanating from this study had been shared with officials from DG ECFIN in a meeting held in January 2012. A final version of the report was forwarded to the Malta Council for Economic and Social Development (MCESD) and the European Commission in the latter part of 2012. This ensures that the social partners are consulted in line with the country specific recommendation.

The macro analysis, employed fixed effects in order to analyze the impact of COLA and benchmarked dynamics in Malta's labour market with developments in NWIMS (Non-wage indexation mechanism countries). The benchmarking with NWIMS outlines that COLA does not appear to have resulted in any major intertemporal erosion of competitiveness in Malta in the past decade and a half. Moreover, the analysis suggests that the flexibility of labour markets in Malta in respect to adverse exogenous shocks, is in line with the kind of flexibility exhibited in NWIMS. Notwithstanding, the micro analysis suggests that wage developments in a small number of sectors appear to have been heavily influenced by the COLA mechanism. Such sectors employ, at most, around 9.7 per cent of the workforce in Malta. The main summary that one can elicit from the review that has been undertaken is that COLA appears to have a marginal impact on developments in the labour market in Malta.

One should note that one fundamental characteristic of the COLA framework that is likely to be underpinning this result is related to the fact that COLA is a partial wage adjustment mechanism and very few workers benefit as a direct result of the mechanism from, a one-to-one increase, in the wage level following inflation in prices.

Going forward

As outlined, Government has shared the report that underpins the review of COLA, as necessitated by the CSR, with social partners. In this regard, Government is actively awaiting the reactions on the part of social partners and a joint proposal on the way forward from their end. Meanwhile, Government is actively engaged in bilateral contact with the European Commission on the issue. It is to be noted that the wage indexation mechanism as applied in Malta does not appear to be creating a major deterioration in the country's labour market competitiveness. Moreover, it appears that although the system does not appear to have hindered flexibility in the past, all quarters should ensure that the degree of flexibility demonstrated by the labour market and the labour market performance recorded over the past years is retained. Such flexibility has been demonstrated in the past by social partners, especially during the recent global financial crisis. Anecdotal evidence suggests that when a particular exogenous shock effects a particular firm, the tendency in the Maltese labour market has been that of an adjustment in working conditions such as for example a reduction in the number of hours worked, or a reduction in shift allowances. Hence the extent of flexibility prevailing in a particular labour market has to be analysed comprehensively and cannot focus solely on the extent of wage indexation present in the labour market.

In addition, it is to be noted that the current wording of the CSR, with specific reference to reducing the impact of prices of imports on the index, is unworkable for Malta in view of the high proportion of imported goods in the consumption basket of the average household in Malta.

A way forward in this area would be to reach a balance between ensuring that the purchasing power of wages does not deteriorate, and that the labour market remains flexible in view of the ongoing challenges that arise in a small open economy like that of Malta.

CSR 5: In order to reduce Malta's dependence on imported oil, step up efforts to promote energy efficiency and increase the share of energy produced from renewable sources by carefully monitoring the existing incentivising mechanisms and by prioritising the further development of infrastructure, including by completing the electricity link with Sicily.

Implementation of the National Renewable Energy Action Plan

According to the formal National Renewable Energy Action Plan (NREAP), Malta plans to achieve its 2020 renewable energy targets through a number of identified major projects of solar, wind and waste to energy CHP plants. However, a relatively great share of renewable energy will be generated from a relatively higher number but smaller capacities of renewable energy sources distributed across all the Maltese Islands mainly integrated in existing building infrastructures, due to Malta's limited space and the conflicting use by other activities. The geophysical characteristics of Malta also pose a major challenge to the implementation of onshore wind farms. To this effect, and also to seek alternatives, the Government is taking the second NER300 call very seriously and encouraging project proponents to see Malta as the ideal site for ocean energy investment. Malta could tend itself as a platform for new technology and innovative projects, such as floating wind farms.

Malta had already applied through the NER300 for the development of a floating wind farm, however this was not shortlisted for funding. Other innovative technologies, such as wave and other sea energy technologies are being studied. However, it is still expected that the uptake of renewable energy technologies will take place in the form of a larger number but smaller installation capacities with priority being given to those technologies which are already widely available, mainly solar photovoltaic (PV) systems, solar water heating and micro-wind.

Taking cognisance of the above, the Minister for Energy and Conservation of Water has declared the intention of the Government to launch a holistic policy framework on renewable energy by the end of summer in its attempt to reach the 10% target for 2020.

Concerns about barriers to increase the share of energy produced from renewable sources are being addressed. Those related to the development of the major projects are being treated on a case by case basis. The process leading to the installation of smaller technologies is also being smoothed. The sectoral (electricity, heating and cooling, and transport) and overall shares of energy from renewable sources are shown in table 13 below.

Table 13:

	2010	2011	2012
RES-H&C ⁶ (%)	5.18%	5.44%	11.87%
RES-E ⁷ (%)	0.08%	0.46%	0.98%
RES-T ⁸ (%)	0.58%	1.56%	3.30%
Overall RES Share ⁹ (%)	0.88% ¹⁰	1.26%	1.70% - 1.80% ¹¹
Of which from cooperation mechanism ¹² (%)	0.00%	0.00%	0.00%
Surplus for cooperation mechanism ¹³ (%)	0.00%	0.00%	0.00%

Reducing the administrative burden

In order to facilitate the uptake of small photovoltaic systems, the Malta Environment and Planning Authority had issued a set of guidelines in 2007 on planning permitting of solar applications installed within the curtilage of a building¹⁴. These guidelines have simplified the installation of such systems whereby subject to compliance with the guidelines, no planning permits will be required in most cases. Solar applications that fall outside the scope of these guidelines may require a planning permit from the local planning authority.

A set of planning permitting guidelines is also available for micro wind turbines with capacities up to 20kW¹⁵.

The authorisation and licensing of new generation capacity is regulated by the Electricity Market Regulations. The Electricity Market Regulations exempt generators with capacity not exceeding 16Amps per phase and producing electricity from renewable energy sources from the requirement to obtain an authorisation and a license. Instead a fast track procedure was adopted whereby these generators require only the submission of a notification to the regulator prior to construction. A 'permission for grid connection' report is issued by the regulator.

⁶ Share of renewable energy in heating and cooling: gross final consumption of energy from renewable sources for heating and cooling (as defined in Articles 5(1)(b) and 5(4) of Directive 2009/28/EC divided by gross final consumption of energy for heating and cooling. The same methodology as in Table 3 of NREAP applies.

⁷ Share of renewable energy in electricity: gross final consumption of electricity from renewable sources for electricity (as defined in Articles 5(1)a) and 5(3) of Directive 2009/28/EC divided by total gross final consumption of electricity. The same methodology as in Table 3 of NREAP applies.

⁸ Share of renewable energy in transport: final energy from renewable sources consumed in transport (cf. Articles 5(1)c) and 5(5) of Directive 2009/28/EC divided by the consumption in transport of 1) petrol; 2) diesel; 3) biofuels used in road and rail transport and 4) electricity in land transport (as reflected in row 3 of Table 1). The same methodology as in Table 3 of NREAP applies.

⁹ Share of renewable energy in gross final energy consumption. The same methodology as in Table 3 of NREAP applies.

¹⁰ MRA Calculations RES Share (%)

¹¹ Pending auditing

¹² In percentage point of overall RES share.

¹³ In percentage point of overall RES share.

¹⁴ Vide: <http://www.mepa.org.mt/LpDocumentDetails?syskey=655>

¹⁵ Vide: www.mepa.org.mt/file.aspx?f=4911

Generation capacities falling outside the scope of the notification process are required to apply for, and obtain, an authorisation prior to the construction of the generation capacity. The authorisation process requires that it is ascertained that the proposed installation does not impact negatively the stability of the network and also that an adequate connection to the grid is available. Should this not be the case, the necessary steps have to be taken to upgrade the connection and the network, as necessary. Therefore, the authorisation procedure involves consultation with the Distribution System Operator (DSO) to ensure that potential technical barriers that may exist for connection to the grid are addressed and mitigation measures taken in due time. At the authorisation stage the applicant is also required to sign a Power Purchase Agreement with the DSO for the export of the electricity generated from the plant. Generation capacities that require an authorisation prior to construction are also required to have a licence to produce electricity for own use and/or to sell to the DSO. Once the regulator is informed in writing that the installation is ready for connection to the grid, the licence is issued and the regulator issues a 'permission for grid connection' report. The applicant may apply with ARMS Limited for the provision of a PV power meter. Presently, the regulator does not charge any fees for the processing of the Notifications, Authorisations and the issue of licences with respect to generators producing electricity from renewable energy sources. However, an administrative charge applies for the provision of the PV power meter.

Financial incentives in particular for solar technology:

Measures being taken to facilitate the uptake of technology producing energy from renewable resources (RES) include financial incentives in the form of grants on the initial capital investment made through grant schemes launched by Government from time to time. Such measures, aimed at making these technologies more affordable, are being made available to the general public as well as to organisations. Government has incentivised the installation of RES and energy efficiency systems through a number of capital assistance schemes, in addition to its own direct investment where most, if not all, Ministries have been fitted with PV systems. Schemes have been launched to assist domestic households using both national and ERDF funds. The commercial sector has been assisted through ERDF funds and Local Council through national funds.

Effort is also being made such that technologies benefiting from the grant schemes meet certain quality requirements and standards to ensure that the installed technologies are robust and perform according to specification. Installations as solar photovoltaic systems are being certified by warranted electrical engineers and courses have been implemented for the certification of installers of solar applications to ensure the safest and most effective methods of such installations.

All the calls launched thus far have been fully subscribed.

The table 14 below shows grants paid from national and ERDF funds to date to domestic households.

Table 14:

	2008	2009	2010	2011	2012	Total
Photovoltaic Systems	1	140	61	1,705	2,955	4,862
Solar water heaters	1,390	2,469	1,814	1,098	804	7,575

The total PV installed capacity in December 2012 was 18MWs. An additional approximate amount of 4.0MWs are to be installed in the coming months from the tender just awarded for

the installation of PV systems on government buildings. The total useful area of the rooftops of these government buildings are estimated to reach 67,000m² and will be given on lease for the purpose of establishing, operating and maintaining photovoltaic systems for a period of 25 years and selling the electricity generated to Enemalta Corporation.

In the last NREAP report, Malta reported the share of PV as 0.08% of the total electricity produced in 2010. This percentage has reached (based on electricity consumption in 2012) 0.6% in 2012.

According to the NREAP, 28MWp are to be installed in Malta by 2020. Based on the latest data from the Malta Resources Authority up to the first quarter of 2013, this amount has already been reached by the total registered capacity, of which 18.9MWp have already been licensed. This has been possible due to the incentives offered by ERDF co-financed grants and the decreasing price of the technology, increasing the feasibility of photovoltaic technology. Moreover, preliminary figures, pending auditing, indicate that Malta will almost reach its trajectory target for the share of renewable energy for the period 2011-2012, according to Annex 1 of the Renewable Energy Directive.

Other incentives to address financial barriers include the introduction of a feed-in tariff for solar photovoltaic system in September 2010 through the Feed-in Tariffs Regulations (Legal Notice 422 of 2008) such that photovoltaic installations including those benefiting from a grant could also benefit from the payment of a feed-in tariff on the electricity exported from such systems. The introduction of a feed-in tariff replaced the previous net-metering arrangement, however, owners of the photovoltaic installations could still use the system for self-production and export the surplus at the established feed-in tariff. The introduction of the feed-in tariff increased the potential for exploitation of the roofs available especially for premises with no consumption and hence with no incentive for net metering. In line with the above, new measures have been announced. For further detail on these new measures please refer to Measures 'Feed-in tariffs for PVs not supported through other funding', 'Autogas conversion scheme' and 'New scheme for PV panels in households' under Section 4 – Energy.

Wind

Malta's National Renewable Energy Action Plan (NREAP) calls for the establishment of three wind farms as part of its 2020 targets.

The largest of the three is a 72MW-95MW offshore wind farm at Sikka l-Bajda, l/o Mellieħa. The development was aimed at providing a source of clean, renewable electricity that would contribute towards meeting 3.48% of Malta's 10% target of final energy consumption from renewable energy sources by 2020. The identified site itself faces environmental challenges. The environmental impact assessment has indicated that the proposed development might have a negative environmental impact on avifauna, the site being a main rafting site for the protected Yelkouan Shearwater. In order to address this issue, further studies have been recommended and government has applied for ERDF funds to finance a prototype wind turbine for measuring potential impacts. However, funds for this project have not been approved. The comments that were raised by the local environment and planning authority to the submitted environmental impact assessment were submitted in February 2013.

The other two identified onshore sites, Ħal Far and Wied Rini, are also next to SPAs (Special Protected Areas). In a recently finalised appropriate assessment for the Ħal Far project, which is close to Natura 2000 sites, concerns have been expressed on the impact of the development on birds and bats. An appropriate assessment for birds has expressed concern about the shearwater species. Since the level of knowledge of the interaction of species and

wind turbines is low, the precautionary principle applies. The main concerns relate to the displacement/disturbance effects during the operational phase of the project. The appropriate assessment for this project is ready for submission to the Malta Environment and Planning Authority (MEPA). The environmental impact assessment and the appropriate assessment for Wied Rini have been completed in February 2013 and have not yet been submitted to MEPA.

Biofuels in (road) transport

In order to promote the use of biofuels, in the local Regulations of the importation and wholesale of petroleum in the inland market, a biofuel substitution obligation has been imposed on importers/wholesalers of fuel for the transport sector (EN590 and EN228) to place on the market, as a minimum, an increasing share of sustainable biofuel as a percentage of the total energy content of petrol and diesel. The obligatory share for 2012 was equal to 2.5% and that for 2013 is equal to 3.5%. Thus, biofuels are an important tool for Malta to reach the aim of increasing the share of energy from renewable sources in the transport sector. In 2012, the RES share in road transport was 3.3% (pending auditing).

Due to the climatic conditions of Malta, petroleum operators in the Maltese market are fulfilling the above-mentioned substitution by using only biodiesel. EN228 is currently not being blended with bioethanol not to increase further the vapour pressure of the fuel and, thus, the blending of biodiesel has to also make up for the share of bioethanol that is not being placed on the market. The Commission had anticipated this situation in Directive 2009/30/EC amending Directive 98/70/EC as regards the specification of petrol, diesel and gas-oil and introducing a mechanism to monitor and reduce greenhouse gas emissions and amending Council Directive 1999/32/EC as regards the specification of fuel used by inland waterway vessels and repealing Directive 93/12/EEC, by introducing the permitting of a vapour pressure waiver for petrol containing bioethanol. However, Malta did not make use of this waiver because the blending of bioethanol in petrol in the Maltese market would still constitute a concern for public health due to the increased emissions of VOCs. Due to this situation, coupled with a series of other characteristics of the European and local fuel market, such as: lack of progress in fuel standards (EN590, high blends of biofuel in fossil fuel and biofuel in marine) to reflect the changes in European policy; and the lack of comfort from international associations; as well as storage capacity limitations due to the inherent small size of the country; which limits also indigenous production of 1st generation biofuel; Malta is envisaging that it would be increasingly difficult for Malta to attain the final target of renewable fuels in transport. Given these particular circumstances, during the discussions of the proposal for a Directive of the European Parliament and of the Council amending Directive 98/70/EC relating to quality of petrol and diesel fuels and amending Directive 2009/28 on the promotion of the use of energy from renewable sources, Malta has presented to the Commission its proposal that the necessary flexibility in the legislation is ensured, thus allowing certificate trading, as is the case for the global RES target. In its reply, the Commission has recognised the possibility of allowing for statistical transfers across Member States, however, it has also commented that it seems to be very challenging in practice due to the additional modifications and harmonisation amongst Member States that would be required so that obligated parties could trade their credits and debits. Moreover, this position was also explained by Malta in the CA-RES project.

Other technologies

Some other technologies, though not widely spread, are already being contemplated and as the implementation of these technologies can be in the design of new buildings or in major retrofitting of existing buildings, these can be included in the planning permit application for the development. Examples of these include low-grade geothermal, hydrothermal and aero thermal heat pumps, solar cladding for space heating and co-generation.

Challenges

Malta faces a number of challenges in order to achieve its declared RES targets. Due to its small size and very high population density, space is available at a premium, while the limited space available may be subject to various site specific constraints.

Malta also faces economic challenges to achieve its targets. Given its size and the fact that it is a peripheral (to mainland Europe) Mediterranean island, it faces very low economies of scale, high mobilisation costs and the fact that most R&D has to date focused on geo-climatological realities which are different from those of Malta (and the Mediterranean), resulting in market failure. Moreover, market failure on the investment side is also being hindered by State Aid constraints.

Energy end-use Efficiency

The target of 3% energy end use savings for 2010 (established in the first National Energy Efficiency Action Plan (NEEAP)) has been achieved, and marginally exceeded – the target was 126GWh and the achievement was 153GWh. The main tangible efforts made during the past three years have focused on promoting energy efficiency the domestic sector, tourism and industry. Results have been mainly achieved from the industrial sector (including early actions in the water sector), the domestic sector (due to schemes to replace appliances, change lighting systems and install solar water heaters), as well as in the transport sector (due to changes in the national car fleet composition brought about by changes in the vehicles registration system). The uptake of Government grants for energy efficiency and renewable energy sources was very positive with more people realising the benefits of investing in such technologies. In line with this, the measure ‘Promotion of uptake of RES and building envelope insulation’ was extended. For details on this measure please refer to Section 4 – Energy.

Following the adoption of Directive 2012/27/EU (the Energy Efficiency Directive) on energy efficiency, as per Article 3 Paragraph 1 of the said Directive, Malta is submitting its report on the indicative 2020 energy efficiency target in the coming days.

The indicative target for Malta for 2020 is based on primary energy consumption, capped for aviation in the same manner as the target for renewable sources of energy. It is based on national models of energy consumption projections, and assumes primarily that the energy end use savings envisaged in the NEEAP are achieved and that the new electricity generation plant in Delimara is commissioned as well as a new interconnector with Sicily. This national target is estimated to be equal to 22% or 237,019toe. The basis for this target is that aviation is capped at 4.12% in line with Directive 2009/28/EC on the promotion of the use of energy from renewable sources. The business as usual scenario assumes that the power station conversion efficiency of 30.31% of 2009 remains unchanged. The GDP for Malta was assumed at constant 2000 prices, making reference to “Projecting Energy Demand: Electricity & Transport - Economic Policy Department – Ministry for Finance the

Economy and Investments December 2012” and a 40% factor was used for the conversion from primary to final energy.

Energy efficiency in buildings

Malta has already suggested targets for the revision of the minimum requirements of energy performance of buildings in the National Energy Efficiency Action Plan. These targets will affect new and refurbished buildings. The Building Regulation Office (BRO), on behalf of the Building Regulation Board (BRB) is about to commission cost-optimal studies on the existing national minimum requirements. The same studies will analyse and recommend the best and most appropriate upgrades of the same requirements as required by the Recast EPBD 2010/31/EU which have to take place over a number of years. The revision of the minimum requirements is legally cast in LN 376 of 2012.

The following tenders have been issued by the BRO:

- Commissioning of study to establish cost-optimal energy performance levels in new and existing residential buildings (Advert 18/2013, closing date 22/02/2013).
- Commissioning of study to establish cost-optimal energy performance levels in new and existing Office buildings (Advert 22/2013, closing date 01/03/2013).

The offers for these tenders have now been adjudicated. The departmental contracts committee has to meet and discuss the adjudication of these two tenders following which there will be another week during which appeals can be made by any of the competing bidders. If there are no appeals from the decision, the tenders will be awarded and should start in May 2013. The studies will then be carried out over a sixteen week timeframe which means that the reports should be sent to the Commission at the end of August 2013. However, should there be any appeals, the tenders would have to be re/issued and the adjudication/award process repeated accordingly.

Cost optimal procedure for setting Energy Performance (EP) requirements: According to the provisions set out in Legal Notice 376 of 2012 the national minimum requirements shall be reviewed at least once every 5 years by the Building Regulation Board (BRB).

To meet this end, tenders have been issued to commission a series of studies that will analyse the existing minimum Energy Performance requirements for buildings in the Maltese islands by utilising mathematical models established by the Commission Delegated Regulation (EU) No 244/2012 to work out the cost optimal increase and tightening of the minimum requirements (Technical Guidance Document F presently legislated through Legal Notice 376 of 2012) enabling the setting up of a realistic and economically feasible 2018- and 2020- national plan for Maltese Nearly Zero Energy Buildings (NZEBs).

Reference benchmarks for each building category, i.e. at least one reference building for new buildings and two for existing buildings subject to major renovation shall be established. The results of this assessment including all input data and assumptions used for such standards and the results thereof will be reported to the Commission and changes will have to be introduced if the minimum requirements are outside cost-optimal limits.

The national competent entity and the Commission shall be informed about such reports and the results will help clarify and determine the roadmap in the National Energy Efficiency Action Plan (NEEAP).

Action Plan for Progression to NZEB: Legal Notice 376 of 2012 defines "nearly zero-energy buildings" as buildings that have a very high Energy Performance determined in accordance with the common general framework for the calculation of Energy Performance of buildings defined in the same legislation. The nearly zero or very low amount of energy required shall be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on-site or nearby. Government, the Building Regulation Board and the Building Regulation Office amongst others shall draw up the NEEAP and

other national plans in order to increase the number of nearly zero-energy buildings and measures concerning the use of energy from renewable sources in new buildings and existing buildings undergoing major renovation.

The national plan for increasing the number of nearly zero-energy buildings will be properly defined when the results of the cost-optimal studies are issued in the official report. Once the results of these studies have been evaluated the cost-optimal changes to the current national minimum requirements can be established, defined in a new version of the guidance document and will then be implemented in practice.

The strategies for achieving the national targets for zero energy buildings may be twofold:

- Tighten existing minimum requirements for the building envelope in new buildings and buildings undergoing major renovation.
- Increase the energy harvest from renewable energy sources to decrease the use and dependency on fossil fuels by regulating the use of roof space in new buildings or investing in communal renewable energy sources.

Incentives for the construction or major renovation of buildings shall be set up in schemes that take into account the cost-optimal levels of Energy Performance for those consumers who want to make the best use of energy resources.

The refurbishment and transformation of existing buildings into nearly zero-energy building stock will be encouraged by means of positive fiscal measures and financial benefits such as rebates, tax credits and advantageous bank loans for those owners who will enter into a commitment that clearly shows that their building will have a higher energy efficiency and nearly-zero net energy use.

Furthermore, Malta plans to compile an inventory of central government buildings as required by Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.

The data will be collected through a memorandum which will be sent to all Government Departments requesting plans, areas and energy performance of the buildings they occupy.

Energy Efficiency in Transport

For details on this measure please refer to Measure 'Energy Efficiency in Transport under Section 4 – Energy. For new measures related to this issue, please refer to Measures 'Encouraging Smaller and Cleaner Modes of Transport', 'Scrappage Scheme, 'Autogas conversion scheme' and Autogas Scheme under Section 4 – Energy.

Development of Infrastructure

The investments being done in this sector are expected to reduce Malta's CO₂ emissions. In fact, it is estimated that the interconnector and natural gas projects will result in CO₂ emissions reductions of over 300Gg per annum.

Electricity Interconnector

The Authorisation Decree for the Malta – Sicily 220 MW HVAC Interconnector was issued in Rome on the 28 March 2013, by the Ministry for Economic Development and the Ministry for the Environment and the Protection of Land and Sea. This was later than expected and contains a number of conditions (in total 40) imposed on the project promoter and approximately one third of these, are 'conditions precedent' (preconditions) which must be met prior to the commencement of works on Italian territory (land and sea). The necessary action to comply with these 'conditions precedent', some of which require further environmental studies, are already in hand and are being addressed by the project promoter, however this implies an additional delay to the commencement of works. Furthermore a subsequent condition imposes on Enemalta a re-alignment of the previously approved Interconnector Cable route to avoid it crossing the VEGA B Oilfield and this will require an additional marine survey and a re-alignment of approximately 30 km out of a total length of 97 km. It is expected that the additional studies and the preparatory work to re-align the cable route will be undertaken in parallel and will be completed by June 2013. The necessary reports will then be submitted for the approval of the Italian Authorities. Once this approval is received, the application for permits for the onshore works in Sicily may be submitted and once received the works may commence. The timing of this latest delay is also particularly unfortunate as it coincides with the summer season and the general slowdown of activity, in particular the typical annual shut down by contractors. Mitigation measures have been undertaken by the project promoter to try and speed up works and minimise delays in the completion of the project. At present the project promoter is discussing with its contractor how these latest delays can be accommodated in an already tightly stretched programme. Although it seems likely that the delays caused by the unexpected imposition of pre-conditions (studies) and the re-alignment of the cable route and hence the consequential delays in obtaining the necessary permits are reflected in a delay of several months to the completion of the project, the project promoter will be able to map out a clearer picture of the programme of works when the ongoing discussions with its contractor are concluded.

Extension of the Delimara Power Station

The final stage in the implementation of this project also included the commissioning and reliability testing of the plant which was completed in October 2012. The performance testing was, however, delayed due to an unexpected event which resulted in damage to the steam turbine. The damage was repaired and the turbine re-commissioned. The performance testing was restarted on 11 December 2012 and was concluded on 13 December 2012, following which the plant was taken over for commercial use on 14 December 2012.

Hence the project is delivering 144MW net electrical output power to the Maltese electrical network.

The plant has a gross capacity of 149MW with a net capacity of 144MW and consists of eight Wartsila V46 medium speed diesel engines of 17 MW each, plus a 12MW Steam Turbine in combined cycle mode. The plant is equipped with exhaust gas abatement equipment to reduce the emissions of NO_x, SO₂ and dust. The total net efficiency is 47.6% at maximum continuous rating and CO₂ emissions at 0.59kg/kWhe. This is significantly better than the conversion efficiency of the plant it will be replacing (typically around 26%).

Air Quality Monitoring: Air Quality Monitoring at Marsaxlokk and Birżebbuġa is being carried out by two contractors. One adopting Low Volume Samplers, and the second one adopting Beta Attenuation Monitors.

Ecological Study and Monitoring at Il-Hofra ż-Żgħira: This monitoring started last year and the first report, establishing a benchmark was submitted to be handed to MEPA in December 2012. It is expected that annual monitoring shall take place over a period of three years.

Gas Interconnection

In line with the conclusions of the European Council of 4 February 2011, where the Council noted that “No EU Member State should remain isolated from the European gas and electricity networks after 2015 or see its energy security jeopardized by lack of the appropriate connections”, the Government of Malta intends to implement a connection to the trans-European Natural Gas Network to deliver Natural Gas (NG) to the Maltese final consumer for domestic, commercial and industrial purposes including its potential use for the generation of electrical power.

A comprehensive study that includes a cost-benefit analysis to determine the commercial viability of such a project, as well as its effect on the Maltese economy, is currently being prepared. The study will also look into other externalities of the project such as security of supply, competitiveness, sustainability, and shall identify those aspects that make it a potential Project of Common Interest (PCI) as defined by the proposed Regulation on guidelines for trans-European energy infrastructure (which repeals Decision 1364/2006/EC on TEN-E). The study may be used to support an application to the European Commission for financial assistance from the ‘Connecting Europe Facility’ funding instrument under the Commission’s energy infrastructure package.

Switching of Fuel from Liquid Fuel Oils to Natural Gas

The new Government is committed to a plan to switch from heavy fuel to natural gas for the generation of electricity at the Delimara Power Station in the shortest possible term. This plan will involve investment by the private sector in a new 200MW Combined Cycle Gas Turbine unit which will be gas-fired. The new diesel engines at Delimara will also be converted to gas. Part of the Delimara plant will be retained as reserve capacity fired by Gas Oil. It is envisaged that the older generating units at Delimara will be phased out.

As part of the short-term solution, switching to gas fired generation will be made possible through a Natural Gas project which will be developed in partnership with the Private Sector.

This project is being undertaken in fulfilment of the Government objectives to switch to a cleaner fuel for power generation and to encourage the entry into the market of another generator with high efficiency generating plant. The natural gas will preferably be sourced from an LNG terminal which may be considered to be an intermediate step in achieving the aims of the gas pipeline project previously submitted for consideration as a Project of Common Interest (PCI).

This project effectively consists of the construction of a new highly efficient generating plant and Liquefied Natural Gas (LNG) infrastructure. Enemalta issued a call for Expressions of

Interest and Capability (EoIC) on 11 April 2013 from suitably qualified companies to build, own, operate and maintain these plants within the framework of long term energy supply (electricity and gas) agreements:

- (i) a Gas Supply Agreement (GSA) for natural gas to supply the Enemalta generating plant and
- (ii) a Power Purchase Agreement (PPA) for 180-220MW baseload supply.

Whilst it is preferential that these two plants are built owned and operated by the same entity, this is not a pre-requisite, and the two plants may be operated by different companies. Similarly whilst it is the preference that these plants are based around LNG storage and re-gasification technology and the use of advanced gas fired Combined Cycle Gas Turbine (CCGT) plants, alternative solutions which achieve the same aims will be accepted and considered. As indicated above, Enemalta shall enter into a long term power purchase agreement (PPA) and Gas Supply Agreement (GSA) with the owners of these plants.

Natural Gas Plant

The new gas plant is expected to be an LNG storage and re-gasification facility which will meet the total gas supply requirements of:

- (i) the new circa 200MW gas-fired baseload generating plant; and
- (ii) Enemalta's gas requirements to operate its 149MW Diesel Engine plant which will be converted to operate on Gas.

The storage facility and the delivery logistics must be designed to allow a minimum storage capacity equivalent to 15 days continuous consumption. This will be a strict requirement of the energy agreements so as to ensure adequate security of supply.

The gas plant may be constructed either onshore in an area designated for the purpose or it may be barge-mounted (either berthed close to the station or moored close off-shore). It shall have a minimum of 20% overcapacity in respect of the above gas requirements and be designed in such a way that it may be scaled up if required in the future.

CCGT Plant

The new gas fired generating plant shall be based on a proven, advanced CCGT design with a rating of approximately 200MW. However the actual capacity may be slightly greater or lower depending on the exact type of plant proposed.

This new source will reduce Malta's dependence on electricity produced from oil, and will result in corresponding reductions in both electricity costs and environmental emissions, in line with the European Union roadmap. Consequently reductions in electricity costs will reflect in reduced tariffs to the end consumer thus channelling more money into the economy.

Smart Metering

Smart meters are being installed for every electricity consumer in Malta. This is expected to lead to a reduction in energy consumption by changing consumer behaviour through information on energy consumption. This project was started in 2009 and it is expected that the complete replacement of all 275,000 electricity meters (originally 245,000 but increased due to new consumers and PV systems) should be completed within three years. A total of 204,000 meters are currently installed.

Development of the Distribution Network

Malta is continuing to pursue the development of its internal electricity distribution network, both to meet increased consumer demand and to enable the connection of increased renewable energy installations. A new 132kV primary distribution centre (sub-station) in Kappara has been constructed and is intended to receive the electricity imported from the Interconnector and to distribute it to the network for distribution throughout Malta.

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

Since the launch of the National Strategy for Policy and Abatement Measures Relating to the Reduction of Greenhouse Gas Emissions by Government in 2009, progress has been made on a number of fronts with regard to its implementation. The organisational framework set out in the Strategy was established with the Climate Change and Policy Unit (CCPU) of the Malta Resources Authority.

Progress on the abatement measures themselves has also been made. With the extension of the Delimara Power Station the local electricity production is moving towards a lower emissions/kWh produced. The installation of new efficient generation capacity and interconnection with the European grid will ensure an increasingly efficient supply in terms of emissions.

The efficiency of Reverse Osmosis plants is essential to achieve high quality water with a low emission footprint. The continuous review of technology and reduction in losses by the Water Services Corporation has decreased the carbon footprint of each m³ of water delivered by 42GWh/year i.e. circa 36.8GgCO₂ equivalent. Other measures that target end-use efficiency are also being implemented through the 2nd NEEAP.

Government's commitment to introduction of gas, although logistically different from what was envisaged in the 2009 Strategy (introduced in 2015 as against 2016 in the Strategy), will also contribute to the reduction of GHG emissions in the energy sector.

Projects related to Waste and Agriculture (capping and extraction of gases from Magħtab and other landfills, Sant'Antnin Waste Treatment Plant and the implementation of the Nitrates Action Plan) are also contributing further to a reduction of emissions from this sector. Energy generation at SAWTP and Magħtab has improved considerably over 2011. Table 15 below shows the energy generated in 2011 and that generated up to Q4 2012.

Table 15:

	Generated in 2011 (GWh)	Generated in 2012 (GWh)
SAWTP		
<i>Electricity</i>	1.55	2.46
<i>Thermal</i>	1.39	2.28
Landfill		
<i>Electricity</i>	-	0.58
<i>Thermal</i>	2.18	2.47

The Strategy also earmarked the public transport reform as a key contributor to reduce emissions. This process led to an overhaul in the bus fleet which has increased vehicle efficiency. Action is now focused to instil an effective modal shift which should bring about a perceptible contribution to the reduction of greenhouse gas emissions from passenger transport.

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

Additional impetus was given through the implementation of advantageous feed-in tariff schemes.

The introduction of the biofuel substitution obligation (described above) has proved to be a valuable tool in the promotion of sustainable biofuel, decreasing lifecycle greenhouse gas emissions from fuels used in the transport sector. So as to reduce emissions from road transport, two further measures have been announced aimed at encouraging owners of cars currently running on petrol or diesel to convert their vehicle to autogas by offering a rebate on the expense incurred and by automatically reducing the CO₂ emissions of such certified converted vehicles, and at encouraging the purchase of newly registered passenger cars (M1 vehicles) that are able to run on autogas (at the point of registration) by introducing a registration tax amendment on such to take into consideration the lower emissions (please refer to Measures 'Autogas Conversion Scheme' and 'Autogas Scheme' under Section 4 – Energy). The indirect effects will be a healthier local population due to cleaner air (therefore less expenditure on pollution-related ailments) and less CO₂ emissions hence enabling Malta to reach its climate change targets.

Recent national projections show that Malta will be in a position to meet the current ESD trajectory and target subject to no recalculation of the trajectory in 2014. This shift in emissions as compared to the previous formal Policies and Measures report submitted in 2011 was mainly due to modelling improvements in the methodologies used in the National Greenhouse Gas inventories and national system for inventories.

Table 16 below provides a list of the measures being implemented with their resultant emission savings projected for 2020:

Table 16:

Measure	Saving (in Gg CO ₂ eq) estimate for 2020
Installation of new and efficient generating capacity (144MW at Delimara Power Station) in 2012 + Submarine electrical interconnection to European network (200MW) + conversion to gas and new projected plant	900-1000
Promotion of the use of biodiesel	23.57
Transport Reform	5.83
Modernisation of agriculture holdings + Nitrates Action Programme	20.80
Gas management at Non-hazardous Landfills	65.12

CSR 6: To strengthen the banking sector, take measures to mitigate potential risks arising from the large exposure to the real estate market. Take measures to further strengthen the provisions for loan impairment losses.

As highlighted in the European Commission In-Depth Review for Malta issued on 10 April 2013, risks to domestic financial stability appear to be small and that regular monitoring and assessment are always warranted. Indeed such monitoring has been always undertaken both by the Malta Financial Services Authority as the regulatory and supervisory authority and the Central Bank of Malta for financial stability purposes. The Central Bank of Malta, in its role to safeguard financial stability, monitors and reports on all the banks in its Financial Stability Report. Similar to the core domestic banks, non-core domestic and international banks are being increasingly monitored to ensure that they do not pose risks to financial stability by virtue of their activities. As referred to in the Report itself, risks to domestic financial stability stemming from the presence of a large financial sector appear to be small due to the very limited exposure of the domestic economy to internationally oriented banks. To ensure better monitoring of systemic risks posed by the whole financial sector and to follow the European Systemic Risk Board recommendation to EU member States on the establishment of a macro prudential body, the Central Bank of Malta and the Malta Financial Services Authority established a Joint Financial Stability Board which started functioning in January of 2013.

As also referred to in the In-Depth Review, Malta's banking sector is very diverse in terms of inter-linkages with the domestic economy. It is split into three groups according to the extent to which it is interlinked with the domestic economy namely with five core domestic banks whose main activities are collection of deposits and granting loans to Maltese residents, eight non-core domestic banks that have some business with residents but not as their core

activity, and thirteen internationally-oriented institutions that have almost no links with the domestic economy. The third group is by far the biggest and has assets of over 500% of GDP. The core and non-core domestic banks have assets of around 220% and around 80% of GDP. The core domestic banks' percentage to GDP is below that of the EU average.

The banking business activities of the core banks are mostly funded through a stable deposit base which has built throughout the years through the collection of deposits from Maltese residents in view of the fact that Maltese households have a high propensity to save. Such liquidity was in turn reinvested within the local economy through the granting of loans and other investment activities. The core banks exercise a rather conservative business model evidenced by the relatively prudent loan-to-deposit ratios of around 70%. The core domestic banks are also not exposed to the volatility of the international financial markets.

Bank profitability and liquidity ratios remained relatively strong throughout the term of the global and European economic downturn. Owing to a slight increase in non-performing loans, banks have already increased their loan loss provisions; however further strengthening of these provisions would be beneficial as referred to in the In-Depth Review.

The Maltese banks enjoy healthy capital ratios, both at the Tier 1 and at the total capital requirement levels.

The policy challenges related to the banking sector as highlighted in the European Commission In-Depth Review for Malta issued on 10 April 2013 are also being addressed by the proposed actions stemming from the recommendations of the CSR6 which the Authorities (Malta Financial Services Authority and the Central Bank of Malta) are envisaging to implement.

Strengthening the Banking Sector

First part of the Recommendation: To strengthen the banking sector, take measures to mitigate potential risks arising from the large exposure to the real estate market.

The Maltese financial system is dominated by banking institutions which undertake a broad range of intermediation activities. Some of the financial institutions established in Malta have minimal or no link at all with the domestic economy as they transact almost exclusively with non-residents. In view of this the Central Bank of Malta (CBM) and the Malta Financial Services Authority (MFSA) categorise local credit institutions into the following 3 categories: "core domestic banks", "non-core domestic banks" and "international banks".

The category "core domestic banks" consists of a set of banks which have strong links with the domestic economy, and are thus more systemically relevant. These banks have a widespread branch network, provide a full spectrum of banking services and are core providers of credit and deposit services in Malta.

The "non-core domestic banks" play a more restricted role in the economy, as the volume of operations and the banking services they offer to residents are somewhat limited.

In turn, "international banks" have virtually no links with the domestic economy.

Table 17 below lists the banks which are classified under each of the identified three groups. As at end of 2011, the aggregate size of the core domestic banks in relation to Malta's gross domestic product (GDP) was 223%, while the ratio for non-core domestic banks and international banks, was respectively, 77% and 500% of GDP.

Table 17:

SIZE AND LIST OF BANKS UNDER EACH CATEGORY		
Core domestic banks	Non-core domestic banks	International banks
<i>APS Bank Limited</i>	<i>BAWAG Malta Bank Ltd</i>	<i>Akbank T.A.S.</i>
<i>Banif Bank (Malta) plc</i>	<i>Credit Europe Bank NV Branch Malta</i>	<i>CommBank Europe Limited</i>
<i>Bank of Valletta plc</i>	<i>FIMBank plc</i>	<i>Deutsche Bank (Malta) Limited</i>
<i>HSBC Bank Malta plc</i>	<i>IIG Bank (Malta) Ltd</i>	<i>Erste Bank (Malta) Limited</i>
<i>Lombard Bank Malta plc</i>	<i>Izola Bank plc</i>	<i>FCM Bank Limited</i>
	<i>Mediterranean Bank plc</i>	<i>Fortis Bank Malta Ltd</i>
	<i>Sparkasse Bank Malta plc</i>	<i>Investkredit International Bank plc</i>
	<i>Volksbank Malta Limited</i>	<i>NBG Bank Malta Limited</i>
		<i>Nemea Bank Ltd</i>
		<i>Raiffeisen Malta Bank plc</i>
		<i>Saadgroup Bank Europe Limited</i>
		<i>Turkiye Garanti Bankasi AS</i>
		<i>VoiceCash Bank Limited</i>
Total assets (€ billions)		
<i>14,236.1</i>	<i>4,947.4</i>	<i>31,943.6</i>
Total assets (as % of GDP)		
<i>222.7</i>	<i>77.4</i>	<i>499.6</i>

Source: CBM Financial Stability Report 2011

The Banking Supervision Unit (BSU) within the MFSA has over at least the last three years carried out credit risk on-site inspections at the systemically important credit institutions which, in the main, specifically targeted their exposures to the “real estate market”. For the purposes of the exercise, exposures were taken to include exposures to:

- The construction sector (with Construction and development of buildings being the main sub-sector);
- Real estate activities (with Buying and selling of own real estate;
- Renting and operating of own or leased real estate being the main sub-sectors);

- Households and individuals (with Acquisition of land/dwellings for own use and Construction, extension or completion of self-owned dwellings being the main sub-sectors¹⁶).

The specific aim of these inspection exercises is to ensure that banks are adequately assessing their risks towards these sectors as well as taking all possible necessary measures to mitigate risks emanating from these exposures. During these inspections, the BSU Inspectors seek, among other things, to analyse the largest exposures to customers in these sectors, i.e. those exposures that would expose the bank to the highest risk in case of default. Over this period, off-site analysis of regulatory and statutory data submitted by banks to the BSU seemed to indicate a somewhat deteriorating trend in the ratings of facilities within the sectors under discussion, as well as increasing levels of provisions.

As a result of these reviews, the BSU Inspectors determine:

- The state of the largest exposures to the relevant sectors i.e. those referred to above;
- The adequacy of banks' analyses of loan proposals prior to sanctioning;
- The adequacy of collateral values and consequent provisioning;
- The adequacy of the monitoring process over such facilities;
- Whether the bank had taken any general measures in relation to exposures to the named economic sectors;
- Possible amendments to a bank's relevant policies and procedures.

Following the Inspectors' reviews, it transpires that the major banks have, to varying extents, taken measures to try to improve the robustness of credit facilities extended to these sectors as well as to ensure that the percentage level of relevant sectors' exposures was not on the increase. In this regard, it was evident that banks amended certain relevant credit policies by introducing capping on facilities made available to these sectors and other measures, either through policy changes or through issue of apposite circulars for their relationship managers to be more selective in their sanctioning of real estate and construction related exposures.

As a result of the inspection reviews, a number of weaknesses in the general management of banks' lending portfolios to the economic sectors under discussion were identified. These weaknesses naturally varied between banks, but there were a number of identified common weaknesses. To this effect, the BSU made various recommendations and, in certain instances, requested that the identified shortcomings be addressed through appropriate measures. Besides individual instructions to individual banks the BSU, as a result of these credit reviews, also directed all banks through due clarification regarding the restructuring of credit facilities in order to ensure uniformity of treatment in such cases.

It is being proposed that as a preliminary measure, the idiosyncratic risk arising from banks' exposure to the "real estate market" is specifically introduced and highlighted as a Pillar II risk for the purposes of Banking Rule BR/12 on the Supervisory Review Process of Credit Institutions Authorised under the Banking Act 1994 (the Rule) made pursuant to Article 17C of the said Act. The purpose of this Rule is to ensure that credit institutions have sufficient capital to support all material risk which their business exposes them to. To align the Rule with international standards, it is modelled on the requisites of the European Union Directive 2006/48/EC of 14 June 2006 (the CRD) and relevant CEBS/EBA guidelines and/or high level principles on a number of areas.

The robustness of a credit institution's internal governance process is invariably an essential component of the institution's internal capital adequacy assessment process (ICAAP) in that

¹⁶ These refer to NACE classifications F41, L68 and T97-98 respectively.

it is mainly concerned with setting an institution's business objectives and risk appetite, with how its business is organised, how responsibilities and authority are allocated, how reporting lines are set up and what information they convey and how internal control (including risk management, compliance and internal audit) is organised.

Accordingly, while Article 17B of the Act requires every credit institution to put in place robust governance arrangements, Article 17C requires credit institutions to establish their own ICAAP. Furthermore, in accordance with Article 17D, the Authority shall carry out a supervisory review and evaluation process (SREP) of licensed credit institutions. Notwithstanding that, as explained below, the principles underlying the Rule relate both to the obligations of credit institutions and also of the Authority, the Authority has deemed that disclosure of its obligations in the Rule would provide licence holders and other stakeholders with information as to how the Authority would undertake its SREP.

Thus, it is proposed that this risk area will henceforth be considered by the MFSA as a (specific) Pillar II risk. In effect, this would require local banks to be on their guard and implement an appropriate governance framework with the requisite assessment and internal control structures which would enable a bank's board of directors to assess the risk to the bank's internal capital and monitor this on a regular basis. Mindful of the implications that this would entail, the board would consequently provide policy direction to executive management which could take the form of increasing allocation of the bank's internal capital in respect of the said risk area, capping the risk by introducing thresholds as to the level of lending to the real estate sector (in case this has not already been done) or reduce exposure through diversification and growth in other areas.

It should however be appreciated that most local retail banks have fairly significant exposures in some form or other to the "real estate market" in view that alternative economic sectors are limited in size and diversity. Given the (very small) size, relatively speaking, of the local economy, the number and variety of economic sectors which characterise much larger jurisdictions and economies are by definition non-existent locally. In view of this, the Authorities consider that it would be essential that any proposed measures should be introduced in a gradual and incremental manner and are not implemented in a manner which could be detrimental to the local banking sector and to the economy itself. This means that other measures could be introduced if it is deemed that any preliminary measures did not have the desired effect.

Moreover, a study of the property sector has also been undertaken in order to better understand the financial sector's exposure to the property market and in order to investigate the risks associated with such exposure. As stated in the latest Commission Report, real estate related lending amounted to more than half of the lending portfolio to residents. In addition, although domestic lending is heavily collateralised by real estate, the valuation of such property is conservative as banks apply significant haircuts on the already prudent valuations determined by third party valuation experts. This creates a significant buffer on banks' books and regular stress tests conducted by the Authorities on the core domestic banks confirm this situation.

It is envisaged that the proposed changes to Banking Rule BR/12 which have been drafted by the MFSA would be reviewed by the authorities (MFSA and CBM) in the near future. Following confirmation of the proposed amendments, the final text would then be issued for a one-month public consultation period with the industry. Assuming that there would not be any major deviation from the proposed time-frames, it is envisaged that the implementation of the measures would officially be published in the Rule by the end of the third quarter of 2013.

Further Strengthening the Provisions for Loan Impairment Losses

Second part of the Recommendation: Take measures to further strengthen the provisions for loan impairment losses.

The authorities (MFSA and CBM) will continue to work together with the view of verifying how and to what extent, may the current Banking Rule on Provisioning BR/09 be amended to ensure that the Rule's text is tightened and limit as much as possible any scope for interpretations different from those intended in the Rule. Moreover, it is being envisaged that due to the current lack of harmonisation between the International Financial Reporting Standards - in this case, IAS 39 which operate on the incurred loss concept - as against BR/09 which advocates an expected loss approach, the BSU would incorporate principles, possibly through an amendment to BR/12, which would lead to banks with heightened levels of non-performing loans having to increase their capital allocations for this through the creation of an additional buffer.

In this context, the MFSA and the CBM established a joint Working Group (WG) to discuss the possibility of amending Banking Rule BR/09. The WG held a number of meetings since its creation and discussed at length possible changes required to streamline the Rule as much as possible while taking into consideration discussions that were being held within international fora with a view to having IAS 39 replaced by a new IFRS9. The introduction of IFRS9 based on an expected loss model however still appears to be some way off (in 2015). Nevertheless, the WG had sought, amongst other things, to identify whether regulatory provisions that go beyond those created in accordance with International Financial Reporting Standards could be created by credit institutions. It should also be stressed that the IASB, the (US) Financial Accounting Standards Board (FASB) as well as the BCBS are actively engaged in finding a solution to the complex problem of achieving compatibility between the incurred loss model driven at least partly by accounting principles and the expected loss model favoured by regulators.

Meanwhile, the MFSA and the CBM have recently decided that the WG should take stock of the situation for the time being and a draft report has been issued by the Chairman of the WG together with an agreed list of possible amendments which need to be authorised and approved by the authorities' senior management. In the meantime, a draft Rule (BR/09) with the proposed amendments which will also be discussed internally by both the Central Bank of Malta and the MFSA has been prepared.

Therefore, in view of difficulties as to how additional regulatory provisions could be introduced given the differences in the accounting and regulatory frameworks referred to above, the MFSA has now proposed that banks which, through an objective assessment and requisite Pillar II review (ICAAP/SREP interaction), demonstrate heightened levels of Non-Performing Exposures (NPLs) arising from the definition on non-performing loans in BR/09 and the impaired loans as defined in terms of IFRSs, could be subjected to allocate additional capital buffers to cover such risks. This capital buffer would cover the increased risk owing to the gap between the extent of impairment loans calculated according to IFRSs and the definition of NPLs according to the BR/09. Amongst others, the latter option envisages the appropriation by banks of retained earnings to a fund for general banking risks (utilized for own funds purposes) in those cases where it is deemed that impairments undertaken in terms of IFRSs as adopted by the EU are required to be supplemented by the methodology of BR/09, which is based on days past due.

Moreover, in conjunction with or alternative to the above, the Authorities are also considering to what extent other measures, which may further strengthen provisions through the current Banking Rule BR/09 on Provisioning, could be used to induce banks to allocate additional impairment provisions by implementing where possible a stricter interpretation of IAS 39 under the framework of IFRS rules. Thus the Authorities are working

to establish whether the current accounting framework based on IFRSs allows for the allocation of additional provisions via the direction provided by BR/09 either within, or over and above, accounting impairments. In this respect the Authorities are reviewing the approaches adopted by other European Union jurisdictions.

As stated above, the allocation of additional capital buffers would require further amendments to BR/12. Accordingly, assuming that there would not be any major deviation from the proposed time-frames, it is envisaged that the measures proposed in the Rule would be issued for consultation with the industry by the end of the second quarter of 2013. Notwithstanding this the authorities wish to emphasise that the discussion on this proposal is still underway and the process may be subject to further refinements or enhancements. Thus the authorities will continue to liaise and collaborate regularly in order to ensure that other possible avenues to mitigate risk in this area will be explored and developed if need be. With reference to the level of non-performing loans coverage ratio, the BSU notes that, within the EU, there is not as yet a harmonised framework for the definition on non-performing loans (NPLs) (in at least one Member State it is understood that the definition of default is 180 days past-due instead of that applied locally i.e. 90 days).

The authorities also note that the EBA is currently carrying out work to develop a harmonised definition of non-performing exposures (NPL) to provide supervisory authorities with the capacity to monitor asset quality development on a comparable basis across the EU. Moreover, within Europe, the accounting treatment of NPLs applied to banks by Member States varies widely and accordingly, it seems that there is no agreed form and definition of how provisions are to be calculated by Member States either. While some countries have their own national GAAPS, others, including Malta, apply International Accounting Standards/International Financial Reporting Standards (IASs/IFRSs) for all their banks and not only those which Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards addresses. This fact may preclude direct comparisons on the level of non-performing or impaired loans in Europe and accordingly there is a risk that local banks are being placed at a disadvantage on a basis which does not appear to be harmonised yet within Europe.

The proposed changes to Banking Rules BR/12 and particularly BR/09 have been drafted by the MFSA are currently being reviewed by the authorities (MFSA and CBM). Following confirmation of the proposed amendments by the authorities, the final text would then be issued for a one-month public consultation period with the industry with the eventual implementation by end of third quarter 2013.

To summarise, the changes envisaged to BR/09 and BR/12 are various and are aimed, on an incremental basis, to address and increase awareness of inherent risk in the areas covered by the CSR namely concentration risk to the real estate market and measures to further strengthen the provisions for loan impairment losses.

Finally, the authorities believe that BR/09 as proposed to be amended will further require institutions to recognise their incurred loan losses as early as possible within the context of IFRS and to adopt a more conservative approach to the measurement of impairment provisions across all loan portfolios.

Annex 2 - Tables 1 and 2

A brief overview on the measures taken and planned to address the above mentioned CSRs can be found in Annex 2 – Tables 1 and 2.

4. Progress towards National Europe 2020 Targets

This section outlines the progress on the implementation on the various policy measures introduced towards reaching the five headline targets, providing the latest available data highlighting the tangible progress registered to date. This section also lays out new measures addressing the national Europe 2020 targets.

EMPLOYMENT

Progress on the Implementation of Ongoing Measures¹⁷:

Community Work Scheme

The Community Work Scheme aims at providing the long-term unemployed the opportunity to undertake community work under the direction of Local Councils, Public Entities and NGOs. The scheme is based on providing the opportunity to long-term unemployed to give something in return to the community, while the community benefits from the outcome of their work as well. In addition, long term unemployed participants are given the opportunity to further their skills, improve their employability and prospects of employment. Eligible participants must also be in receipt of unemployment benefits.

Eligibility for participation is linked to the time period of unemployment and it is being gradually reduced each year.

In 2010 the scheme was intended for those persons who had been registering for employment for 5 years and more and who were in receipt of unemployment benefits. As of 2012 this period was reduced to 3 years. The scheme started being gradually extended to those seeking work for six months and over. In Gozo, jobseekers who have been registering for more than 2 years are eligible to participate in the scheme and the unemployment period will continue to be reduced.

As at end of February 2013, the number of participants in the Continuation of Community Work Scheme was 393.

Childcare Centres

Details can be found under CSR3 above.

¹⁷ The measures 'Revision of Means Testing for Social Assistance' and 'Pro-Rata NI Contribution for Part-Time Self-Employed Women' were reported as 'completed' in the NRP for 2012. Hence they will no longer feature in Malta's NRP.

Afternoon School Programmes in the Community

Details on these programmes can be found under CSR3 above.

INT scheme

Details on this scheme can be found under CSR3 above.

Publicity Campaign to attract more Women to the Labour Market

Details on this campaign can be found under CSR3 above.

Encouraging Older Workers to Continue Working

In 2012, a total of 9,864 pensioners out of a total of 57,443 receiving a retirement pension remained in employment for, the whole or part of, that year. This represents 17.17% of the total retirement pension population. The male pensioners who remained in employment totalled 8,170 (19.19%) out of 42,568 males receiving retirement pension while the female pensioners accounted for 1,694 (11.39%) out of 14,875 females receiving a retirement pension.

When comparing 2012 data with 2011, there is a decrease of 479 male (5.5%) and 422 female (19.9%) pensioners who for some time or another remained in employment while in receipt of their pension. Nonetheless, the number of male pensioners still in employment in 2012 was still higher than that in 2010.

As a result of the introduction of a new medical assessment as part of the criteria for qualification to the invalidity pension to ensure that the system will not lead to early exit from the labour market, the number of Invalidity Pension beneficiaries in 2011 stood at 5,844, a reduction of 677 beneficiaries over 2010. The expenditure on Invalidity Pension in 2011 stood at € 29,454,667, a reduction of €2,762,156 over 2010.

To date, the medical review system which is operated for the treatment of Invalidity Pension claims has not yet been extended further to cover other benefits. However, on 27 March 2012, a legal amendment in the Social Security Act came into force, giving the power to the Minister (responsible for social security) to appoint a Multi-disciplinary Panel for the purpose of advising the Director (responsible for social security) on the psycho-socio aspect of cases in which a claim for a pension in respect of invalidity or a claim for Social Assistance has not led to the conclusive determination of the work capacity of the applicant as provided in the preceding paragraphs of this proviso. Such Panel was appointed on 13 April 2012.

The reform of the pension system will also contribute to encourage older people to remain active and contribute towards the country's economic and social development. Currently the

official retirement age is 61 years. In 2014, the official retirement age will be 62 years (cohort 1) and in 2019 it will be 63 years (cohort 2). This means that within the Europe 2020 strategy period, Malta will be experiencing an increase in the number of persons older than 55 years remaining in employment. The effective retirement age of cohort 1 is expected to increase to a range between 59.2 and 60.3 years, depending to year of birth (1952-1955). Whilst the effective retirement age of cohort 2 is expected to increase to a range between 61.4 and 62.35 years, depending to year of birth (1956-1958). The effective retirement age in 2008 stood at 57.5 years.

As a result of the 2007 pension reform initiatives, the retirement age for females born in 1952 increased from 60 to 62 years of age. As a result, this year the number of females that have applied for a social security retirement pension has decreased substantially. In fact, from an average of 1204 female retirees each year, this year up to September 2012, only 61 females have applied for a retirement pension. This essentially means a drop of 95% in female retirees.

Currently, Malta is still in process of monitoring the effective retirement age, in particular of cohorts 1 and 2. The quoted expected outcome is provisional and based on the male population.

Strengthening Employability Prospects

a) Employment Aid Programme

The Employment Aid Programme (EAP) was an ESF-funded programme aimed at contributing towards the integration of disadvantaged persons and persons with disabilities in the labour market. Its objective was to facilitate access into employment through financial assistance and upgrade the skills of those furthest away from the labour market through work experience.

Following a very successful uptake, on 17 May 2012, the Employment Training Corporation (ETC) had pre-announced that this scheme was temporarily suspended as the budget allocated for this project has been committed. In view of this, acceptance of applications and issuing of acknowledgements for EAP continued to be received till 8 June 2012.

Due to the referred suspension of this Scheme, new participants were not enrolled in 2013. Till the end of March 2013 the total number of valid grants related to the participation of 2656 persons.

In December 2012, the Managing Authority approved the additional funding of €4 million which brought the allocated budget of the EAP to €12.2 million.

In addition, an extension to this Programme up to December 2014 has been approved by the Managing Authority.

b) Youth Employment Programme

The Youth Employment Programme (YEP) was an ESF-funded programme which aimed to increase the employability and labour market integration of young people, particularly

disadvantaged young jobseekers and also those in precarious work who would benefit from further training and from greater knowledge of their rights and responsibilities at work.

The programme helped youth to make informed choices through increased access to information about services available, training courses and the labour market and equipped them with the motivation and skills needed to enter, retain and progress within work. The programme involved active outreach to identify and assist young people who may not have been aware of the Public Employment Services (PES). Various relevant media were used, and a website dedicated for young people was also developed, which enabled labour market integration of youths and informed them of the range of ways in which they may strengthen their employability. The programme was extended till December 2012. The number of YEP participants from end of 2009 till the end of December 2012 reached a total of 6,260. The project was brought to a close at the end of December 2012.

c) Apprenticeships

The PES (Public Employment Service) manages two apprenticeship schemes namely the Extended Skills Training Scheme (ESTS) and the Technician Apprenticeship Scheme (TAS). These schemes are aimed to support youngsters so that they receive adequate training prior to entering the labour market.

Monitoring takes place 4 times a year for every apprentice; twice on-the-job and twice off-the-job (VET institute). These visits are conducted to obtain feedback from the employer and the apprentice on skills achievement, employment conditions but mostly focus on training exposure. Furthermore, the PES organizes interim reviews, whereby apprentices receive feedback on their logbooks and guidance on their final trade test by the Trade Testing Board. Apprentices, who complete their apprenticeship, undergo a trade testing exercise through an interview, written exam, evaluation of their training logbooks and a practical exam.

An average number of 622 candidates were registered as apprentices under both schemes from January till December 2012. From feedback obtained by both employers and apprentices, these apprenticeship schemes are considered highly beneficial. It is beneficial for employers because they are training the apprentices in accordance with their company's requirements or business processes while on the other hand apprentices have the advantage of being trained in a real work environment.

Through on-the-job training, apprentices can enhance their technical skills and their soft skills. Statistics also confirm that in 2012 both employers and apprentices reaped benefits from this scheme since 85% of the apprentices who did not opt to further their studies remained in full-time employment, while another 7% were in part-time employment after successfully completing their apprenticeship.

A new apprenticeship Legal Notice has been drafted. The new legal notice shall be giving ETC the legal authority and flexibility to launch apprenticeships at the various competence levels. For details on this reform refer to Measure 'National Apprenticeship Scheme' below.

d) Employability Programme

The overall objective of the programme was the reintegration of job seekers and inactive people into the labour market and the provision of assistance to those in employment to

secure and advance their position within the labour market. The Employability Programme consisted of a number of initiatives that include training and re-training, skills assessment and the provision of financial assistance to individuals (employed in micro enterprises) participating in a vocational training initiative not organised by the PES.

Between January and December 2012, a total of 6,249 persons started a training course under this ESF funded Programme.

Listed below is a list of initiatives being offered through this programme together with the progress reported between January and December 2012:

- Job Search Assistance (JSA) (this includes Job search seminars, Job skills and Job club) – 2156 participants out of whom 1549 were males and 607 were females attended the JSA course.
- Training in basic skills and literacy – Out of the 509 participants that attended the training in basic skills and literacy, 311 were males and 198 were females.
- Work orientation training initiatives and packages and re-training programmes – 3584 participants attended the Work Orientation and Re-Training Programmes. Out of these, 2193 were males and 1391 females.
- Traineeship schemes – during the period in question, no traineeship schemes were launched.
- Training subsidy schemes - 50 participants, out of whom 21 males and 29 females, participated in the Training Subsidy Scheme (TSS). 144 participants were awarded the Training Subsidy Scheme for Academic courses (TSSA), out of which 105 were males and 39 were females.
- Skills assessment system – A total of 524 participants, out of which 385 were males and 139 females participated in the Skills assessment system. 353 participants (297 males and 56 females) were apprentices, 82 participants (51 males and 31 females) were non-apprentices and 89 participants (37 males and 52 females) were trainees

It is pertinent to note that the Traineeships Schemes, the Training Subsidy Schemes and the Skills assessment System are classified as schemes and are therefore not included with training courses.

e) Training Aid Framework

The Training Aid Framework (TAF) is intended to support private entities carrying out an economic activity irrespective of its legal form. The scheme aims to promote access to the training of persons actively participating in the Maltese Labour Market, with a view to increasing productivity and enhancing adaptability. Undertakings benefit through part-reimbursement of the costs incurred in order to train their employees, who upon successful completion will gain knowledge, skills and competence to increase their employment prospects. The co-financing rate depends on the size of the undertaking and whether the training falls under the category of general or specific.

The Training Aid Framework was originally planned to remain active from launch of scheme in February 2009 till the end of June 2013, however, following a very successful uptake, the funds allocated for TAF amounting to €8,851,620 were fully allocated by mid 2012 leading to the closure of the scheme on 8 June 2012. By this date, the Employment and Training Corporation (ETC) received and approved a total of 4,420 applications, out of which, a total of 3,871 continued to be processed and their respective Grant Agreements were signed.

Throughout the implementation of the scheme a number of de-commitments took place which further reduced this figure to 3,253 valid grants by end of December 2012.

These figures highlight the success of the scheme when compared to the performance indicators listed in Annex I of the Covenant whereby only 475 undertakings were expected to be supported. By June 2012, this figure had already been exceeded by almost eight times. It is estimated that the total number of trainees for which the 4,420 applications were initially submitted, amount to around 48,000 which were reduced to a total of approximately 34,000 in relation to the valid grants. Although these figures are estimates based on various samples, the actual figures will be determined once reimbursement stage has been processed.

Figures given are dynamic and are subject to change as the number of valid grants and trainees will change if applications are rejected or withdrawn following the 31 December cut-off date.

In view of the closure of scheme and the large volumes of applications submitted, in February 2013 the Employment and Training Corporation requested an extension of the implementation period till 31 December 2014. In March 2013 the Managing Authority approved ETC's request whereby the extended period will be used for the disbursement of funds.

Measures to Curtail Abuse of the Unemployment Register and Informal Work

Various initiatives are contributing to curb undeclared work and encourage more people to enter the formal economy.

One of these initiatives is to increase the penalty period for persons who fail to participate in an activation measure, without just cause for three or more times.

An increase in the frequency of registration as a jobseeker's duration of unemployment increases will serve as a deterrent to those who may be abusing the system. It also provides added services to jobseekers as the latter can communicate directly with their employment advisor. A call for tenders for the purchase of a fingerprint based registration system was launched and closed in November 2012. Following this closure, tenders were adjudicated and the winning bidder identified.

Details on the work carried out by both the Law Compliance Unit within ETC and BFID can be found under CSR2 above.

Employment in the Social Economy Project

The Employment in the Social Economy Project (ESEP) was officially launched on 16 May 2012. This project will promote an inclusive labour market through the provision of financial assistance to organisations operating in the social economy and upgrading the skills of those furthest away from the labour market through work experience. This project will encourage employers to recruit persons from disadvantaged categories and persons with disability. In

turn, this project will enhance the financial independence of disadvantaged persons and prevent social exclusion and marginalisation.

The eligibility criteria of organisations eligible under the ESEP are different and opposite to the EAP's eligibility criteria. In fact, an employer eligible to benefit under the EAP is automatically not eligible to apply under the ESEP. In fact, only employers not engaged in a commercial activity can apply for this project as defined in Article 107 TFEU.

Eligible employers will receive a grant provided they retain the persons enrolled in the project for at least one year. In the case of engagement of registered disabled persons and who have a recognised physical, mental or psychological impairment, the grant will continue to be provided until March 2014. The amount of the grant received by the employers varies depending on whether they engage persons to work 40 hours or more per week (First Scenario) or persons to work 20 hours but less than 40 hours per week (Second Scenario). The amount of grant attached to the First Scenario is a fixed rate of €4,500 per annum and that attached to the Second Scenario is a fixed rate of €2,250 paid quarterly on the expiry of three months of employment. Under this Project, organisations also have the option to choose between Process A and Process B. Process A will kick in when an employer engages a registered unemployed jobseeker from the ETC's register. On the other hand, in case where the employer opts to directly engage a person falling under the specific client groups, Process B will be practiced.

As at 31 March 2013, a total of 37 applications were received, 35 (94.59%) being from Malta and 2 (5.41%) from Gozo.

It is to be noted that out of these 37 applications, 3 organisations (8.11%) opted for Process A while 34 (91.89%) opted for Process B, out of which 20 (58.82%) of the prospective employees were females, whereas 14 (41.18%) were males. 20 (54.05%) of the 37 applications were offered full time employment, while 17 (45.95%) opted for employment on a part time basis.

Out of the 37 applications received: 10 (27.03%) were withdrawn by the Applicant Organisation; 6 (16.22%) Applicant Organisations have been sent a non-acceptance letter out of which 3 (50%) sent an Appeal Form; 27 (72.92%) were sent Acceptance letters: out of which 6 (22.22%) were withdrawn, 20 (74.07%) grant agreements were signed and 1 (3.70%) agreement is still pending as Applicant Organisation has not yet come to sign agreement.

Up to 31 March 2013, 20 (100%) placements were engaged under the ESEP. However, 2 (13.33 %) (10%) terminations were registered till end of February 2013.

Employment Support for Persons with Disabilities (ESPD)

The Employment Support for Persons with Disabilities (ESPD) project contributes towards the integration of disabled persons in the labour market through assessments and support services that include Learning Support Assistance during training, Job Coaching and Personal Assistance allowance to employers during work exposure and/or employment. This

project is driven by the ETC's belief that the highest form of social inclusion is reached through labour market inclusion.

A call for an expression of interest for Learning Support Assistant, Occupational Therapist and Occupational/Clinical Psychologists was issued on 13 January 2013. LSAs will be contracted and in the meantime the ETC was given permission from DOC to issue the Job Coaching Tender as an Expression of Interest. The call for Job Coaching services was issued on 14 April 2013.

Pensioners Working part-time for the Government will pay 15% Income Tax

All the necessary tasks related to this measure are now completed. The legislation regulating part-time work was also amended. This was done through the publication of a Legal Notice 320 of 2012 on 28 September 2012.

The impact of this measure can only be effectively gauged in the last quarter of 2013 when the relative tax returns for the year 2012 are processed.

Incentives to Attract More Inactive Women to the Labour Force

New Income Tax Computation

In 2012, Government carried out an important reform of the income tax system in order to make the labour market more attractive to women. Hence, besides the single and joint computations, Malta has introduced a new category called the "Parent Computation". This will be eligible for parents supporting children who are not gainfully employed up to 18 years of age and extended to 21 years of age if the children are still in tertiary education.

The new income tax computation (in €) is being listed in Table 18 below.

Table 18

	Single Computation	Joint Computation	Parent Computation
0%	0 - 8,500	0 - 11,900	0 - 9,300
15%	8,501 - 14,500	11,901 - 21,200	9,301 - 15,800
25%	14,501 - 19,500	21,201 - 28,700	15,801 - 21,200
35%	19,501 +	28,701 +	21,201 +

This fiscal measure was introduced through Act V of 2012 enacted on 14 May 2012. This is the Act to implement Budget measures for the financial year 2012 and other administrative measures.

As per Measure 'Pensioners working part-time for the Government will pay 15% income tax' above, the effectiveness of this measure can only be effectively gauged in the last quarter of 2013 when the relative tax returns for the year 2012 are processed.

Increase in the Maternity Leave

Details can be found under CSR 3 above.

Increase in the Adoption Leave

Details can be found under CSR 3 above.

Childcare Centres

The construction of three childcare centres in the industrial estates of Xewkija, Kordin and Mosta respectively is part of an extensive programme of upgrading works in various industrial zones. All works are being co-financed by ERDF Funds.

The construction tender for the Xewkija Childcare Facility is not awarded yet and as at 5 April 2013, it is at contract signature stage. Works on site are anticipated to start following signature of contract and end 8 months later.

The construction tender for the Kordin Childcare Facility was awarded. Works on site started and are anticipated to be completed by December 2013.

On the other hand, works on the Mosta childcare centre started in May 2012. It is anticipated that the construction of the childcare centre will be completed by 31 October 2013.

The life sciences project at San Ġwann is currently at the construction phase at foundations level. It is expected that the childcare centre will be completed as per programme scheduled at 2014.

The childcare centre constructed in Ħal Far is almost completed.

Planned New and Extended Measures

Enhancing Employability through Training

The overall objective of the programme is the reintegration of job seekers and inactive persons into the labour market while also providing assistance to those in employment to secure and advance their position within the labour market.

This programme will be sub-divided into four main components: Training Design, Short Courses, Traineeships, and a Training Subsidy Scheme. The programme will provide the opportunity for men and women who have been absent from the formal economy for a relatively long period of time to regain their confidence and brush up on their skills through a series of training programmes that will ultimately facilitate their reintegration to employment. This will be achieved through the promotion of a lifecycle approach to training and education that is also expected to address gender-based segregation of subjects.

The ESF-funded measure, with a budget of €3,374,779.85 will run from Q3 2012 up to Q4 2014. The EET Programme is aimed at training approximately 8,080 persons.

Child Development Centre

The aim of this measure is to develop a regional public child development centre in Gozo. This will provide childcare and related services to children, thus making it easier for females to join the labour market.

This proposed project is very much in line with Government's policy to introduce family-friendly measures and practices to support and facilitate female participation in the labour market as well as to help young families in their various forms to achieve the much lauded balance between work and family life.

The proposed Child Development Centre shall serve three main functions:

- To act as a regional Child Day Care Centre;
- Concentrate all the outpatients services related to child development in one area;
- Promote healthy living practices among children.

This will act as a one stop shop for childcare services and will further contribute to facilitate access to the labour market by women.

In this regard, it is being proposed that a child development centre be constructed in Gozo to provide childcare facilities as well as related services.

The construction of this child development centre is planned to start in May 2013 and is expected to be completed by May 2014. The total budgetary allocation for this project is of €1,500,000.

National Apprenticeship Scheme

This measure aims to gradually replace the current two apprenticeship schemes, namely the Technician Apprenticeship Scheme (TAS) and Extended Skill Training Scheme (ESTS) over a process of three years starting in 2013. All apprenticeship callings under the National Apprenticeship Scheme will be pegged to the level descriptors as specified in the Malta Qualifications Framework (MQF). This will provide the Employment and Training Corporation with more flexibility to launch apprenticeships at the various competence levels.

The Employment and Training Corporation intends to introduce apprenticeship levels for occupations which are already on offer and also in other occupations at any level (up to a certain level) according to the needs of the labour market and the ability of the apprentice. One of the measure's objectives is to extend the provision of off-the-job training (including theoretical tuition) to training providers licensed by the National Commission for Further and Higher Education (NCFHE). This measure will also serve to cater for labour market demands of emerging sectors as well as to address skills shortages. It aims to tap new areas of expertise on the basis of labour market demands.

The new scheme should manage to attract more young persons to go for an apprenticeship by offering more varied training opportunities and a higher maintenance grant. The scheme will be encouraging employers to take on more apprentices as Government will pay the employers' share of NI contributions in respect of apprentices to enrol under the new system. This will result in the reduction of employers' cost per apprentice. It is also envisaged that the number of apprentices in the system will increase by 100 in 2013. The measure will be ongoing and has a budget of €1,148,400 (an additional €650,000 were allocated to complement the existing funds).

Active Youth for Employment Programme

The Active Youth for Employment Programme aims to:

- Increase the employability of young people and facilitate labour market integration of youth;
- Help youth make informed choices through personalised jobseeker services, increased access to information about services available, training courses and the labour market;
- Equip youth with the motivation and skills needed to enter, retain and progress within work.

There will be a follow-through by the Employment and Training Corporation employment advisors of youth unemployed to ensure that they go through a systematic procedure finally resulting in integration in the labour market.

Within the first month of the programme, participants will:

- Participate in a Job Search Seminar, where they become better equipped to look for work and facilitate their employment.
- Meet with their employment advisor so as to be able to identify the areas where they need to upgrade their skills; will know where to find the basic information on the local labour market and training courses; will be able to set goals, milestones and timeframes; and will be supported throughout the process.
- Have a Personal Action Plan (PAP) which will offer practical support and empower them to find a job or get back to work.

Between the third and sixth month of the programme, the youth unemployed will be participating in activation courses and job skills courses where their skills will be further

developed. Young jobseekers still registering after three months will be assisted in their search for employment by providing the basic skills required.

During the Work Trial Scheme (between the sixth and ninth month of the programme), young jobseekers will be encouraged to use the skills they learnt over the previous months by putting them into practice; are kept active and motivated and also provided with more work experience; their Curriculum Vitae will be further enhanced and they will receive training on the skills needed during interviews. Moreover, an employer will provide training in line with the Youth Job Preference and Formal Training, while suitable posts provide the young jobseekers with the necessary experience to improve their chances of finding employment.

This measure has been allocated a budget of €601,265 Malta funds. The training initiatives will be incorporated within the ESF-funded 'Enhancing Employability through Training' Programme, which is an approved project.

Support for youth voluntary work

In order to promote youth voluntary work that benefits both young people and their communities, a stipend will be introduced for young people (aged up to 25 or for those up to three years after graduating from tertiary education) who spend a year doing voluntary work. This will be achieved through a partnership between Aġenzija Żgħażaġħ and the University of Malta.

€600,000 was allocated to this measure in Budget 2013. It is planned that this measure runs until end 2015.

ETC Scheme to promote Youth Entrepreneurship

Young people face particular problems when starting their own businesses. These include:

- Lack of awareness about entrepreneurship;
- Education and training programmes do not nurture a sense of entrepreneurship;
- In general, young people lack human, financial and social capital, which are necessary both to set up and successfully run a new business;
- Young people are in a disadvantaged position because not only will they have low personal savings, but they will also find it more difficult than adults to obtain external finance, including debt finance;
- It is likely that young people have limited business networks and business-related social capital;
- Financial markets may be biased away from supporting youth businesses. Youth-owned businesses may also face "discrimination" in product markets, with customers who can be sceptics about the reliability of their products or services.

In fact, the Employment and Training Corporation administrative data shows that only 1073 out of 31,443 employed youth are self-employed. This barely represents 3% of the total youth workforce.

Hence, through this scheme, Employment and Training Corporation will be training and supporting youth in preparation for entrepreneurship or setting up of cooperatives. This will

be achieved through the provision of specialised training aimed at passing on the relevant skills and information required for them to be fully prepared to embark on setting up their enterprise or cooperative. This scheme will also provide additional support in the form of mentoring services and monetary grants.

There will be two annual intakes/calls for the Youth Entrepreneurship Scheme. Under each call, the Employment and Training Corporation is targeting to enrol a total of 25 young persons. This will add up to a total of 50 young persons every year. The target will be for 15 young persons per intake to finalise the programme and take on the final grant. This will add up to a total of 30 new youth entrepreneurs in a year.

This measure is budgeted at €317,900, local funds. Once started, the scheme will be ongoing since it will form part of the core operations of Employment and Training Corporation.

JOB BRIDGE Programme

The JOB BRIDGE Programme aims to provide specialised training for disabled persons to assist them in building their competence and the necessary skills to adapt to the job market. The programme will help disabled persons who need further pre-employment training and on-the-job training, in their passage towards the transition from school to the place of work and assist them towards their integration in employment.

This is in line with the Employment and Training Corporation's strategy to increase its efforts to prepare and equip disabled persons to meet the challenge of seeking gainful employment. The JOB BRIDGE Programme aims to:

- Provide pre-employment training;
- Develop and implement individual transition plans;
- Coordinate on-the-job training experience;
- Provide a training allowance for the period of the training placement;
- Assist in Employment and Training Corporation's efforts to promote an inclusive employment culture.

Trainees will actively participate in scheduled training experiences designed to attain specific learning objectives. Individual training sessions and group training sessions (groups of 3 or 6 participants) will be held either at the Inclusive Employment Support Unit in Pembroke or within the community/workplaces.

An important aim of the programme is to identify each individual's abilities, vocational preferences and aptitudes, personal connections and circumstances that would help transition to employment. A vocational profile of each trainee will be compiled so that by the end of the programme, the Employment and Training Corporation job developers will be enabled to make a valid job match. An essential component of the vocational profile is the listing of the individual support needs that need to be provided in employment.

It is envisaged that towards the end of the programme, most of the JOB BRIDGE trainees will be able to take up a 20-hour weekly temporary mock placement for a period of 6 to 8 weeks. The trainees should receive an allowance equivalent to the minimum wage, paid pro rata, during this phase of the programme.

It is also envisaged that trainees will be able to use public transport to reach Pembroke by the end of the first quarter. This will be one of the major challenges, thus it is envisaged that during the first quarter and, most probably for some trainees also during the second quarter, some form of private transport has to be contracted.

By the end of the programme the trainees will be able to demonstrate levels of independence, social skills and employability skills compatible to employment in open work settings on individual or group engagements.

The first intake took place in February 2013, after the trainees participated in an induction session in December 2012. This intake will keep going till January 2014. Thus, it is envisaged that in February 2014 another intake will take place. An allocation of €262,375 was reserved for this measure for 2013.

Embark for Life Programme

This programme envisages the integration of young people into the labour market. It empowers young persons in acquiring skills, which would enable them to get into mainstream education and/or employment, with the ultimate aim to live independently and lead a more quality life in the community.

Development of a Youth Entrepreneurship Strategy including an Action Plan for Malta – 2013-2018

Entrepreneurship in general is considered a key driver of economic growth and job creation. Youth entrepreneurship in particular is an area of growing policy interest. Youth entrepreneurship is a critical element in the development of a sustainable knowledge economy due to the creativity and innovation of young people. It is also very relevant to the current situation brought about by the crises which has affected young people and pushed up youth unemployment.

In view of this, the objective of this measure is to develop a strategy for the promotion and support of entrepreneurship in the younger generation by enabling the development of entrepreneurial qualities and competences through the education system at all levels as well as the bringing together and enhancing the initiatives being taken or planned to be taken by Government entities and private institutions meant to engage, empower and equip young people to create and grow businesses.

This measure will also include the development and enactment of a Youth Entrepreneurship Act.

This measure is meant to increase (a) the number of young people actively considering starting their own business and (b) the number of start ups by young people including university graduates.

This measure is planned to start in the second quarter of 2013 and is expected to be fully implemented by the second quarter of 2015.

Local Employment Development (LED) Framework

This measure envisages the establishment of a framework that will ensure a common approach and a shared strategy amongst Government entities targeted towards employment and investment generation in Gozo. Such a framework will formalise the joint efforts of the Ministry for Gozo, the Employment and Training Corporation and Malta Enterprise to implement local employment development initiatives in Gozo.

The main objectives of this set-up would be to:

- Sustain the performance of present Gozo-based operators;
- Encourage Maltese counterparts to consider opportunities of relocating and expanding their business in Gozo;
- Attract foreigners to invest in Gozo through measures and incentives specifically formulated to optimise Gozo's potential.

Parenting credits

Parenting credits (for parents born in 1962 or after) have been introduced in Malta following the pension reform changes of 2007. Parents, mainly women, who had career breaks to look after their children, are entitled up to 104 weeks of contribution credits for each child under 6 years of age (4 years in the case of a child with disability under the age of 10) provided they resume work for at least the same number of weeks they are entitled to as credits. In 2013, this measure has been extended to parents born from 1952 to 1961 with such parents benefitting from 50% of the contribution credits awarded to parents born in 1962 or after. In this context, it is to be noted that the contribution period of a person born in 1962 or after and on which a full pension is paid is 40 years as opposed to 35 years for persons born from 1952 to 1961.

Strategy for Job Creation

Economic growth, safeguarding employment and the creation of jobs are key priorities in this Government's economic strategy. These targets will be reached through a labour policy that rests on two pillars.

Firstly, an economic policy that is clear and effective, calculated to create work opportunities in diversified and sustainable sectors.

Secondly, a labour market policy which has as its focal point the individual and his/her need for adequate quality work capable of satisfying his/her legitimate aspirations and those of their families.

Government is aiming for the consolidation and expansion of Malta's economic sectors as well as economic diversification. All this comes about through the creation of a stable and transparent economic climate, a package of incentives that facilitate entrepreneurship and investment as well as investment in both established and new productive spheres.

All this, together with the investment Government intends to make in the fields of education and training, in health and social welfare to ensure that no one is emarginated or left to lag behind, should continue to encourage and stimulate local and foreign investment in the economy for the creation of jobs for all who wish to enter the labour market.

With this aim in mind, Government wants to ensure that workers are well prepared to enter the labour market. To this end, Government will emphasise lifelong training and see that all those who lose their jobs find the necessary help and means to reintegrate themselves in the workforce. Government wants to see more women retaining their jobs or re-entering the workforce once they have fulfilled the needs of their families.

During 2013, the groundwork will be laid for the setting up of an Active Labour Market Policy Counselling and Action Committee in line with the Active Labour Market Policy.

The Ministry for Sustainable Development, the Environment and Climate Change (MSDEC) together with the Ministry for Education and Employment (MEDE) have been tasked to prepare a strategy on green jobs that will help Malta create new opportunities based on EU best practices in such areas as Clean Technology, Energy Efficiency, Resource Efficiency and Waste Management.

RESEARCH and DEVELOPMENT

Progress on the Implementation of Ongoing Measures

The New National Research and Innovation Strategy 2011-2020

With the coming to an end of the time period covered by the National R&I Strategic Plan 2007-2010, the need was felt to actively reflect on achievements, challenges and changes which have taken place over the past years and design a new national R&I strategic plan which builds on progress made and lessons learnt in implementing the previous Plan. The strategic plan will provide a policy framework for the coming decade, and will take into consideration; inter alia, on-going work in the preparation of thematic plans in several sectors. The plan will be based on strong stakeholder consultation.

A draft R&I Strategic Plan was issued for public consultation in December 2011. Its finalisation has been delayed in view of new requirements for compliance with conditionalities under the proposed new Cohesion Policy Framework 2014-2020.

To date, comments received during the public consultation were reviewed and where necessary, updates to the text were made. In addition, statistics and text describing on-going work are being regularly updated. Work on the preparation of smart specialisation strategy has also been undertaken. Arrangements have been made with DG REGIO to engage an international expert to further support the entrepreneurial process of discovery which should lead to finalisation of the smart specialisation aspect of the new strategy. Additionally, consultations on niches where Malta has strength and potential are being explored through further statistical analyses and consultations (one to one meetings, workshops, and focus groups) with the private, public and academic sectors as well as social partners. Over 20 meetings with different stakeholders within the public sector as well as social partners have been undertaken. Regular dialogue with the academic sector is also ongoing. An initial workshop for the private sector was held in February 2013 and this is being followed up through one-on-one meetings and focus group meetings. A series of such focus groups is planned over the period April-May 2013.

An Ecosystem Approach to R&I Funding

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

In the NRP for 2012, this measure was extended to Measure 'Malta's National R&I Fund 2012'. Hence, details on the new R&I Programme 2012 and the Commercialisation Programme can be found below.

b) Incentives for R&D in Industry

Malta Enterprise administers nine R&D incentives that support enterprises in projects related to Industrial Research and Experimental Development. These incentives provide support in the form of cash grants or fiscal benefits. The schemes offered are the following:

- Loan of Highly Qualified Personnel - There have been no applications submitted for this scheme.
- Preparatory Technical Feasibility Studies Scheme – In 2012, 1 enterprise benefitted from this scheme. The amount of assistance was of €16,890
- Grants for Cross-border Collaborative R&D (R&D (EUREKA & EUROSTARS) - In 2012, one beneficiary benefitted from this scheme. The amount of assistance was of €47,269.
- Industrial Research and Experimental Development - In 2012, no beneficiary has benefitted from this tax credit.
- Registration for Intellectual Property Tax Credits for SMEs - No beneficiary has benefitted from this scheme.
- Royalty Income from Patents – No beneficiary has benefitted from such a scheme.

ERDF R&D Scheme – Three calls have been issued, following which 29 projects were approved with a total grant value of €3,318,696.52.

Cooperation for development of new products, processes and technologies in the agriculture and food sectors (Measure 124): The aim of this Measure is to increase the competitiveness of the farming sector and of the agro-food processing industry through the development of new products (goods and services), processes and technologies. The budget allocation for this measure was set at €1,000,000.

Following the first call which was launched on 26 September 2009, three applicants were contracted, for a total Public Expenditure of €255,317.44. As at end 2012, a total of €35,749.20 was disbursed with an EAFRD contribution of €26,811.90. For the second call which was launched on 24 October 2011, five applications were received, three in Malta and two in Gozo, with a total request for €257,135.16. Until the end of 2012, three applications were selected with a total requested amount of €377,111.17 and total grant amount of €219,953.65.

Doctoral and Post-Doctoral Scheme

The STEPS scheme was launched in January 2009. The scheme offers bursaries to address areas of national priority. STEPS supports an increase in the number of students following post-graduate courses, increasing the availability and employment of high-level graduates in the priority sectors of the knowledge-based economy in Malta. The funds allocated to the STEPS scheme amounted to €9,948,433.

The ESF co-funded STEPS came to a closure with the issuance of the eighth and final call in May 2012. During the eight calls, a total of 863 scholarships were awarded, of which, 82 scholarships were awarded to applicants who wished to pursue studies at doctoral level. Table 19 below is a representation of the number of successful awardees in each of the four focus areas under the first priority axis of the programme.

Table 19:

STEPS (1st – 8th Call)		
	Doctoral	Masters
Capacity Building in Education	15	142
Addressing Skills Mismatches	29	327
Research and Innovation in Science and Technology	38	220
Information and Communications Technology	-	92
Total	82	781

The Setting Up of a Life Sciences Centre

On 5 September 2011, works started on site and as at the end of September 2012, all demolition, excavation and asbestos removal has been completed.

Up to the second week of March, 2013, all mobilisation on site has been completed and most of the foundations are at an advanced stage. Project completion is earmarked for March-May 2014. Project cost is estimated at circa €30 million of which around €20 million will be co-financed through ERDF funds.

The impact indicators of the project show a 0.44% increase in RTDI expenditure as a percentage of GDP with 138 direct jobs created by the end of the programme period in 2015. Over a 20 year period total employment should reach 688.

The Bio Malta Campus will have 61 labs/working units of different sizes. All research will be Cat 2 level. Several meeting rooms, open space, retail areas and an exhibition and conference centre will be part of the project to complement the business activities for networking. It is envisaged that the provision of specific laboratory services such as analytical testing, toxicological testing, x-ray imaging for molecule characteristics, water analysis, sterilisation and autoclave, waste disposal, specialist laundry providers and similar services could be developed as independent business units which support the LSC and other activities to be undertaken within the LSC environment.

Typical tenants within the LSC will include enterprises/individuals engaged in biotechnology, clean technology, life science products and diagnostic equipment/services, contract research organisations (CROs), medical device manufacturers and specialised service providers. These enterprises/individuals may well be university spin outs, entrepreneurial starts ups, established international and local companies whose core focus is on the research function.

Thus, the LSC should be able to offer:

- Easier day-to-day running of the business, enabling focus on the research aspect;
- Flexible terms and conditions; and

- Knowledgeable team support – ensuring business advice, expertise on technology exploitation, marketing, business development, networking, access to finance and international investment.

The purpose of the LSC may be viewed as the consolidation of existing core competencies and industry into a dedicated centre of excellence. Areas of specialisation may include:

- Bioinformatics – medical data processing, monitoring and support tools;
- Diagnostics – degenerative diseases (including diabetes, cancer), clinical trials, PET imaging, medical device applications;
- Clinical research – rare diseases, drug delivery, efficacy and analytical support;
- Forensics – DNA, genomics and profiling;
- Medical devices – development and new applications, IT and electronic engineering, precision mechanical engineering (plastics).

The model typically takes into consideration the existing technologies/processes and activities which are to be found in the vicinity of the LSC, as well as others that should become available once the specialised oncology hospital becomes functional. The latter should provide the necessary impetus to explore research and development prospects in radiology activities which have already been incorporated in the design of the LSC.

The main stakeholders will be the University of Malta, Mater Dei Hospital and industry particularly the pharma companies that will be encouraged to support this project on the open innovation concept. It is also being considered that the conference/exhibition centre (LS4), the childcare centre and the car parks on site will be offered on a private public partnership.

Preparation of a Health Research and Innovation Strategy

'Health' was identified as one of the four national research priorities in Malta's National R&I Strategic Plan 2007-2010, which recommended the development of a thematic research strategy in the area. This measure aims to follow up on that recommendation through the preparation of a thematic R&I strategy which identifies medium and long term actions in the area.

The work started in 2010 with the setting up of a dedicated steering group. A draft strategy was completed in April 2012 and further to approval by the MCST Board and in agreement with the Strategic Policy Secretariat, OPM, it was launched for public consultation on 24 October 2012. Following the public consultation, the draft strategy was approved by Cabinet in December 2012 and launched in January 2013. This measure is therefore completed.

Malta's National R&I Fund 2012

This measure is a continuation of the one that already featured in the NRP for 2011. But it has been found necessary to include it as a new measure since more details on the commercialisation programme can now be given and a new R&I programme for 2012 was launched. The main objective of this fund is to support an idea-to-innovation approach in line

with the Innovation Union Flagship Initiative by addressing gaps in support which create bottlenecks for commercialisation.

The National R&I Fund is made up of the:

(i) National R&I Programme:

The national R&I programme started in 2004 and is therefore an on-going measure. Its objective is to fund research projects of between €50,000 and €200,000 concentrating on technology transfer between academia and industry with specific focus on four priority sectors, namely environment and energy resources, ICT, value-added manufacturing, and health and biotechnology. Projects funded under this programme have a maximum duration of three years and their expected outcomes include an increased capacity for R&D and the commercialisation of research outputs.

The R&I Programme for 2012 was launched in December 2011. A total of forty-six proposals were received, requesting a total of €8.3 million in funding (up from €5.8 million requested for the 2011 call). The screening of applications was performed in line with the evaluation criteria, by foreign experts. A total of thirty seven proposals were shortlisted, out of which a total of seven projects have been selected for funding. The total budget available for the 2012 R&I Programme was €1.4 million.

Following discussions on the amounts involved per project, eight projects have been finally notified as the selected projects for the 2012 programme that take up the total budget allocated. The grant agreements have been finalised and signed by all the parties concerned.

On January 30 2013, MCST launched the National R&I Programme for 2013. The focus of the 2013 programme remains that of technology transfer between academia and industry with specific focus on the four priority sectors identified in the National R&I Strategy namely Environment & Energy Resources, ICT, Value-Added Manufacturing and Health & Biotechnology. Sub-priority areas for 2013 year only are Limestone Science and Technology and Offshore Solar Technology. 42 lightweight applications for project proposals were received until March 20 2013 and after evaluations 7 to 8 projects would typically be awarded. The total budget available for the 2013 R&I Programme is €1.4 million.

(ii) National Commercialisation Programme

This programme was launched in early 2012, with the aim of assisting technology owners to study the feasibility of taking the technology to market, particularly to attract capital investment. It is particularly intended for successful recipients of funds under the National R&I Programme to help them move their technology closer to market. The intended funding amounts per project are between €25,000 and €75,000. Projects funded under this programme will have a duration of 6 to 12 months. The priority sectors for this programme are Environment and Energy; ICT; Value Added Manufacturing and Services; Health and Biotechnology. Participants can be local SMEs, NGOs, Professional Bodies, Public Bodies

or Individual Organisations as long as they can demonstrate technology ownership/permission for use.

It is planned for this programme to be a yearly programme which complements the National R&I Programme. The National R&I Fund, used to fund the above mentioned two programmes, is fully dependant on Government funding. The available budget for the Commercialisation Programme for the year 2012 was €200,000.

Of the 8 applicants, 3 have been selected and notified; and the agreements are being finalised along with the outcomes from the recipients' previous R&I Projects. The allocated budget will thus be taken up. A new grant agreement that is specific to the programme and addresses the required outcomes from the project has been elaborated. Once the 2012 pilot programme is underway, a 2013 call will be run with a budget of €200,000.

Setting-Up and Development of the National Interactive Science Centre

In order to sustain a knowledge-based economy and increase a country's economic competitiveness, it is essential to create a specialised, scientific workforce and strive towards achieving top research and innovation talent. Other important key drivers include strengthening scientific knowledge, increasing the take-up of science-related careers and spurring the entrepreneurial spirit of youths.

Therefore to entice youths to take-up science related subjects at school and then choose a career in the sciences, the Government is investing in the development of a National Interactive Science Centre (NISC). The project will aid in enhancing science education which is crucial to increasing Malta's competitiveness.

The National Interactive Science Centre (NISC) will be developed at the Villa Bighi Complex. Brand new architectural plans will restore the site and adapt the historical buildings to house the NISC, encompassing an array of diverse hands-on science exhibits in an engaging setting. The buildings and the outdoor areas will become a hub for science communication and a means to entice students to take-up science subjects at school as well as bring science closer to the general public.

The National Interactive Science Centre will aspire to cultivate a culture of scientific curiosity and creativity by igniting a passion for questioning, investigation and discovery through encouraging visitors to explore, think, imagine and appreciate. It will encompass more than 3,500 square metres of indoor and outdoor exhibition space spread over five buildings together with areas dedicated to science shows and hands-on workshops, a planetarium experience, science debates and discussions.

It will act as a medium to instil an active interest in science, research and innovation in our youth and encourage them to pursue a career in science and technology. In addition, it will give an alternative pathway to learning through interactivity; whereby students will interact with material covered through the various science-related curricula in a novel way while expanding learning opportunities to compliment formal learning.

The NISC will also serve as a research infrastructure by offering a research base, set up as a live lab, where research could be carried out in the fields of Social Science and

Humanities. By providing an atmosphere of informal and non-formal learning, the NISC will allow research on the effectiveness of how informal interaction with science can have a strong influence on students' and public's attitude to science, technology, research and innovation. Both local and foreign students will be able to use the NISC to carry out research related to Social Sciences and Humanities.

It is also foreseen that academia and industry will be able to use the temporary exhibition space as well as the Activity Centre to test prototypes, pilot projects, carry out experiments and showcase results. In addition, the NISC will also be able to apply for Horizon 2020 funds in the area of social Sciences and Humanities and engage in research projects.

The total budget for the whole project amounts to €25,850,000 (incl. VAT) and is co-financed by the ERDF.

Progress to date includes:

Q 3 2010

- Groundwork for project development: set-up of Science Popularisation Unit, carried out extensive research; began planning ahead and forecasting.

2011

- Issued and awarded Services Tender for architectural works, including design & supervision, for the national interactive science centre, Malta (CT3098/2010);
- Background research for the development of content including interactive exhibits;
- Carried out stakeholder consultations which positively outlined the stakeholder's interest in the setting up of the NISC as they see it as a much needed permanent infrastructure to entice students towards studying sciences;
- Submitted architectural plans to MEPA.

2012

- Received Full Development Permit for the restoration and construction works on 4 October 2012;
- Drafted seven tenders for exhibit fabrication, and being vetted by the Department of Contracts. Expected to be published in Q2 2013;
- Application for ERDF funds was submitted in September 2012.

2013

- Formal notification that NISC project ERDF application was successful - ERDF311;
- Issued Works Tender for the Restoration, Construction, Servicing, Finishing and Commissioning of the National Interactive Science Centre (Malta) Area (A) – Upper and Lower Bighi.

Planned New and Extended Measures

Preparation of an Innovation Strategy for Smart Specialisation

The main objective of this measure is to identify areas within the national economy with the greatest potential for innovation-based growth in order to direct funding and efforts towards building critical mass in these areas. This measure will involve an analysis of available statistics on each economic sector, consultations with academia, the public sector and private enterprise as well as a peer review.

Work on the strategy started in December 2012 and it is expected to be completed by the third quarter of 2013.

Centre to Strengthen Research on Business and the Self-employed

This measure will help to introduce the concept of entrepreneurship at the University of Malta and also provide the necessary teaching programmes through which the University infrastructure can support start-up businesses with the intent of then facilitating the move to the Science Park, for example. This project kicked off in 2012 and will end in 2014. The budget allocated is of €1,331,530.

Internationalisation Scoping Exercise

Research activities are intrinsically international in nature, leveraging on collaboration between different knowledge centres, common issues of concern and the need to avoid duplication of efforts. Given the small size of Malta's research community and its limited resources, the importance of international cooperation is even more pronounced.

Hence, this measure aims to identify opportunities for Maltese researchers to be engaged in international cooperation opportunities. The exercise started in October 2012 and is expected to be completed by end 2013.

The budget allocated for this measure is €150,000.

European Research Area

Malta is the smallest EU Member State, with a GDP of €6.5 billion (2011 figure) and a total population accounting for 0.1% of the EU27 population. Gross R&D expenditure (GERD) stood at 0.67% of GDP in 2010, while provisional figures for 2011 indicate an increase in GERD to 0.73% of GDP. Around two thirds of R&D in Malta is undertaken by the business sector with higher education accounting for another one third. Public research contributes only around 3%.

The number of PhD graduates (per 1,000 population aged 25-34) in 2011 stood at just 0.3, however recent measures (in the form of grant schemes) to address this have resulted in significant growth in this area.

In terms of policy development, the 2007-2010 National R&I Strategic Plan set out to build an enabling framework for R&I, acknowledging their central role in transforming Malta into a knowledge-based economy. It identified priority areas for R&I investment, namely energy and environment, value-added manufacturing and services, health and biotechnology as well as ICT. Between 2010 and 2012, dedicated thematic strategies on health and value-added manufacturing R&I were prepared. Developments were also registered in digital gaming (through the setting up of a platform and the preparation of a dedicated strategy) and in life sciences (through investments in a life sciences park).

A draft 2020 R&I Strategic Plan was launched in December 2011. This new draft plan builds on progress made and lessons learnt from the 2007-2010 R&I strategic plan in full consideration of policy developments in other thematic areas and policy developments at national, European and international level. Significant progress in laying the foundations for an R&I enabling framework has been made, but a lot more needs to be done in the coming years to further strengthen this framework and utilise it to boost research, innovation and competitiveness. The European and international context and developments within these form part of the landscape against which this draft R&I strategic plan is set. However it also acknowledges the need for measures and actions to be tailored within the inherent constraints brought about by Malta's small size and the openness of its economy.

Malta and the European Research Area

An overview of the national R&I system and main policy documents indicates that these are very much in tune with the principles underpinning the ERA vision. Nonetheless, as explained above, policies and measures which steer Malta's R&I development to the achievement of the ERA are tailored within the national contextual framework and needs. This reflects the reality of a situation where Malta's research and innovation ecosystem is still in its infancy, and so policies and measures need to focus primarily on building and strengthening internal capacity, hopefully leading to progress which would then enable shifting focus to fuller integration in the ERA.

An overview of local policy in the context of each of the ERA objectives is undertaken hereunder.

More effective national research systems: Public funding allocated for research (GBAORD) can be divided into two main types: that allocated non-competitively, and that allocated for competitive calls for proposals. Both the funding and the range of competitive calls have increased significantly over the past years. The earliest competitive programme was set up in 2004 with a budget of €700,000. Over the years, the programme has increased in size (its budget was €1.4 million in 2012) focussed its scope on four priority sectors and sought to facilitate collaboration and knowledge transfer between academia and industry by requiring that project proposals be submitted by consortia involving both partners. Other programmes funded competitively include the Commercialisation Programme, funding schemes for research and innovation in industry operated by Malta Enterprise, as well as the MGSS and STEPS scholarship schemes.

Optimal transnational cooperation and competition: Transnational cooperation is a priority for a country of Malta's size, and its importance in developing a healthy national R&I ecosystem is evident. However, the practical aspects of international cooperation place a burden on the national system which is disproportionately high, and where the limited critical mass becomes an even greater setback. In light of this, Malta has sought to adopt a strategic approach to international cooperation, focussing on areas which are considered a priority and where Malta has a relative strength. A clear example of this is Malta's approach to joint programming initiative participation, where Malta is a member of the Urban Europe JPI and has observer status in the Antimicrobial Resistance JPI, the Neurodegenerative Diseases (JPND) JPI and the Healthy Diet for Healthy Living (HDHL) JPI.

Funding considerations remain a major obstacle in international cooperation, however positive developments can be noted. These include participation in European research infrastructure projects such as the Biobanking and Biomolecular Resources Research Infrastructure (BBMRI) and the Common Language Resources and Technology Infrastructure (CLARIN) and Malta's participation in the ENIAC Joint Technology Initiative, through which it is participating in the Labs4MEMS project. In addition, funding is available for enterprises wishing to participate in the Eureka and Eurostars initiatives through a dedicated grant scheme.

Open labour market for researchers: Malta's efforts to increase its researcher capacity through scholarship grants and investment in infrastructures stem from Malta's wish to build a thriving labour market for researchers, with a healthy circulation of Maltese researchers doing work abroad and foreign researchers undertaking research in Malta. The link between capacity building and an open labour market for researchers is clear – implementing initiatives to create an open labour market for researchers without investment in local capacity building increases the risk of brain drain

Grants for postgraduate studies awarded to Maltese students are portable, enabling the student to pursue their studies abroad.

Recruitment of researchers at the University of Malta and in the public sector is open, transparent and based on merit. Indeed, while no Maltese organisation has formally endorsed the Charter and Code, the principles enshrined in these documents are in practice largely observed. Open calls for applications at the University of Malta are publicised on the Euraxess portal through a link to the University of Malta's website.

Gender equality and gender mainstreaming in research: Low female participation in the labour force is a phenomenon which pervades the majority of economic sectors in Malta. While improvements have been registered over the past years, there is scope for further efforts in this area. Indeed, at the national level, there have been many efforts to increase female participation in the labour force.

Measures include increased maternity leave; increased parental leave; tax credits for women to remain or return to the labour market; increasing and increased availability of public childcare centres; and tax credits for parents whose children attend child day care centres. Gender issues within the context of the local research community have not been thoroughly studied to date, possibly due to the small researcher numbers in Malta and to the more overarching nature of low female participation in the workforce which extends beyond the research profession.

To this end, the new draft national R&I strategic plan 2020 proposes to study this issue in more depth, so that the right policy mix is put in place on the basis of evidence gathered. In addition, the National Commission for the Promotion of Equality has developed tools to strengthen the knowledge and understanding of gender mainstreaming. These tools highlight the role of research in the implementation of gender mainstreaming, particularly the collection of data that is sex-disaggregated and other relevant research that assists in the planning and evaluation of policies that safeguard equal opportunities to men and women.

Optimal circulation, access to and transfer of scientific knowledge: In relation to open access, Malta believes that open access is an important principle in order to achieve optimal circulation of knowledge, and is therefore supportive of the need to adopt open access principles and invest in open access to publications, while safeguarding the interests of the research community, the general public as well as potential investors. Nonetheless, the aim of most researchers is to publish in high-impact journals (irrespective of whether these allow open access or not), therefore it is imperative that efforts are made at supra-national level to convince the best journals to allow open access publishing. At the national level, despite support in principle on the subject of open access to scientific results arising from public funding, the absence of any local repositories hampers the achievement of this objective.

As Malta's R&I policy framework is business and growth driven, transfer of knowledge and collaboration of academia with business are seen as important conduits towards this objective of transforming knowledge to innovation and growth. Collaboration and transfer of knowledge between academia and industry is heavily encouraged by the National R&I Programme, which requires consortia applying for projects to include partners from both areas. The National R&I Programme also promotes the open access concept by requiring that research results are published in open access mode. This programme has recently (2012) been supplemented by a Commercialisation Programme, which seeks to provide the necessary assistance for the outcomes of the applied R&D projects funded through the National R&I Programme to reach the market as new products/services.

The setting up of the Technology Transfer Office at the University of Malta in 2009 has also helped formalise and strengthen relations between industry and academia. The University Trust Fund also contributes to this objective by seeking to accrue assets to help broaden its corporate research portfolio and strengthen its outreach mechanism to contribute to sustainable socio-economic development. Knowledge transfer is also supported through a support scheme for Small and Medium Enterprises (SMEs) which allows them to engage a highly qualified expert (seconded from a research organisation or large enterprise) to work on an R&D&I project of relevance to the SME. In this way SMEs can access new knowledge and increased innovation capabilities. The expert will help the SMEs to carry out an Industrial Research and Experimental Development projects.

ENERGY

Progress on the Implementation of Ongoing Measures

Interconnection to the European Energy Grid

Details on this measure can be found under CSR 5 above.

Extension of the Delimara Power Station

Details on this measure can be found under CSR 5 above.

Energy End-Use Efficiency

Malta submitted its second National Energy Efficiency Action Plan (NEEAP) in line with Directive 2006/32/EC.

The implementation of the measures indicated in the second NEEAP appears to be progressing, though an assessment of its implementation is not due before 2014. It must be pointed out that the new Energy Efficiency Directive (Directive 2012/27/EU of 25 October 2012) will require the implementation of measures additional to those currently in the second NEEAP.

Refer to CSR 5 above for further detailed information on energy end-use efficiency.

Energy Efficiency in Transport

Malta secured a Public Service Contract with Arriva Malta Ltd for the provision of a public transport system that started in July 2011. The number of buses that were used pre July 2011 was 586, with an average of 300 and 330 in circulation on any given day. Today, the service operates 284, with approximately 260 on the road. While physical number of buses has fallen, the increased vehicle capacity (current average 70; pre-2011 average 50) results in around 7-10% more capacity than pre July 2010. With the new public transport system now stabilising, this equated to a year-on-year increase in passenger numbers carried in Malta and Gozo of 3.7% to 34.0m in 2012 (2011: 32.8m).

The new fleet, including 10 hybrid diesel-electric buses has 98% of the buses at Euro V level or higher. This compares with the previous fleet where only 131 were Euro III and better. The older engines (fleet average age pre-2011 was 35; current average age 3 years) were obviously less efficient, however since accurate statistics for the previous service in terms of

passenger/km or fuel use are not available, it is not possible to compare with the improvements to-date.

Staged changes in the bus routes and timetables have significantly improved customer satisfaction with the service. This shall continue to be implemented through a consultative process with all of the stakeholders.

Further measures in the road infrastructure are envisaged to continue supporting this service and are reported under Measure 'Public Infrastructural Projects' above. In addition, Government will be evaluating and analysing the potential for other complementary passenger transport systems aimed at reducing reliance on the private car, inter alia these shall include the possibility of introducing a light rail in specific areas within the country and strengthening internal scheduled passenger transport by sea.

A holistic strategy that includes both fiscal incentives and investment in infrastructure shall be drawn up to accelerate the uptake of electromobility.

Furthermore, to improve Energy Efficiency in Transport, Government is providing individuals who purchase electric vehicles with a grant of up to €4,000. A network of up to 100 charging points will also be installed throughout Malta and Gozo in the near future. A target of 5,000 electric cars has been established for 2020.

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

Details on this measure can be found under CSR 5 above.

Implementation of the National Renewable Energy Action Plan

Malta plans to achieve its 2020 renewable energy targets through a couple of identified major projects of large scale wind, solar, and waste to energy projects. However, a relatively great share of renewable energy will be generated from a relatively higher number but smaller capacities of renewable energy sources distributed across all the Maltese Islands mainly integrated in existing building infrastructures due to Malta's limited space and the conflicting use by other activities. For further detailed information on the implementation of the National Renewable Energy Action Plan refer to CSR 5 above.

Motor Vehicles Registration Tax

Motor vehicle registration tax and licence fees were always a main source of revenue for the Government of Malta; however the legislation, Motor Vehicles Registration and Licensing Act, Chapter 368, enforcing these had been unchanged for the past decades. In 2009 a major reform was implemented in order to introduce a more environmentally friendly tax that

encourages the use of cleaner and smaller vehicles, without discriminating between local and foreign used vehicles. The new registration tax became a function of CO₂ emissions (and particulate matter for diesel engines), vehicle length and registration value. Moreover, annual licence fees are determined on the basis of vehicles' CO₂ emissions and age. Other changes were also applied to this legislation, also regulating commercial vehicles, in 2010; where as a result, the registration tax began to be calculated according to the weight and engine capacity of the vehicle.

The amendments to the legislation that were enacted from 1 January 2012 further refine the environmental concepts put forward in 2009. The introduction of the Euro Standard as a component in the computation of the registration tax for private vehicles and the higher tax rates on vehicles that are Euro 3 or older reaffirms the drive towards encouraging newer, more efficient and less polluting vehicles. It is the Government's aim of reducing the number of pre-Euro 4 vehicles being registered and reducing the average age of Malta vehicle fleet, which is one of the highest in the European Union.

Indicators

According to data from Transport Malta, the average CO₂ emissions of vehicles registered between May and December 2012 has decreased to 126.7g/km. There has been a slight increase in the average length of vehicles registered to 3976mm, due to the longer vehicles being produced in line with the new Euro Standard safety specifications. Table 20 below shows changes in average CO₂ and length in vehicles registered between May and December 2011 and 2012:

Table 20:

Period	Average CO ₂ emissions	Average length
	g/km	mm
May-Dec 2011	136.4	3936
May-Dec 2012	126.7	3976

After the introduction of the Euro Standard component in the registration tax on 1 January 2012, the percentage of Euro 5 vehicles as a percentage of all registrations amounted to more than 48% during the October-December period. During the period October-December 2012, there has been a consistent shift in registration patterns. The percentage of new vehicles registered during this time increased to an average of 49% of total registrations, from an average of 48% in April-September 2012.

Scrappage Scheme

The aim of this scheme is to encourage first time buyers of vehicles or owners of aged cars to shift to new vehicles that meet preset criteria with regards to environmental considerations.

According to data from Transport Malta, the total number of beneficiaries of the scrappage scheme over the period January to December 2012 was 2,422, of which 183 were first time buyers. As at end of year, the uptake of this scheme was very positive and had been increasing from one period to another. Table 21 below shows a break-down of beneficiaries for the year 2012:

Table 21:

Period	Total number of beneficiaries	Beneficiaries: 1 st Time Buyers	Beneficiaries: Scrapped a vehicle
Jan-Mar 2012	535	39	496
Apr-Jun 2012	574	45	529
Jul-Sep 2012	632	49	583
Oct – Dec 2012	681	50	631

During the first two months of 2013, although the application period was terminated in 2012, there were still some beneficiaries to this scheme. Table 22 below shows an overview of January and February 2013.

Table 22:

Period	Total number of beneficiaries	Beneficiaries: 1 st Time Buyers	Beneficiaries: Scrapped a vehicle
Jan - Feb	158	10	148

Besides encouraging a notable switch to new vehicles, the scheme is also reaching its environmental targets, even when compared to a similar scheme that was available last year. In fact, the average CO₂ of the new vehicles purchased under this scheme is of around 2.7% less than the average registered last year, going down from an average of 120.3g/km to 117g/km. There was also a reduction in average length of new vehicles bought under both schemes, from an average of 3923mm to 3894mm.

Energy Efficiency Measures for the Hospitality Sector

Before May 2011, this initiative was under the responsibility of the Malta Tourism Authority. The scheme was then passed to Malta Enterprise with 4 applicants already benefitting from this initiative.

This initiative was then launched by Malta Enterprise on 5 May 2011. Since May 2011, 7 applicants have been approved by Malta Enterprise, with no applications being received during 2012.

Promotion of Uptake of (RES) and Building Envelope Insulation

This measure which was launched in the Budget for 2012 and runs for a year aims to promote the uptake of solar water heaters and roof insulation and double glazing by issuing financial grants to households to encourage the purchase of new solar water heaters (maximum €400 per system installed) and the purchase of roof insulation and double glazing (maximum €1000 per dwelling). Complimentary to the nationally-funded SWH scheme, there was also an EU funded scheme.

As a result of these measures, it is expected that 325MWh will be saved per year, assuming 1000kWh savings per solar water heater at €400 grant per system installed.

During the last 15 months, a total of 883 SWH were installed. This resulted in 883MWh saved.

The number of applications authorised for roof insulation and double glazing as on 31 March 2013 was 367 grants.

Also, during the last 15 months, a total of 2975 PV systems were installed. The total capacity of these systems adds up to 6130.66 KWp.

As announced in budget 2013, this measure has been extended for a further year up to end 2013.

Planned New and Extended Measures

Switching of Fuel from Liquid Fuel Oils to Natural Gas

Details on this measure can be found under CSR 5 above.

Feed-in Tariffs for PVs not supported through other funding

Following similar measures, the new feed-in tariffs are intended to increase the amount of electricity derived from renewable sources by encouraging an increase in the take-up of PVs.

The new feed-in tariffs will be as follows:

- Installations of less than 1MW on roofs: 18c/kWh for 20 years;
- Installations of less than 1MW on the ground: 17c/kWh for 20 years;

- Installations of more than 1MW on roofs: 17c/kWh for 20 years;
- Installations of more than 1MW on the ground: 16c/kWh for 20 years.

Therefore, it is expected that Malta's dependency on fossil fuels will be reduced as requested by CSR5. The indirect effects will be a healthier local population due to cleaner air (therefore less expenditure on pollution-related ailments) and a reduction in the carbon footprint of Malta.

The budgetary value for this measure is expected to be €5 million and it is anticipated that approximately 21 Gg of CO₂ emissions will be saved.

This budget will be allocated from national funds.

Encouraging Smaller and Cleaner Modes of Transportation

The Maltese Government is continuously pursuing its aim of encouraging smaller and cleaner modes of transportation. The most effective fiscal tool Government has in this regard is the motor vehicle registration tax. The following measures have been introduced to further encourage the use of less polluting vehicles:

- Decrease in registration tax for Euro 5/6 passenger vehicles;
- Increase in registration tax for Euro 4 passenger vehicles;
- Decrease in registration tax for motorcycles;
- Decrease in registration tax for light Euro 5/6 commercial vehicles.

Vehicles having Euro 5/6 Standard specifications are subject to stricter emission levels when compared to older vehicles. Besides using much cleaner technology, Euro 5/6 vehicles also have to be in line with higher safety standards which further justifies Government's decision to encourage the registration of such vehicles. This is being done by decreasing the registration tax rate for Euro 5/6 vehicles by an average of 25% depending on the vehicles' CO₂ emissions. This measure will undoubtedly make these cleaner vehicles more attractive, especially since technological advancement is leading to CO₂ emissions to constantly fall. This scenario will result in the reduction of total CO₂ emissions from motor vehicles and thus for an improvement in air quality all round.

Euro 4 Standard covers vehicles which were manufactured between 2006 and 2010. Naturally, these vehicles are less technological advanced than the more modern Euro 5/6 vehicles and also follow less stringent emission regimes, making them more harmful to the environment than newer vehicles. Therefore, an increase of 10% in the registration tax due by such vehicles will increase the gap in tax between the different Euro Classification groups, making Euro 5/6 vehicles more attractive. This follows a similar measure introduced last year where Euro 3 or older vehicles experienced an increase in their tax rates.

Highlighting Government's intentions for a smaller and cleaner fleet of vehicles is the fiscal measure aimed at motorcycles. Congestion problems are ever-increasing in Malta and therefore it was decided that small motorcycles with engine capacity up to 250cc would become exempt from paying registration tax, while motorcycles with a greater engine capacity would experience a decrease of 25% on their registration tax due. This would

further incentivise the use of smaller modes of transport tackling the congestion problem, as well as indirectly addressing parking issues across the Island.

Government's drive to promote cleaner vehicles is not only limited to passenger vehicles but also includes commercial vehicles used for carrying goods. Therefore, Euro V N₁ vehicles will benefit from a reduction of 12.5% on the registration tax due. Euro V vehicles, like Euro 5 passenger cars, are subject to stricter safety and emission standards and therefore pose less harm to the environment. This measure will encourage the commercial sector to switch to cleaner vehicles, whilst also benefiting in a reduction in their business costs in the form of lower registration tax.

Scrappage Scheme

The aim of this scheme is to encourage first time buyers of vehicles or owners of old cars to shift to new vehicles that meet preset criteria with regards to environmental considerations. This scheme is open for both passenger cars (M₁) and light commercial vehicles (N₁). This scheme will take the form of €500 grant on the purchase of a new Euro 5/6 vehicle meeting established CO₂ emissions and length limits upon scrappage of older vehicles. This scheme will be open to a maximum of 1000 vehicles. Following the success of similar schemes in recent years, Government decided to extend this scheme for another year and also include commercial vehicles, to further instil a drive towards a cleaner, smaller and younger fleet of vehicles. The take up for previous schemes has been very encouraging and once again Government expects full take up of the allocated funds. A budget of €500,000 has been allocated for this measure.

European Regional Development Fund (ERDF) Scheme for the purchasing of solar panels for enterprises

The scheme will be focusing on the purchasing of solar panels for enterprises. Initially a pre-allocated budget for this scheme will be addressed towards Gozo enterprises. At a second stage, any unutilised funds will be available for Maltese enterprises too. This measure is co-financed by the EU and has a budget allocation of €3.4 million.

Autogas conversion scheme

The aim of this scheme is to convert around 1000 cars currently running on petrol/diesel to autogas by means of a €200 rebate per car. This should make it more attractive to owners to convert their cars to autogas.

This measure is also expected to reduce Malta's reliance on oil, as requested by CSR 5. The indirect effects will be a healthier local population due to cleaner air (therefore less expenditure on pollution-related ailments) and less CO₂ emissions hence enabling Malta to reach its climate change targets.

€200,000 were allocated for this scheme.

This budget will be allocated from national funds.

Autogas Scheme

It has been scientifically proven that the use of autogas together with conventional fuels helps to reduce the total emissions produced by motor vehicles. This has led the Government to introduce a registration tax amendment on newly registered passenger cars (M₁ vehicles) that are able to run on autogas (at the point of registration) to take into consideration the lower emissions. These vehicles will be registered using the reduced CO₂ emissions as stated on documentation which is acceptable to the transport authority. If such documentation is unavailable and a vehicle has been certified to have been converted to autogas then its CO₂ emissions will automatically be reduced by 10 per cent.

New Scheme for PV Panel Installations in Households

Following similar measures, the primary aim of this project is to promote the utilisation of RES which are expected to increase with the introduction of this scheme and will reduce the electrical and fuel consumption from power stations; hence energy savings, security, climate change. The financial burden borne by investors of energy efficient and renewable energy sources in the domestic sector will also substantially decrease with the introduction of cash grants given as a percentage of the purchase price. The project will also give a tangible contribution to the island to reach an increased independence from fossil fuels, as requested by CSR5, as well as from other countries. The indirect effects will be a healthier local population due to cleaner air (therefore less expenditure on pollution-related ailments) and a reduction in the carbon footprint of Malta.

The RES support scheme provides financial support to cover part of the costs of PV systems installed for domestic use. The scheme is open to all energy consumers in the domestic sector and available funds will be allocated on a first come first served basis. The eligible costs shall be capped to €3029 per kWp, so that the maximum grant shall be €1515/kWp up to a maximum of €2500.

Costs shall continue to be monitored, and if delays in award of this application are significant, this cap may be further reduced. For calculation purposes, the number of expected applicants is being rounded off to 8400 and the budget allocated to the scheme is rounded off to €21,000,000.

This budget will be completely allocated from ERDF funds from OP1. The yearly apportionment depends on the take-up of photovoltaic panels.

Biofuels Substitution Obligation

Details on this measure can be found under CSR 5 above.

Energy Efficiency Directive

Primary energy targets, primary energy consumption projections

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

National target 2020: 22% or 237,019 toe

The basis for this target is that aviation is capped at 4.12% in line with Directive 2009/28/EC on the promotion of the use of energy from renewable sources. The business as usual scenario assumes the power station conversion efficiency of 30.31% of 2009 remaining unchanged.

- GDP for Malta was assumed at constant 2000 prices. Reference was made to “Projecting Energy Demand: Electricity & Transport – Economic Policy Department – Ministry for Finance, the Economy and Investment, December 2012”.
- The factor used for the conversion from primary to final energy: 40%.

EDUCATION

Progress on the Implementation of Ongoing Measures

Tackling Absenteeism by Strengthening Student Services

a) by strengthening the Education Psycho-Social student services at the grass-roots level within schools

Recruitment of various professionals continued during 2012. Continuous professional development and professional supervision is also another task which is being undertaken under this initiative. In this regard, the College and trainee counsellors, career advisors, psychotherapists, educational psychologists and other personnel working within the Education Psycho-Social Services all benefit from individual and group professional supervision on a regular basis.

It is important to note that since the introduction of the College System the Student Services Department (SSD) has been tackling the issue of absenteeism from a holistic point of view. It is also the case that the Social Work Service within the SSD is focusing solely on cases of habitual absenteeism.

To ensure that all schools report absenteeism on time, hence ensuring early intervention, a set of guidelines on reporting such absenteeism was also drawn up. The set of guidelines will be presented to schools during scholastic year 2012-2013, following consultation with the Education Leadership Committee and approval from the Director General DES.

Trainee counsellors and guidance teachers started offering their services at primary level so that the detection of problems, including school absenteeism, is tackled as early as possible. As from the onset of the pilot project in 2008 – 2009, the guidance teachers are now all involved in providing their service at primary level in all the schools of the respective colleges. In fact, 2012-2013, 160 guidance teachers are giving their services at both secondary and primary level in all colleges. Different professionals are also providing a service to primary school children. These include school phobia and social, emotional and behavioural problems.

The role of a social support worker was introduced so as to complement the interventions of the social workers with families of habitually absent students. These social support workers are now giving their service in the respective colleges.

The multi-disciplinary teams within all the 10 colleges will continue monitor those families where there is a high risk of children's absenteeism from schools in order to provide the support needed to socially address such problems. Another strategy applied to reduce potential absentees is the input of professionals in the transition phases during the student's journey whilst attending compulsory schooling i.e. from home to kinder, from kinder to year 1, from year 6 to Form 1 and from Form 5 to post-academic and vocational institutions or workplace. Feedback about this initiative during a pilot project held at St Benedict's College in 2008 was extremely positive and hence it was decided that the other colleges would be included in the strategy.

Direct initiatives to prevent school dropouts

As from scholastic year 2010-2011 to date the social workers and the trainee career advisors worked jointly on a project targeting Fifth Formers who are habitual absentees. The aim of the project was to foster rapport with these youths whilst providing them with guidance regarding their future job and career prospects. In most instances letters were sent to the individual students inviting them to attend a one to one session at their College.

1. As from scholastic year 2011-2012 to date those Form 5 students who did not sit for any Sec Exams were identified and career sessions were then carried out and the students were encouraged to attend other programmes such as Youth.inc and those organised by the ETC. One-to-one career guidance sessions with a mentor where students are helped to build a personal profile of strengths, interests and abilities were also organised. The Career advisors encouraged students to embark in post-secondary education or other suitable programmes.
2. During scholastic year 2012-13 a multidisciplinary team approach, involving career advisors, social workers, counsellors and guidance teachers was adopted in order to reach out to potential Early School Leavers, in particular students who absent themselves from schools when they are in Form 4 and Form 5 and all the Form 5 students who did not sit for the MatSec Exams were identified. All the students were contacted and invited to a one-to-one session. The students are being followed.

National agencies such as Aġenzija Żgħażaġħ, Foundation for Educational Services (FES), Youth.inc and ETC are teaming up with the Colleges in order to devise projects and initiatives to entice students to reach out to these entities to seek help. In this way such youngsters are helped to get back on track with the ideal situation being that of encouraging students to pick up where they left off and carry on with their studies.

Walk-In Service related to career guidance

Details on this walk-in service can be found under CSR 3 above.

Walk-In Service related to Personal Counselling and Support

For the third consecutive year, a walk-in service in connection with personal counselling and support was offered to schools through the College system during the summer months of 2012. This service provided support to those students who were facing problems such as low self-esteem, bullying, or were facing difficult situations at home.

Local Tribunal System and Intervention by Social Workers

A Commissioner of Justice was appointed to preside over all educational hearings. In order for the Commissioner to have the legal authority to issue court mandates against parents, it was suggested that a task force should be appointed so as to revise present legislation in relation to school absenteeism and for this task force to propose amendments accordingly.

During summer 2012, social workers conducted office and/or home visits with parents of 343 primary school children who were absent from school for more than 30 unauthorised days during the previous scholastic year. Social workers are also following cases of 151 secondary school students, giving priority to those in Forms 1 and 2, who were absent from school for the same number of days.

The Directorate for Educational Services maintains a database which includes data of all students registered in State Schools; this database also provides information regarding students' school attendance. This database is updated on a regular basis by the respective schools; hence at any point in time School Information System (SIS) personnel and, as from March 2013, also the social workers have the possibility to access the data regarding the attendance of all students.

Learning Expo 2012

The Learning Expo 2012 was held between 13 March and 16 March 2012. It enabled all those who wished to pursue their education, from 5th Form students to graduates, as well as adults considering a return to continue their studies, to learn more about the available learning opportunities. The total number of students who participated in the Learning Expo 2012 was 3600.

Job Exposure Initiatives for Fourth Formers - National and College Level

National level:

During 2012, three job-exposure initiatives were carried out in the: Financial Services Sector, Health Sector, and Information and Communication Technology sector.

Job-Exposure Initiative 2012 in the Financial Services sector: For the third year running, a Job-Exposure initiative for Form 4 students was held in conjunction with Malta Financial Services Authority SA and the Independent Schools Association.

This Job Exposure consisted of a two-week project whereby students were placed for one week at a workplace related to the financial sector, so that the students could observe workers on the job, while also performing some small tasks themselves. Appropriate guidance was also provided.

Job-Exposure Initiative 2012 in the Health Sector: Concurrently, with the job-exposure initiative in the financial services sector, the Career Guidance Services carried out a Job-Exposure initiative in conjunction with the HR & Administration Department of Mater Dei Hospital and other authorities within the health sector. About 183 Form 4 students participated in this initiative.

Job-Exposure Initiative 2012 in the Information and Communication Technology sector: This initiative was carried out within the Information and Communication Technology Sector in collaboration with the e-skill Alliance and saw the participation of 42 Form 4 students.

National Conference on 'The Transition From School To Post-Compulsory Education And/Or Work'

The Directorate for Educational Services, the Student Services Department in collaboration with the Euroguidance Centre in Malta also organised a National Conference on *'The Transition From School To Post-Compulsory Education And/Or Work'*.

b) Multi-disciplinary teams will monitor families in which there is a high tendency of children's absenteeism from schools in order to provide the support needed to socially address such problems

The final version of the National Referral System was approved. This System will first be introduced as a pilot project within three schools in a particular college. It is envisaged that the System within these schools will be applied as from next scholastic year.

Regular meetings continued to take place among various professionals including Heads of School, guidance teachers, counsellors and career advisors. Regular contact on behalf of the students is also maintained with other agencies and services within the communities since it is in the best interest of the students that they be followed by the Education Psycho-Social Services personnel to co-work closely with other professionals involved with the student and his/her family.

During summer 2012, a number of services continued to be offered by various professionals. In fact, 46 students were seen by the College Prefects of Discipline, 653 students by the College and trainee Career Advisors and 500 students by the College and trainee Counsellors. The introduction of Youth Workers in colleges has meant that a variety of programmes within the colleges can be initiated.

The introduction of Youth Workers in the colleges has brought about the start of a variety programmes within the colleges.

Offering more Opportunities for Participation in Vocational Education

Introduction of vocational subjects in secondary schools

During the current scholastic year 2012-2013, the BTEC (Business and Technology Education Council qualification) vocational project has started its second year of implementation. The first Quality Review and Development visits to all participating schools to evaluate the management of assessment, learning, and resources based on a number of quality objectives and measures that participating schools must have in place were held in Q4 2012. Two Edexcel reviewers were shadowed by the Directorate for Quality and Standards in Education (DQSE) to become familiar with the quality assurance processes involved. Recommendations were put in place by the schools and the final report is yet to be received from the Edexcel reviewers.

The Options Exercise for Form 2 Students whereby recruiting the third cohort of students opting to take on one of the four BTEC vocational subjects being piloted in state and non-state schools will be completed in Q2 2013. The two international Standards Verification (ISV) visits were scheduled as follows: 1st visit was held in Q1 and the 2nd visit is to be held in Q2 2013 respectively. The INSET training by subject for teachers participating in the pilot project, led by UK trainers, are scheduled to be held in Q3 2013.

Extension of vocational subjects at post-secondary level of education in institutions which are dedicated to vocational education and training

MCAST - The principal aims of ESF 1.36 project were those of enhancing the professional development of academic and administrative staff at MCAST and of introducing 19 Vocational Degrees. The latter objective has already been fully accomplished with the last batch of eleven degrees being offered as from September 2011. In September 2011, Engineering students had the opportunity to choose between completing their vocational degree studies after their top-up year by June 2012, and be awarded a general BSc (Hons) or extending their vocational degree studies by an additional year (till June 2013) and be awarded a B.Eng (Hons) Degree.

As a result of enhancing MCAST's capacity, MCAST lecturers are delivering the Vocational Degree Programmes.

Furthermore, an additional number of short courses for MCAST staff have been implemented.

ITS - In 2007, the Pre-Employment Scheme was introduced and in October 2011 the Foundation Certificate Hospitality Trades Course was launched. Both initiatives were introduced to further provide quality learning that leads to excellence in the tourism industry, with a view to enable more individuals to participate in tourism studies, including the low-skilled and unskilled. Both initiatives are being implemented from national funds.

The Pre-Employment Scheme was introduced in order to entice school leavers and at the same time to help the hospitality industry to develop a skilful work force. This scheme, now in its third year is intended to increase either the number of students joining ITS or the

number of employees in the food service and/or housekeeping operations sections. One of the positive aspects of this scheme is that it involves practical classes, an element which is welcomed by students, particularly those who prefer a more hands-on approach towards learning.

Details on the Foundation Certificate Hospitality Trades Course can be found below.

Introduction of Embedded Learning for Foundation (first level) students

The aim of this initiative is to support Level 1 and Level 2 students' mastery of key skills through vocational subjects.

MCAST is currently implementing an ESF co-funded project entitled 'Inclusion for Employment'. The aim of this project is that of conducting a review of the Pathway to Independent Living Programme and courses between Levels 1-3 through the Embedded Learning methodology and the Universal Design for Learning approach. Updates on this project are being reported under Measure 'Inclusion for Employment' below.

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

The Directorate for Lifelong learning (DLL) introduced the Lifelong learning programme in the Community with the financial support of the Department for Local Government (DLG).

In January 2010, the DLL established a formal collaboration with the DLG, focusing in particular on the standards and quality of these courses. Between 2008 and 2010 only literacy and numeracy courses were offered at Local Councils and these were 100% subsidised by Government. ICT related courses for adults (digital competences) in the community are offered by the Malta Communications Authority (MCA).

In 2011-12, 42 Local Councils participated in this scheme. 1,063 adult learners registered for lifelong learning courses showing a four times increase over 2008. All these courses lead to a MQF Level 1 qualification, and during 2010-2011, 356 adult learners achieved a school leaving certificate level qualification or MQF Level 1.

During 2012-13, the DLL and the DLG continued to collaborate together on the scheme called 'Lifelong Learning in the Community'. Besides the Adult Literacy (Maltese & English) and Numeracy (Maths) courses hosted by local councils, the DLL offered other courses amongst which: Energy Saving Initiatives at Home, Arabic, Maltese Lace Bobbin, Spanish, Italian, French, German as well as English and Maltese as a Foreign Language.

Twenty four (24) local councils entered this scheme and offered one or more subjects mentioned above to their respective residents. At community level, apart of the courses offered at the Local Councils, the DLL also offers lifelong learning courses to a number of organisations and NGOs.

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

By virtue of Act No. XIII of 2012, the National Commission for Higher Education (NCHE) and the Malta Qualifications Council (MQC) merged into the National Commission for Further and Higher Education (NCFHE) with effect from 1st August 2012. On 14 September 2012, two Legal Notices were published: Legal Notice 296 entitled 'Further and Higher Education (Licensing, Accreditation and Quality Assurance) Regulations, 2012' and Legal Notice 295 entitled 'Validation of Non-formal and Informal Learning Regulations, 2012'.

By virtue of Legal Notice 296, the NCFHE has been designated as the competent authority for licensing, accreditation and quality assurance of providers and programmes, including cross-border provision from Malta or in Malta.

According to the 2012 regulations, providers of further and higher education are required to apply for a licence to be able to operate in Malta, which licence is issued by the NCFHE.

Accreditation is granted upon quality audits carried out by NCFHE of both the provider (at the institutional level) and a sample of the provider's programmes. Such quality audits shall have as their starting point the internal quality assurance system which the provider has in place and a self-assessment or internal evaluation carried out by the provider at provider and programme level.

Licensed providers are to undergo periodic provider and programme quality audits every 5 years, in order to maintain their licence. During such five-year period, licencees may apply to extend the categories of their licence or to increase the programmes which they provide.

By virtue of Legal Notice 295, once again, the NCFHE has been designated as the competent authority for the validation of non-formal and informal learning and for classifying such validation at a level of the Malta Qualifications Framework. Following this legislation, the NCFHE is developing a system of assessment, recognition and validation of informal and non-formal learning, which can ensure that the standards and guidelines are respected through internal and external verifiers. The NCFHE will be responsible to:

- Set the standards and principles which are to be followed.

- Regulate the bodies responsible for validating learning outcomes/occupational standards.
- Ensure that quality assurance systems are put in place, that learners obtain a fair judgment.
- Monitor the validation process.
- Act as catalyst to promote validation of as much invisible learning as possible.

A Sector Skills Committee and Sector Skills Units will be set up. For further details on these please refer to Section 5 – Euro Plus Pact under Measure 'Setting up a Sector Skills Committee'. Occupational standards which will serve as benchmarks for the validation of informal and non-formal learning in Malta have so far been developed in the printing sector, auto damage and for childcare workers and childcare managers.

Additionally, the Employment and Training Corporation (ETC) will act as an assessment agency on behalf of the NCFHE in assessing individuals on their informal and non-formal learning based on occupational standards developed by the respective Sector Skills Units and which will be pegged to the Malta Qualifications Framework. A Memorandum of Understanding is currently being drafted and will eventually be signed by both ETC and NCFHE. In this regard, ETC will be the entity nominating assessors for the purpose of validating informal and non-formal learning. More than 260 individuals have registered their interest in having their knowledge, skills and competences validated in the childcare sector. This will take place by the first quarter of 2013.

With regard to the review of the internal quality assurance processes in the University of Malta (UoM), on 21 June 2012, the Rectorate within the UoM has presented a document titled "Policy and Procedures for the Operation of Teaching Programme Review" to the UoM Senate.

In Q1 2013, the Rectorate held a meeting with the College of Deans in order to finalise the 'process requirements' which included a common set of key attributes while allowing for possible differences in approaches as may be necessitated by local needs and specificities. It is expected that programme reviews according to agreed policy would be initiated for a number of faculties during the latter part of the second academic semester in 2013.

Introducing new Possibilities and Modalities of Learning in Higher Education

In May 2012, the final report compiled by the Student Affairs and Further and Higher Education Ad Hoc Working Group was presented to and approved by the stakeholders. Following approval, the report was presented to the Ministry of Education and Employment in August 2012.

Extension of the Malta Government Scholarship Scheme (MGSS)

The MGSS scheme, continued to be offered during 2012, supporting applicants who wished to pursue studies at Doctoral and Masters Level. As from the year 2010, in order to avoid double applications and at the same time ensure the full exhaustion of funds available under

STEPS, a decision was taken to limit MGSS for Masters with duration of over two years since courses shorter than 2 years were covered under STEPS

Since 2006, 148 scholarships were awarded leading to PhD and 169 scholarships were awarded leading to Masters. The MGSS was also extended to Undergraduate courses. Since it was launched in 2007, 622 students were supported under this scheme.

Increasing Accessibility, Flexibility and Innovation to MCAST Lifelong Learning Course Offer

MCAST has always developed its courses in response to the needs of local industry and consequently it provided our country with a more knowledgeable and skilful workforce. Among other positive effects, MCAST helped to reduce the dropout rate of sixteen-plus students by offering them a second chance of re-joining the vocational-educational route, while offering new openings in the same sector which weren't available in previous years. The College evening courses have also attracted a considerable number of adults, which enhanced the goals and objectives of life-long learning.

The aim of this project is that of increasing the attractiveness, accessibility and flexibility of the MCAST lifelong learning course offer and thus contributing to the consolidation of the workforce's skill. The project aims to achieve this through the introduction of blended learning, the accreditation of prior learning and the accreditation of prior experiential learning.

The concept of lifelong learning is intrinsically linked to the enhancement of a skilled workforce. Indeed, MCAST plays a pivotal role in the consolidation of the current and future workforce and through this measure it shall be enhancing further its lifelong learning dimension. It is essential to create a highly skilled workforce that is not only capable of operating in key economic sectors but is also able to adapt to changing labour market needs. It is within this context that this project shall strive to create a more flexible and accessible learning environment for adults who need to balance continuous educational endeavours and familial and/or professional commitments. Through the provision of blended learning (a combination of in-person and distance learning activities), MCAST shall be effectively ensuring that its courses are available to a broader audience.

The principal project milestones are:

- The introduction of the Blended Learning Approach.
The evaluation process of tender that is related to this milestone is at an advanced stage. Moreover, the Expression of Interest for the engagement of Local VET Experts for this scheme was published in February 2013.
- The introduction of two different procedures to assess learners' prior learning, prior and current work experience.
- The implementation of a Tracer Study.

It is envisaged that a large majority of the students will gain certification and potentially improve their professional situation.

Making VET Education More Relevant and Attractive

The aim of this project is that of conducting a substantial upgrading exercise within the context of vocational education between Levels 4 and 5. Therefore, a number of existing courses will be re-designed and new courses will be designed and launched. Moreover, scholarships will encourage an enhanced uptake in financial services subjects. As a result, MCAST's offerings will become more attractive to a larger cohort. MCAST's home-grown courses at Level 4 and 5 have been developed over the years to meet the demand for skills by industry at various points in time. While these courses have very often fulfilled an important *ad hoc* role they are no longer sufficient to meet the increased need for learning – outcomes based courses that are comparable with their European and international equivalents.

Thus, MCAST shall be conducting a thorough review of the Level 4 and Level 5 courses. This will ensure that the courses offered are more relevant to industrial needs and more attractive to students. Subsequently this will guarantee better retention and progression within the educational system and ensure better employment prospects for those students who wish to join the labour market.

Through ESF 1.130, MCAST shall be tackling training programmes in areas of key economic importance and it is for this reason that a total of 22 new courses shall be designed. Moreover, MCAST shall be re-designing 19 existing courses at Levels 4 and 5 and *The Basic Electrical Installation, Wireman's License A and Wireman License B*.

This measure is co-financed through the ESF. The principal project milestones are:

- The launching and management of the Training Subsidy Scheme MCAST (TSSM). A number of scholarships have been awarded and their implementation is well underway.
- The re-design and re-formulation for accreditation purposes of existing courses. The tender in relation to this milestone has been awarded and its implementation has been initiated. Moreover, the Expression of Interest for the engagement of Local VET Experts for this scheme was published in February 2013.
- The design of new courses and accreditation of the same. The tender in relation to this milestone has been awarded and its implementation has been initiated. Moreover, the Expression of Interest for the engagement of Local VET Experts for this scheme was published in February 2013.
- The implementation of training.
- The implementation of a tracer study.

Inclusion for Employment

The aim of this project is that of reviewing the curricula of the Pathway To Independent Living Programme and 48 courses at Level 1-3 to facilitate the progression of vulnerable students to higher level vocational programmes and ultimately employment. This will aim to

ensure that these courses are more accessible to students with additional learning requirements and therefore guarantee a better retention rate and progression within the educational system. It is significant to note that students who join Level 1 and Level 2 Programmes will have completed compulsory education without having obtained a Secondary Education Certificate or possibly obtained a pass in one to two subjects. For such learners, MCAST provides a variety of vocational programmes which, apart from being hands-on, permits them to obtain key literacy skills that are necessary for further progression in education and ultimately employment. Level 3 students also need the same amount of focused support, especially since their majority progress to this level from the Foundation Levels 1 and 2. This demand is mainly due to the fact that MCAST must assist them in recovering the lost ground of their five years of secondary education within a short period of one or two College years. It is evident that the learning difficulties faced by these students place them in a disadvantaged situation when compared to the rest of the student population and if they do not receive additional support are at a high risk of leaving the educational system.

Apart from student cohorts at Level 1, 2 and 3, MCAST also offers the Pathway to Independent Living Programme for students with mild to moderate intellectual impairment. Through this programme, students are trained in individual and social skills, apart from the core subjects of Maths, English, Maltese and Information Technology. They also have the opportunity to experience 'vocational tasters', that is, participation in various vocational areas to help them in their search for a suitable employment.

As a result of this project, MCAST shall be able to offer more attractive training programmes and therefore supporting a larger number of students from this cohort to remain in education.

This measure is co-financed through the ESF.

The progress on the implementation of this project may be summed up as follows:

- Auditing/reviewing of the current system – completed
- Design of learning resources and packs - The tender has been awarded and its implementation is underway. Moreover, the Expression of Interest for the engagement of Local VET Experts for this scheme was published in February 2013.
- Piloting of the teaching and learning resources - The tender in relation to this milestone has been awarded and its implementation has been initiated.
- Training of lecturing staff - Various academic staff members have already benefitted from training opportunities.

The introduction of new courses and the building of the new campus of the Malta College of Arts, Science and Technology

The objective of this project is that of extending the provision of vocational subjects particularly science related courses and improving the educational infrastructure of MCAST through the construction of two new educational blocks and equipping same with modern

teaching resources. The initial phase of the building of the new MCAST campus also includes the construction of a Students' House.

MCAST is currently implementing an ERDF Project for the extension of its Campus after which MCAST will be able to increase its student intake, as well as provide a better learning environment for its current students.

It is within the context of this measure that MCAST shall be tackling a number of national challenges and shall address a number of priorities. Specifically, this project aims to increase the number of 16+ attending post-secondary training, the number of students taking up science subjects, the provision of vocational subjects, and the supply of skilled workers in the health, social care, environmental, engineering sciences, pharmaceuticals, science, financial services and the back-office processing outsourcing (BPOI) sectors whilst improving its educational infrastructure.

The construction work on the Institute of Applied Science and the Institute of Business and Commerce has been completed and contracts related to building services, finishes as well as the supply of equipment are being implemented. The construction of the Students House building is still underway.

Through this investment, the College will be in a position to provide access to high quality education, increase the number of courses offered and increase the number of students in future intakes. It is envisaged that more students will gain relevant qualifications and skills. Thus, this will enhance their ability to potentially find employment within but not limited to the financial, health, social care, environmental, engineering, sciences or pharmaceuticals sectors.

Foundation Certificate Hospitality Trades Course

This Institute of Tourism course was first launched for the academic year 2011/2012. The number of Foundation Certificate applications received from Foundation Level Studies students amounted to 74. Out of these 74, 22 students succeeded to graduate. 17 out of these 22 progressed to Certificate Level.

This course is being offered again for the academic year 2012/2013 in order to increase the number of students who continue their studies following their compulsory education. This year, 53 applications were received for the said course out of which 39 were accepted.

Get Qualified

Since inception, between 2006 and December 2012, through this initiative, Malta Enterprise has assisted 3,558 individuals with the value of tax credits amounting to €14,165,882. 169 courses have been approved with the highest number of requests being related to IT courses.

In 2013, till February 2013, 96 beneficiaries have already benefitted from such a scheme with the value of tax credits amounting to € 491,427.

Planned New and Extended Measures

New Scholarship Scheme

Based on the successful implementation of the ESF Project 1.25, Strategic Educational Pathways Scholarships (STEPS), the new scholarship scheme shall aim to provide more opportunities to promote further specialisation at higher levels of education at a Masters level. In a knowledge-based economy, it is imperative to have a strong base of Masters programmes involving research on innovative and creative hypothesis that ultimately lead to intellectual and economic growth for society. The ultimate goal is to ensure an ever more highly skilled workforce.

In a small island state where postgraduate education continues to play an important part of our economic and social agenda, Malta should continue to invest in the people's continuing professional development.

The scheme improves the framework conditions and access to finance for research and innovation so as to ensure that innovative ideas learnt can be turned into products and services that create growth and jobs. Since a substantial number of the applicants will be young people, the knowledge gained through this Masters facilitates their entry to the labour market. Moreover, with more knowledgeable employees, Malta is modernising its labour market and better match labour supply and demand, including through labour mobility.

Malta needs specialisation in each and every sector but there is a strong need to encourage specialisation in the targeted areas identified in Malta's immediate and long-term goals in order to achieve and realise its vision.

In order to ensure that this objective is reached, an exercise shall be coordinated with competent authorities to identify the specific areas required to achieve the target industry recommendations. Applicants have to commit themselves to focus their research in these areas:

- High-End Manufacturing.
- Life Sciences.
- Educational Services.
- Financial Services.
- Transportation & Advanced Logistics.
- Higher Quality Tourism.
- Creative Industries.
- Environment.
- ICT.

Given the success of the scholarship schemes currently financed by local funds and the ESF funded STEPS scheme, it is envisaged that a fund of two million euro (€2,000,000) is invested in this scheme over a period of two years.

There should be two calls: one in 2013 and one in 2014, open for applicants who wish to undergo studies at Masters Level (MQF Level 7). The lifelong learning philosophy of encouraging applicants to go one-step-up should be adhered to. This means that applicants, already in possession of a Masters should be excluded. It shall also mean that applicants with a doctoral degree should be excluded as well for applying under this scheme.

It is envisaged that 190 scholarships leading to Masters will be awarded.

Support for Youth Organisations

This measure aims to enable Aġenzija Żgħażaġħ to give financial assistance to youth organisations to deliver projects and initiatives for young people and also to enhance their capacity to deliver such programmes and initiatives. Youth organisations have been providing non-formal and informal programmes for young people across a wide spectrum of activity but a lack of financial resources and capacity among such organisations has hindered the expansion of such projects and initiatives.

The non-formal and informal learning opportunities provided by such projects and initiatives not only complement formal learning but also enhance young people's self confidence and their inter-personal skills and competencies in such areas as leadership and teamwork which are vital both at societal level and in the labour market.

This measure will help ensure not only additional projects and initiatives but greater effectiveness in youth organisations' capacity to deliver quality services for young people. EUR80,000 have been allocated for this measure.

Career Awareness

The financial services sector has grown steadily over recent years and has become a key pillar of the Maltese economy. Although the sector currently employs in excess of 7,000 people we need to ensure there is continuous supply of labour that meets current and future demand within the sector.

The scope of this measure is increase the pool of qualified people within the financial services sector through increased awareness on the career opportunities available in the sector.

As a first step towards attracting more workers in the industry, the Guidance Unit within the Education Division together with the Malta Financial Services Authority will continue to build upon the current career familiarisation programmes that are being offered by the Malta Financial Services Authority to students at Forms 4 and 5 in various schools. The Unit and the Malta Financial Services Authority has also concluded a number of job-shadowing programmes to give more value added to this initiative.

The Education Consultative Council (ECC) will also participate more consistently in careers conventions organised either by secondary schools themselves or by the Education Division.

The Malta Financial Services Authority and a number of training institutions represented by the ECC have for a number of years taken an active role in these activities.

The Malta Financial Services Authority has also been in discussions with a number of Higher Secondary School Guidance Units to establish ways and means to promote and create awareness of careers in financial services among these post-secondary school students. Concurrently the Council will continue with the current close working relationship with the Institute of Business and Commerce at Malta College of Arts, Science and Technology to sustain on-going career awareness initiatives among students at this Institute.

Furthermore, the Council will be focusing on promotion specifically targeted to University Students reading for Degrees in Mathematics, Statistics and Information and Communication Technology.

Training and Continuous Development

Malta has to ensure that the environment in which the financial services industry operates continues to be an expansive one, attracting an adequate supply of skilled workers is required to meet the needs of the industry.

Initiatives undertaken by the Malta Financial Services Authority will continue to build on strategies that have the aim of raising employment and skills levels. This will be done by empowering people through the acquisition of new skills to adapt to new conditions, reduce unemployment and raise labour productivity.

New training programmes together with those that were already being offered would contribute towards the filling of the training gaps within the sector. These programmes will be supported by expertise drawn from the industry, the Malta Financial Services Authority, academic institutions and specialist organisations. This view is further strengthened since these new initiatives complement the training and tuition that is or will be made available both at the University of Malta and in other private institutes that offer academic courses in Malta on behalf of foreign universities. These training programmes include foundation courses and courses leading to award of certificates, diplomas and also degrees.

Furthermore the Education Consultative Council (ECC) members with the support of the Malta Financial Services Authority organise continuous development training programmes. These training initiatives are aimed at updating employees within the financial services sector with regulatory developments particularly in the European Union, familiarising them with new financial services products and informing them of developments in relevant legislation and work practices.

Malta believes that these objectives can only be attained as long as its members and other stakeholders sustain and, when necessary, increase the level of co-operation and exchange of information that has been reached to-date between the members. This will facilitate identification of specific training needs that arise from time to time.

It is hoped that these initiatives will result in the maintenance and, where necessary, the improvement in the professional levels of current employees in financial services and in the expansion of the pool of labour that will be available to the sector, particularly at the technical level. Most of these programmes will also offer opportunities for re-training and continuous professional development.

Youth cafés and Youth Centres (Hubs)

This measure aims to provide youth cafés and other centres where young people can meet and learn in a safe and friendly environment and access services overseen by qualified youth workers. Two youth cafés have already been opened by Aġenzija Żgħażaġħ and are operating twice a week in the evening at local community level. These have proved highly popular not only with young people, but with parents, families as well as social workers and local community leaders.

This measure will not only provide for additional youth cafés and youth hubs but will also cater for enhanced facilities. The measure will also address the lack of monitored spaces and opportunities for young people at local community level and also enhance their non-formal and informal learning while increasing their social engagement, participation and confidence.

PROMOTING SOCIAL INCLUSION in particular through the REDUCTION of POVERTY

Progress on the Implementation of Ongoing Measures

Combating Child Poverty

This measure consists of two initiatives; the first part which relates to the provision of training to lone parents together with a change in the provision of benefits is to be implemented by the Employment and Training Corporation (ETC) in conjunction with the input of the Department of Social Security (DSS). As it stands both DSS and ETC are already taking an active part; the latter in providing training opportunities through various projects namely the Employability Programme and the Training Aid Framework and the former in continuously reviewing social security entitlements. The proposal concerning single parents whose youngest child is 7 years or over, to be moved from Income Support to Trainees Allowance is still under consideration.

The second part of this measure is linked with the first initiative, but is much wider in scope, since it does not focus solely on the relation between poverty and lone-parenthood, but on child poverty in its wider term. The objective of the study is to analyse lone parenthood and propose measures aimed at lifting single parent families out of the risk-of-poverty. For this purpose, a representative sample of single parents whose child is seven years and over will be surveyed. A research proposal has been drafted by the Centre for Family Studies at the

University of Malta. The Centre for Family Studies is now awaiting ethics approval from the University Research Ethics Committee as per normal procedure.

A literature review of the local literature and the Anglo American literature which will help the research team with the compilation of the questionnaire has been carried out. The research team within the Department for Family Studies at the University of Malta is in the process of conducting a number of mini focus groups with single parents to explore further what needs to be included in the questionnaire. To this effect, single parents who are inactive, unemployed and employed will be interviewed.

This study should be finalised by March 2014 as originally planned.

Pensions Reform

Details on the said measure can be found under CSR 2 above.

Supplementary Allowance

Work on the revision of the Supplementary Allowance system initiated in January 2011. By the end of October 2011, proposals to improve the system in order to assist pensioners aged over 65 years, and who are at risk of poverty were drawn up and submitted for political and financial approval.

In the Budget for 2013, Government has proposed that persons over 65 years of age and whose household income falls under the national at-risk-of-poverty level, will be given an increase of €100 per annum in their Supplementary Allowance rate.

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

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

The measure concerns the review of the Disability Pension system payable under the Social Security Act. An Inter Ministerial Working Group was set up, and during 2011, a set of proposals for reform was drafted. These proposals are still being considered.

Two measures which were not part of the proposals mentioned above, became effective as from January 2012. These two measures are the following:

- i. Severely disabled persons who get married will not forfeit their pension, regardless of the spouse's income.
- ii. Severely disabled persons who are entitled to a severe-disability pension will be able to work for a salary up to the national minimum wage and still receive their full pension.

At the end of 2011, there were 2510 persons receiving the Disability Pension. All these can potentially benefit from the above mentioned two measures. However, at this stage, it is impossible to predict how many of such persons will marry or will start employment (or increase their income from employment over and above the old threshold.) The actual impact can only be measured at the end of 2012.

During 2012, further discussions were held among the Employment & Training Corporation, the Department of Social Security and the Commission for Persons with Disability regarding a reform for benefits and services for disabled persons. In September 2012, a reform document was drawn up which document includes a road map for further initiatives with respect to benefits and services for disabled persons.

In the 2013 budget speech, Government announced the reform of the Disability Pension system in which the definition of disability would be widened so that more persons would qualify for such a pension. Further it was announced that a single disability assessment would be introduced to determine the eligibility of disability benefits and services across Government.

b) Bridging the Gap Scheme for Persons with a Disability

The Bridging the Gap scheme is designed to support and target disadvantaged groups to enhance their capabilities to integrate into the labour market, and hence facilitate their transition period from unemployment to employment. It allows the employer to evaluate the performance of the client in the workplace, prior to proper engagement.

The Bridging the Gap offers disadvantaged jobseekers (registered disabled persons, ex-substance abusers, ex-convicts & social cases clients) a period of work exposure with an employer to enable him/her to demonstrate the skills needed for a particular job. The employer and ETC enter into an agreement regarding the work exposure period, whereby a client is placed on the scheme with the prospect of employment. The client is considered as an unemployed registrant without the obligation to turn up for his/her weekly signing-up. Client will receive a weekly allowance of 80% of the minimum wage from ETC while renouncing the rights to any Social Security benefits throughout the work exposure phase if the period exceeds twenty eight weeks.

Between January and December 2012, 69 clients were placed on the BTG scheme

Strengthening Support Services to Jobless Households (Low work intensity of households)

APPOGG is the national child and family welfare agency, offering social welfare services to individuals, adults and children and families living in vulnerable situations, and those at risk of poverty and social exclusion. Through its specialised and generic services, the agency aims at supporting these persons in achieving a better quality of life and to increase their life opportunities.

The demand for APPOGG Services is high and most of its services are faced with a waiting list. In view of this in October 2011 a proposal of re-structuring was submitted and approved by Management and has been implemented. The caseloads of the social workers was decreased to 25, allowing space for more intensive work and improved outcomes, an increase in case closures and hence case allocation could be maintained and waiting list also maintained at the same level. The amalgamation of APPOGG and Sedqa psychological services and the management structure setup, together with the review of the procedures manual to streamline practices wherever possible was finalised in July 2012.

A new Youth in Action Application, as part of Eurochild has been submitted together with the Commissioner for Children's Office whereby 4 young persons accompanied by 2 staff members will be participating. The objective is to create an opportunity for children's participation at a European level event. The focus will be on child participation, and will aim at finding out and from the children how Eurochild and its members can better promote and implement child & youth participation and how this can contribute to better policy outcomes. Through this ongoing measure, the APPOGG agency plans to take comprehensive action to safeguard children and families by providing protection to children who are going through, or are at risk of going through, any form of child abuse and/or neglect within a procedural framework.

APPOGG is continuously expanding its fostering services on a yearly basis. An intensive marketing campaign is ongoing, as a result of which 7 training courses for foster carers were delivered by the end of December during 2012 and a new course started in January 2013. In October 2011, the Out of Home Care Programme was launched with the aim of identifying placements for children and young persons whose needs are not currently catered for through the current service provision. In February 2012, the first training programme for specialised home care providers was initiated and was completed by June 2012. An assessment of specialised foster carers is currently underway, while the second training programme is currently being delivered. During 2012, 3 Module one training programmes, and 5 Module two training programmes for Specialised Home Based Care Providers were also organised. Another module one training programme started in January 2013. The Out of Home Care programme has been included in this year's NRP as a new measure – please refer below.

APPOGG also support parents to raise their young children within their own homes, even through volunteers and Home-start so as to prevent as much as possible the need to remove children from their homes (target children aged 0-5).

Through Commonwealth funding, three training programmes related to Child Protection and Children and the Courts were delivered to various front line workers and managers within and outside the agency. Following this training, a report was finalised by a British expert. The report will assist in the setting up of a National Child Protection Policy. Furthermore, a Round Table Conference was organised in May 2012, involving various stakeholders working in the area of Child Protection. During this conference, definitions of child abuse and working procedures were discussed. A draft proposal of amendments of the Children and Young Person's Care Orders Act was also worked upon and completed. In addition, an intensive Marketing Campaign on Positive Parenting was conducted in May by Agenzija APPOGG, while Agenzija Sedqa focused on promoting parenting skills during the summer period.

Furthermore, through the Leonardo da Vinci Mobility projects, six (6) workers have attended job-shadowing placements in an Irish agency providing community work and community social work services.

Another objective is to provide more accessible and holistic services to persons living at risk of poverty or in poverty and those who are facing social exclusion. Through this measure support is being given to families and other persons in the community identified as requiring assistance so as to enhance their possibility of social integration. This will not only provide a more accessible service, but one which is more holistic and which focuses on the most vulnerable in a particular community. In September 2012, a new Community Resource Centre 'ACCESS' was inaugurated and started operating in Msida, the Central part of Malta.

APPOGG also provides social work support services to persons identified as being at risk of social exclusion with particular emphasis on young parents, single parent families, large families, low income families including unemployment. This is being achieved through various APPOGG services including community and generic services. Social work services are given by APPOGG to an average of 100 service users per year per Community Service.

APPOGG also draw up projects through the community workers and other stakeholders all aimed at addressing the various identified needs pertaining to specific communities. Projects such as 'Klabb Sajf', 'Tlett kwarti Spazju Għalik', Pre-adolescent programmes, Parental skills training and women at work were carried out.

Training Programme for Employees Earning the Minimum Wage

Training Allowance of €25 per week is provided to employees who earn less than the national average wage.

The aim of this initiative is to provide a grant to low wage earners when they participate in further training through which they can develop their skills and thus improve their job and career prospects. As such this initiative may help to increase the participation rate in training of this client group. The scheme will help increase the number of employed persons having transferable skills making them more flexible in the labour market; improve job mobility both vertically and horizontally and hence improve their career prospects; and improve job sustainability as increased training acts as an insurance against skills redundancy.

Between January and December 2012, 41 applications have been received and processed. When launched in June 2011, this measure was available to all those earning €160 per week or less. During budget 2013, it was announced that this grant will be made available to employees whose weekly wage is below the national average wage of €300 per week (according to the Labour Force Survey of Q2 2012 the average gross weekly wage is €297.69), be they working full-time or part time.

Providing an Independent Living Service to Persons with Disability at the Sonia Tanti Independent Living Centre at Hal Far

The aim of the Sonia Tanti Independent Living Centre (STILC) is to provide persons with disability and their families with advice, information and training in aspects of independent living such as mobility and assistive technology.

During 2012, the centre received various media exposure and ongoing publicity. The following milestones were reached during the period January 2012 to February 2013:

- 3835 customers served through Helpline (1757 females and 2078 males)
- Assessments – The first assessment is a non-standardised interview, to assess difficulties encountered in daily activities. A decision is also taken to refer clients for further assessment at ILC and subsequently for referral to the ETC. 720 initial assessments (399 male and 321 female) and 339 further assessment (176 male and 163 female)
- Further assessment at ILC - Between January 2012 and February 2013, 339 persons were provided with further in depth assessments at the STILC (163 females, 176 males)
- Referrals to ETC – 22 referrals, of which 4 clients (3 female and 1 male) have found work placement.

€300 Grant per annum to pensioners over 80 who live independently in their own home

In 2012, Government announced a senior citizen grant which is payable to all elderly persons 80 years and over who are still living in the community.

The first payments of this grant were issued in March 2012. A total of 13,385 persons benefitted from this grant in 2012.

The payment of this grant will also be paid in 2013 where it will also be extended to persons aged 78 and 79 years. In 2014, it will also be paid to persons aged 75 to 77 years.

Private Property Rental Scheme (Skema Kiri)

The main objective of the scheme is that of addressing the priority waiting list of 535 applicants. By partnering with the private sector, the Housing Authority (HA) will be able to meet the needs of its most vulnerable applicants in the short-term by exploiting the sizeable vacant private property stock.

Skema Kiri is a scheme designed to encourage private landlords to let their vacant properties to the HA for a minimum of ten years. These properties will in turn be sublet to social tenants at subsidised rates. The net cost to the HA will effectively be the subsidy afforded to the social tenants on the commercial rent paid to the private landlord.

During the first call, in February 2012, 397 applications were received. By end-January 2013, 238 properties were leased, of which 124 were already occupied by social tenants. A further

57 applications were scheduled to be leased, and 29 were approved subject to a number of conditions and 70 were rejected or withdrawn.

By the end of the second applications phase on 21 July 2012, a further 255 applications were received. Processing of these applications commenced in October 2012.

The Housing Authority will continue this scheme whereby owners of vacant property can rent their properties to the Authority to be in turn sublet at subsidised rates to vulnerable individuals or families on the Authority's priority list. This ongoing measure was reactivated in January 2013. The budget for this scheme is €1,170,000 for 2013.

Planned New and Extended Measures

Income Tax Deduction for Fees Paid in Respect of Residency Services in Private Community Homes for the Disabled or Respite Centres

This measure was announced in the 2013 Budget in order to help disabled persons and their families to meet extra expenses which are directly related to disability, especially due to the need for respite care in respect of residence in private homes for the disabled.

The measure come into force as of 1 January 2013 and involves a deduction from income of up to a maximum of €2,500 in the equivalent of fees paid by persons with disability to reside in private homes or respite centres. It is expected that via this tax reduction, respite care and community support services will become more affordable for disabled persons and their families, thus reducing the likelihood of becoming dependent on state services.

Subsidised Rental Scheme – Rent Subsidy in Private Rented Residences

This scheme will provide subsidies to tenants on rents paid for their ordinary residence leased from the private sector. This scheme will allow tenants to rent residences that are more suitable to their needs, thus improving their standard of living. This scheme, which is mean tested, will target those who are not in a good financial position, by easing the burden related to rent, thus reducing the risks of homelessness. This measure started in March 2012 and is ongoing. This measure will target around 1300 beneficiaries depending on the take-up. Beneficiaries may be assisted through this scheme for up to 5 years. The budget for this scheme is €800,000 per annum.

Service Pensions

This measure will waive off €200 of the 'service pension' from the calculation of the social security pension. The target population is service pensioners – currently approximately 13,500 pensioners. It is estimated that this measure, which came into force by way of the 2013 budget, will cost €1.5 million.

Gender Balance in Decision-Making

This project aims at increasing the number of women in decision-making positions, by empowering them to take up these positions and providing advice to policy makers on gender-balance in decision-making.

The project components will be as follows:

- Research on gender-balanced representation in decision-making and research on gender quotas and other measures.
- Mentoring programme for women aspiring to hold decision-making positions.

The research will provide findings and recommendations that will further promote the representation of women in decision-making positions. This EU-funded measure has a budget of € 595,847.00 and will run from 2013 to 2015.

Measure to assist the Spouses of Residents in State Financed Residential Services

Where a resident of a State Financed Residential Service is a married person whose spouse remains at home and is not in receipt of a pension, assistance or allowance in her own right, a 60% deduction of the rate of benefit, pension, bonus, assistance or allowance from the entitlement to such resident is directly paid to the spouse who remains at home.

In 2013, the deduction will be increased from 60% to 70% or to the equivalent rate of the Old-Age Non-Contributory Pension, whichever is the most beneficial to the spouse that remains at home.

Regeneration and Maintenance of Housing Estates

This measure is made up of two schemes. The first one will aim to regenerate Government blocks and their surrounding areas, while putting in place Residents' Associations, in order to provide a better standard of living to residents living in housing estates. The second scheme will finance various courses about maintaining common parts which will be delivered by the Local Councils to further encourage and educate tenants living in these housing estates.

This ongoing measure started in January 2013 and will be allocated the following budget for 2013:

Scheme 1: €500,000 (for the surrounding areas).

Scheme 2: €400,000 (for maintenance & training).

Out of Home Care Programme

The Government considers children as the future of our country therefore it is of utmost importance that they grow up in a stable and healthy environment that provides them with all the necessary requirements. It is estimated that there are currently around 500 children that cannot live with their families: 350 of these children are under Care Order. The Government has embarked upon a programme to help those children living outside their own home. It is not only working to boost this sector, but the country is looking ahead in order to try and provide ways and means to meet with this social demand of alternative child caring. The necessary services and support provided to children under Care Order will be extended to all children in Out-of-Home Care, irrespective of their legal status. The budget allocation for this initiative is €550,000.

Schemes to support home adaptation works - (A) Schemes for Persons with Disability

This measure aspires to improve the social inclusion prospects of individuals by encouraging independent living for disabled persons. This scheme will provide financial aid and technical assistance to persons with disability to carry out the necessary adaptations to their place of residence. This measure commenced from 13 March 2012 (although similar schemes existed prior to this date) and is ongoing. This measure will target around 24 beneficiaries and will cost €170,000.

Schemes to support home adaptation works - (B) Schemes for Repairs and Improvements

This scheme will provide subsidies for adaptations in residencies which are either owned or rented to the resident. Landlords who rent out residencies can apply for assistance on just one property to eliminate dangerous structures. This scheme is designed to allow those who cannot afford to pay for repairs and maintenance for their residences. This assistance helps to render premises habitable and up to an acceptable standard. This measure started in March 2012 and is ongoing. This measure will target around 200 applicants over a period of two years and will cost €500,000

Residential Home for Youth

Aware of the problems that arise when youths come out from residential care and end up without shelter, Government will be embarking on a programme of support for these youths so that they will be provided not only with temporary residential homes but also with a permanent residential home, while at the same time acquiring the necessary aid required in the transitional phase of this process. The budget allocation for this initiative is €150,000.

Independent Living

The main objective of this measure is to provide for an independent environment which will sustain a person's ability to live as independently as possible, either in their own home or in accommodation with carers on site. This ongoing scheme started in 2012 and will provide an independent environment to around 30 – 40 households, Non-Government Organisations or caring organisations, costing €60,000.

Expansion of Fostering Services to Gozo

Through this measure the fostering services will be more accessible for the benefit of Gozitan foster carers and children in foster care, who encounter difficulties travelling to Malta to benefit from such services. This measure has a budget of € €36,959 and was introduced in February 2013.

Therapeutic Facility

The Government will establish a therapeutic facility with a budget allocation of €150,000 that offers security to children with behavioural problems.

Efforts in implementing active inclusion strategies as well as broad access to affordable and high quality services in relation to the target on poverty and social exclusion

The Maltese Government remains committed to mainstream the well being of all persons in its policies while also continuing to give particular attention to those groups in our society who are more vulnerable. Malta has set a national target of lifting 6560 persons out of risk of poverty and social exclusion by 2020 as its contribution towards the fulfilment of the Europe 2020 overall headline target. In pursuing such an objective, three particular vulnerable groups are being targeted, namely children, the elderly and persons living in households with low work intensity.

Building upon the measures found in Malta's National Reform Programmes of 2011 and 2012 respectively, which focused amongst other on enhancing the employability of vulnerable groups, a better provision of support services for jobless households and revisions to pensions and supplementary allowances, Malta will continue to expand on these measures, such as the enactment of a further waiver in the case of 'service pensions' from the calculation of the social security pension, the review of the Supplementary Assistance Mechanism for those pensioners whose household income falls below the National Median Equivalised Income, thus increasing this allowance for this category of pensioners, and an increase from €30 to €40 in the energy benefit entitlement issued to households on a low income in order to mitigate for the increase in the price of gas.

The outcomes of Malta's 2011/2 National Reform Programmes measures have already been outlined above.

Conscious of the deleterious effect that poverty may have on the housing quality of the most vulnerable in our society, priority is this year being given to social housing. In effect, through the implementation of the Skema Kiri, the Housing Authority will rent vacant property from its owners and then sublets it at subsidized rates to vulnerable individuals or families which are on the priority list. This will benefit all concerned, with landowners being guaranteed a secure income from their property for a long period whilst benefiting from an advantageous tax rate of 5%, while at the same time, enhancing the ability of the Housing Authority to respond to the needs of vulnerable people. This scheme will also bring the added benefit of a reduction in the rate of construction of new residential units while reducing the number of vacant premises.

Concurrently, another subsidised rental scheme (the Rent Subsidy in Private Rental Residencies), will be launched to allow tenants to rent residencies which are more suitable to their needs, thus improving their standard of living. It will be based upon a means test and is aimed at those who are not in a good financial position, particularly by easing the financial burden represented by rent.

With the intent of enhancing the vulnerable person's ability to live independently in order to reintegrate them as much as possible, within the fabric of society, other schemes such as the Independent Living in the Community Scheme, have been launched. This scheme aims to provide an independent environment intended to sustain a person's ability to live as independently as possible, either in their own home or in accommodation with carers on site. Residents will retain their privacy and independence within their own self contained residence but with the required support close by. This scheme is targeted to persons with mental health problems, homeless, young people leaving care, adults or children who are victims of domestic violence and disabled persons.

Children still remain a particular focus for the Government as evidenced through the launch of the Out of Home Care Programme. This measure is intended for those children who cannot live with their families or who are not accommodated with the mainstream fostering or residential facilities, but who require further support while also giving them an opportunity to be cared for within a family environment. This measure is complemented by the expansion of Fostering Services to Gozo which is meant to make the service more accessible for the benefit of both the children and the foster carers.

The Maltese health care system is based on the principle of equity and solidarity with universal coverage. The public health care system provides a comprehensive basket of health services to all persons covered by the Maltese social security legislation and also provides for all necessary care to special vulnerable groups such as irregular immigrants. No user charges or co-payments apply but a few services including elective dental services, optical services and coverage of certain formulary medicines are means-tested.

Details on measures related to the affordability and quality of childcare can be found under CSR3 above.

Annex 1

A summary of the state of play as well as the estimated impact (qualitative and/or quantitative) of the ongoing and new measures mentioned under this section can be found in Annex 1.

Financing the NRP

An overview of the net cumulative fiscal of some of the proposed measures is presented in Table 23. The table also shows how much of the planned expenditure relates to EU funds as well as total yearly expenditure on new measures as a per cent of GDP. Furthermore, the table presents a breakdown of some of the outlined expenditure in the NRP by thematic measure.

The cumulative fiscal impact of the array of proposed measures that is being outlined in Table 23, over the period 2013 – 2017 amounts to Eur34.1 million. Of these, around Eur6.1 million relate to EU funds such that the net impact on the Maltese Government's budget balance relating to the proposed measures outlined amounts to Eur28 million. The aforementioned expenditure varies over the years, amounting to 0.2 and 0.1 per cent of GDP in 2013 and 2014 and declining thereafter.

The largest share of the expenditure for which a detailed annual breakdown is being presented relates to expenditure in the employment and poverty themes. These two themes absorb around 60 per cent of the entire aggregate expenditure that is outlined in Table 23.

Table 23: Quantification of NRP Thematic Measures

Table 23: Quantification of NRP Thematic Measures								
	New Measures	Timeline	Net Cumulative Fiscal Impact (Eur million)					EU Funds
			2013	2014	2015	2016	2017	
Employment								
1	Child Development Centre	2013/2014	0.500	1.000				
2	Enhancing Employability through Training		1.606	1.628	0.140			2.869
3	National Apprenticeship Scheme Reform		0.650	0.650	0.650			
4	Active Youth for Employment Programme		0.601					
5	Support for youth voluntary work		0.600					
6	ETC Scheme to promote Youth Entrepreneurship		0.300					
7	JOB BRIDGE Programme		0.262	0.276				
Education								
1	New Scholarship Scheme	2013/2014	1.200	0.800				1.700
2	Support for Youth Organisations		0.080	0.100	0.120	0.120		
3	Youth cafés and Youth Centres (Hubs)		0.043	0.100	0.100	0.100		
Energy								
1	European Regional Development Fund (ERDF) Scheme for the purchasing of solar panels for enterprises	2013/2014		3.400				
2	Feed in tariffs for PVs not supported through other funding		5.000					
3	Scrappage Scheme	2013	0.500					
4	Autogas conversion scheme	2013	0.200					
Research and Development								
1	Internationalisation scoping exercise	2013	0.150					
2	Centre to Strengthen Research on Business and the Self-employed	2012/2014	0.824	0.341				0.990

Poverty Reduction and Social Inclusion								
1	Subsidised Rental Scheme – Rent Subsidy in Private Rented Residences	2012 - ongoing	0.800	0.800	0.800	0.800	0.800	
2	Service Pensions	2013 - ongoing	1.500					
3	Regeneration and Maintenance of Housing Estates (2 schemes)	2013 - ongoing	0.900	0.900	0.900	0.900	0.900	
4	Out-of-Home Care Programme	2013	0.550					
5	Schemes to support home adaptation works – (A) Schemes for Persons with Disability	2013 – 2014	0.085	0.085				
6	Schemes to support home adaptation works – (B) Schemes for Repairs and Improvements	2012 – 2014	0.250	0.250				
7	Residential Home for Youth	2013	0.150					
8	Independent Living	2012 – 2014	0.030	0.030				
9	Expansion of Fostering Services in Gozo	2013	0.036					
10	Therapeutic Facility	2013	0.150					
11	Gender Balance in Decision-Making (MSDC)	2013 - 2015	0.086	0.357	0.153			0.506
	TOTAL		17.053	10.717	2.725	1.920	1.700	6.065
	as % of GDP		0.24	0.15	0.04	0.02		
	Distribution of funds by thematic area							
	Employment		4.5	3.6	0.8	0.0	0.0	2.9
	Education		1.3	1.0	0.2	0.2	0.0	1.7
	Energy		5.7	3.4	0.0	0.0	0.0	0.0
	Research and Development		1.0	0.3	0.0	0.0	0.0	1.0
	Poverty Reduction and Social Inclusion		4.5	2.4	1.7	1.7	1.7	0.5

5. Additional Reform Measures and the use of Structural Funds

EURO PLUS PACT MEASURES

Progress on the Implementation of Ongoing Measures

Strengthening the Fiscal Framework

Government acknowledges the important role that national fiscal frameworks may play in sustaining budgetary retrenchment. The newly reformed EU fiscal framework provides a good guideline for reforming the Maltese fiscal framework. The revised fiscal framework includes the enhanced Stability and Growth Pact which places greater emphasis on the correction of debt dynamics and the introduction of an expenditure benchmark aimed at ensuring that Government revenue emanating from unsustainable asset price bubbles is used for deficit reduction rather than to finance expenditure measures. It also includes the directive on national budgetary frameworks which foresees stronger and more independent accounting and statistics, the strengthening of forecasting processes, the application of numerical fiscal rules and the institution of medium term budgetary frameworks with multi-annual fiscal targets.

Operating alongside the EU framework at an intergovernmental and national level, the Fiscal Compact contained within the intergovernmental Treaty on Stability, Coordination and Governance (TSCG) complements, and in some areas enhances further, key provisions of the SGP and it also requires Member States to enshrine these provisions in national law. Indeed, the fiscal compact further provides for the institution of a rules-based fiscal framework in national legislation with a balanced budget rule to be enshrined in the constitution and fiscal rules to be monitored by independent bodies or bodies endowed with functional autonomy. It is to be noted that there is consensus from both the Government and the Opposition to ratify the fiscal compact.

Meanwhile, as part of the two-pack, the common provisions for monitoring and assessing budgetary plans of Euro Area member states ensures further fiscal policy coordination with the presentation of draft national budgets prior to the annual budget legislation and the publication of the national medium term budgetary plan together or as part of the Stability Programme. The regulation further defines how macroeconomic forecasts should as a minimum be endorsed by independent institutions and also defines clearly the conditions defining functional autonomy of the fiscal institutions to be responsible for monitoring the application of national fiscal rules.

The Ministry for Finance has finalised the necessary research on fiscal frameworks and fiscal councils, with work on the legislation reaching an advanced stage. Various rules have been assessed, and although no single rule was deemed to be optimal for Malta, a

combination of the Stability and Growth Pact rule¹⁸ coupled with the application of an expenditure rule¹⁹ in good times which is interrupted in bad times through escape clauses²⁰ appears to be most promising for Malta. This would make possible compliance with the new clause that will be introduced in the Constitution regarding a balanced budget, as well as with the Stability and Growth Pact. However, definite positions in this regard are still to be taken. In addition, an independent Fiscal Council will be set up with the aim of evaluating the Government's fiscal projections and to guarantee more transparency in the budgetary process and prudence in the macroeconomic forecasts. The Fiscal Council should prevent a mechanical interpretation of the rules in favour of an economic interpretation and make the best use of escape clauses that are detrimental to economic policy making in a vulnerable, open economy, like Malta's. Moreover, fiscal rules will be supported by a medium term budgetary framework to avoid frequent compliance failures which can easily undermine the credibility and effectiveness of such rules.

Further details of the revised national fiscal framework are included in the most recent update of the Stability Programme.

Introduction of Electronic Procurement Procedures and Simplification of Public Procurement

The transition to e-procurement is an EU-wide initiative which has been formally introduced by the European Commission in April 2012 through the communication "A Strategy for E-Procurement".

The overall objective of this measure is that to increase both visibility and accessibility of public procurement, thus increasing competitiveness and possibly generating savings to the taxpayers while also providing new sources of economic growth and jobs.

In Malta, the main tool to implement this measure was the purchase of an electronic portal. This purchase took place in early 2011 and since its official launch in June 2011, small but steady steps were undertaken in order to make the full transition to electronic procurement possible.

The complete transition to e-procurement was targeted for the end of December 2012 and in fact, as from 1 January 2013, all tenders with an estimated cost of €120,000 or above, published by the Department of Contracts, are being published as e-tenders.

The introduction of e-procurement has also brought about the need to streamline and simplify the tender templates including the removal of the request for documentation which was already available to Government. Such approach would certainly lead to a faster completion of the procurement cycle at least from e-notification to e-award. The transition to

18 The Stability and Growth Pact rule requires Member States that have not yet reached their MTO to pursue an annual adjustment in cyclically adjusted terms, net of one-off and other temporary measures, of 0.5 of a percentage point of GDP as a benchmark.

19 The enhanced Stability and Growth Pact requires that public spending must not rise faster than medium-term potential GDP growth, unless it is matched by adequate revenues.

20 Escape clauses would suspend the requirement of adherence to the rules in the event of an unusual event outside the control of the Maltese Government with a major impact on the financial position of the general Government, or periods of severe economic downturn as defined in the Stability and Growth Pact, including at the level of the Euro area.

e-procurement has also filled the gap in the e-Government services offered to economic operators. The results of the published first e-tenders and awarded e-contracts are encouraging in terms of the lead time of the adjudication and award process. Particularly, the e-tenders issued by the Department of Contracts have been rapidly adjudicated and awarded. Nevertheless, one must emphasise that bad practices may easily be perpetuated through e-procurement and therefore commitment to the cause by public employees remains of essence.

Considering that the whole procurement cycle from e-notification to e-award is readily available on the e-portal, any interested person can have access to the system and can follow the status of tenders up to their award. This openness will also enhance the participation of SMEs together with foreign companies which in turn will lead to more competition and possibly better procurement outcomes. In fact, one can already witness increased interest in the electronic system not only by Maltese economic operators but also by foreign companies. This system also encourages the aggregation of demand of particular supplies and materials in order to achieve economies of scale. This is particularly relevant to the Health Sector and specifically, the procurement of medicines.

This measure is also aimed to reduce costs to both Government and economic operators. Currently, only savings to economic operators are being measured and this is being carried out by the Management Efficiency Unit within OPM as part of a Better Regulation initiative which targeted a 15% reduction in costs to economic operators by the end of 2012. E-procurement was very much in the equation to achieve this target. In fact, standardisation of tender documents and forms between contracting authorities, simplification of tender forms, data sharing with other Government entities and online submission have resulted in an annual savings of €2,234,000.

In respect of savings to Government, the benefits which are commonly achieved by using a combination of e-procurement, framework agreements and central purchasing will become increasingly evident when the full transition is complete and full use is made of the functionalities of the ePPS. In this regard, the Department of Contracts will in the short to medium term look into already available standard methodologies to quantify any potential savings, not limited to financial ones. In this regard, the European Commission's pilot project to measure and benchmark the performance of e-procurement is being closely monitored in order to be in a position to adopt the set methodologies once these are established.

In parallel with the full transition to e-procurement, the Department of Contracts has also secured local funds (€32,000) which will be used to enhance the system's functionalities and interface to both economic operators and contracting authorities alike.

Setting up a Sector Skills Committee

By the second quarter of 2013 a Sector Skills Committee will be established which will include representatives from industry, and education and training institutions. The main objectives of the Sector Skills Committee will be those of advising the NCFHE on matters related to the validation process and also in indicating the way forward to Sector Skills Units in developing the necessary occupational standards.

Sector Skills Units will also be established and their main objectives will be to advise the Sector Skills Committee regarding the reduction of skills gaps and shortages, improve productivity, boost the skills of the sectors' workforce, improve learning supply, and also develop occupational standards for all occupations within the sectors. It is foreseen that the first Sector Skills Units will be set up by the second quarter of 2013. The Care, Media and the Creative Arts and the Motor Industry sectors will be the first to have their Sector Skills Units appointed. Another three sectors namely ICT, Construction and Agribusiness will also be appointed by the end of 2013.

The Sector Skills Committee will appoint validation process managers and external evaluators as validation practitioners with the aim of ensuring ongoing quality and trust in the validation process.

Culture and Creative Industries

Promoting the Film Industry

The Malta Film Commission continues with its programme to implement the Malta Film Fund, originally developed by the Ministries responsible for Culture and Finance. The Malta Film Commission will also be initiating a certified training programme encouraging individuals of all ages to further their studies, as well as develop their skills in order to increase their opportunities for employment in the film servicing industry. The training programme consists of compulsory modules, which aim to provide a solid foundation for participants when working in the filming industry. These include an introduction to film production processes, terminology, safety and environmental consciousness.

IMPACTS

The Malta Film Fund:

A total of 13 projects have been granted funding from the latest call of the Malta Film Fund. These projects totalling €239,000 include 7 development actions for five documentaries, two feature films and 6 production actions of which include five short films and one feature film.

Film training programme:

The Malta Film Commission has been awarded €500,000 as part of the European Social Fund Cohesion Policy Operational Programme II 2007-2013.

In budget 2013, it was announced that tax rebates for the eligible costs of the filming industry will increase from 20% to 23%. This rebate will increase by a further 2% if the filming location (i.e. Malta) is featured as Malta in the actual film.

Promoting Intellectual Property

Budget 2012 launched new incentives to increase Malta's competitiveness in the cultural and creative sectors, both on a national as well as on an international level. Competitiveness will increase through benefits related to copyright.

€ 25,000 has been allocated for a Public Lending Rights for authors and translators of books in Maltese to receive appropriate remuneration when their publications are borrowed from public libraries. Work on the Public Lending Rights was initiated by the Malta Libraries, while all the work on the necessary legal amendments to implement the copyright royalties exemption was coordinated between the Creative Economy Working Group and the Inland Revenue Department. A number of IP related initiatives were also included in the Creative Economy Strategy which was presented to Cabinet in July and launched for public consultation in August 2012.

In Q2 2013, a Legal Notice will be published to implement a budgetary measure that provides for an exemption on income derived from copyright and trademarks.

Fiscal Incentives for the Culture and Creativity Sector

The Government believes that culture and creativity can be major contributors to growth and competitiveness. In order to provide this sector with an incentive to better organise itself, there will be an exemption from the payment of registration fees for new companies in this sector as well as on their annual payments to the MFSA for three years with the aim of further helping this sector obtain a professional status and regular activities. Coordination with MFSA to start the implementation of this measure is still underway, and will progress further once other measures being coordinated with MFSA (including IP related measures) are fully implemented.

In order to encourage participation in arts education and professionalise further the sector, parents of children under 16 who attend cultural or creative courses can apply for a tax deduction scheme of up to a maximum of €100 for each child.

In February 2013, a Creativity Trust was set up by Government to leverage public and private funds for further investment in the cultural and creative industries through:

1. Investment schemes
2. National funding schemes
3. Capital projects
4. Funding structures

If a donation by an individual or corporate body of not less than one hundred fifty euro (€150) up to a maximum of one hundred thousand euro (€100,000), is made in a monetary amount or in the form of any other asset to the Creativity Trust, such a donation may be claimed as a deduction against income for the year of assessment in which it is made, provided that a relevant signed certificate in respect of such a donation has been issued to the donor by the trustees of the Creativity Trust.

Promoting the development of Digital Games

After investing in research and strategy for the development of digital games, Government announced three new measures.

- The establishment of the Malta Digital Games Fund with an investment of €150,000 to promote the development of the local industry through projects related to digital games;
- A tax credit scheme to Maltese companies wishing to commission educational or promotional digital games which credit will be granted on the expenditure incurred on the development of the game or on a maximum expenditure of €15,000; and
- To attract more experts in these specialised sectors to Malta, Government is extending the flat 15% income tax scheme for international professionals such as game directors and game designers. This scheme has also been extended to academics and researchers in the research and development sectors.

Malta's first Digital Games Fund was launched in Q4 2012 with five game projects funded for development. Work on the fiscal schemes and incentives continued through work coordinated between the relevant entities. More specifically, in relation to the tax credit scheme, work has been finalised on the scheme and is currently managed by Malta Enterprise. The 15% flat income tax rate for qualifying employment in innovation and creativity was launched in March 2013. <http://justiceservices.gov.mt/DownloadDocument.aspx?app=lp&itemid=24736&l=1>

Next Generation e-Government Framework

MITA's Next Generation eGovernment Framework is one that ensures that the number of services available online can increase without a proportionate increase in cost and complexity – and thus with a steady growth in added benefit instead.

The architecture enforces a clear segregation between data, business logic and presentation, thus promoting reusability and scalability of overlying solutions, and minimum disruption in efforts to keeping them current in terms of growth, sophistication and user interface demands.

The framework components are designed to provide these individual functionalities, wrapped in a common look-and-feel provided by a common *gov.mt* brand. This presents a complete user experience which encapsulates eForms and myBills in the service offering. The following components are now live:

1. The eForms solution enables citizens to submit applications related to Government services electronically.
2. The payment gateway and PCI-compliance are complemented in the ambit of payment processing by the central billing system: myBills. All online Government payments are now undertaken in a fully PCI-certified environment.

3. An enterprise CMS has been put in place and has started catering for 2 important online presences of Government – the central Government portal (www.gov.mt) and the website of the Department of Information (www.doi.gov.mt).
4. In June 2011, the Government launched a solution for online procurement. The e-Procurement solution enables tender bids to be submitted electronically to contracting authorities within Government. As of January 2013 all above the threshold tenders published by the Department of Contracts are published online and bids are only received online.

CREATE Scheme

This incentive which is in the form of a tax credit aims to support creative businesses whose economic performance is directly linked to the creative talent of those involved in the business. Further support is provided to help the development of creative communities in artistic zones thus sustaining the development of said zones and interdisciplinary creative cluster developments.

This scheme started on 1 January 2010 and in the budget of 2012, it was extended having a planned end date of 31 December 2012. In 2012, 1 applicant has benefitted from this scheme with an amount of €16,000 disbursed.

MicroInvest

The scope of this fiscal incentive is to encourage micro enterprises and the self-employed to invest in their business, to innovate, to expand, to implement compliance directives and/or develop their operations. Micro enterprises and self-employed will be supported through a tax credit representing a percentage of the eligible expenditure and wages of newly recruited employees and/or apprentices.

This scheme was first launched in January 2010. Due to its success, during the budget for 2012, this scheme was extended for another year ending December 2012. In 2012, 1059 have benefitted from the scheme, amounting to € 8.2 million in tax credits.

In the budget for 2013, this scheme was further extended for another 2 years and those businesses employing up to 30 persons will now be eligible.

Setting up of an Expert Group to draw up a Report and Recommend Measures to Reduce Sick Leave in the Public Sector

During the first quarter of 2012, the sick leave data of public service employees for the year 2011 started being analysed in order to identify any possible trends in the following:

- relationship between Ministries and sick-leave;
- relationship between Grades and sick-leave; and
- relationship between sick-leave and month.

The financial impact of sick leave in the public service on public finances is also being analysed.

In April 2012, the findings of the analysis were presented to the Committee of Permanent Secretaries (CPS).

On 1 June 2012, a meeting was held between representatives of the then Ministry of Finance, the Economy and Investment and the Public Administration Human Resources Office (PAHRO) to:

- discuss the shortcomings of the present system of Sickness Verification in view of the substantial burden on public finances; and
- try and identify ways to facilitate information sharing between the two departments for the study of alternative systems.

It is envisaged that through further analysis of the available data, it will be possible to identify those areas that are prone to higher levels of sick leave, especially when this is seasonal or restricted to particular grades of service.

PAHRO and the Ministry for Finance are in favour of promoting the use of a uniform computerised system in all Ministries/Departments (whether HRIMS or a more updated system), to facilitate record-keeping and to minimise abuse.

During the first quarter of 2013, an expert group composed of representatives of the then Ministry of Finance, the Economy and Investment and PAHRO was set up. The expert group will be meeting on a regular basis.

The Expert group will be focusing on the identification of sick leave utilisation and trends, with a view to recommending policies and/or measures to minimise sick leave utilisation and abuse.

Launching of the ‘Greening our National Economy’ Document

During 2011, Government identified the Green Economy as a major contributor towards Malta’s economy. In view of this, a Green Economy Working Group (GEWG) mainly composed of individuals from the private sector was set up. Based on the work of this Working Group, a document titled ‘Greening Our National Economy’ was formulated.

The Government’s commitment to launch this document was an initial step for ‘green’ measures to be taken on board. In fact, this document provided practical policy recommendations and implementing measures as ways and means to green Malta’s economy.

The newly elected Government has furthermore committed itself to the creation of green jobs, indicating its intention to upscale efforts undertaken so far through a revised strategy.

Planned New and Extended Measures

Justice Reform

On 24 March 2013, very soon after it took office following the general elections of the 9 March, the Maltese government announced that it was initiating a judicial reform. A Commission has been appointed to look into the judicial system and recommend reforms as necessary. The head and the members of the Commission have been appointed and it is foreseen that the Commission will submit a review report within 3 months. Following this report, a public consultation process will be launched, which process is foreseen to take a further 3 months. This is clear evidence of Malta's intentions to continue to have a sound legal system in place.

It is envisaged that the main reforms suggested by the report and the consultation process will start being implemented by the end of the year 2013. The terms of the Commission are radical and far reaching and include a review of the operations of the Commission for the Administration of Justice, the accountability of judges, the setting up of an administrative court, the civil courts, the legal aid system, the Family Court, the Gozo court, the use of information technology, better administration of cases, alternative dispute resolution, implementation of reparative justice including parole, the appointment of judges and a Charter for those who need to go to court.

Green Economy Action Plan

One of the measures outlined in the National Environmental Policy (NEP) document is Measure 2.1.1 which states 'Prepare a Green Economy Action Plan by 2013 and ensure its timely delivery'. In fact, the objective of this measure is to prepare and launch the Green Economy Action Plan.

The preparation of this Action Plan and its timely delivery, will be key to 'green the national economy, steering it away from environmentally-polluting and resource-intensive economic sectors'.

This Action Plan will provide a policy framework with the aim to reduce Malta's environmental footprint.

Enhancing Institutional Capacity and Efficient Public Administration

Malta's eligibility for structural funds in the next programming period depends, amongst other things, on the design and implementation of an HR Strategy, coupled with a Skills Development Plan. To that effect, the launch event of the HR and Skills Development Strategy was held on 11 December 2012, with the aim of such a strategy being the enhancement of institutional capacity and efficient Public Administration.

Capturing cross-ministerial input and participation, the Strategy is planned to be finalised by end 2013.

Full transition to electronic procurement across Government

Following the introduction of electronic procurement procedures and simplification of public procurements, the next step in this transition is the complete roll-out to e-procurement which is targeted to be completed by the end of 2013.

As from 1 January 2013, all tenders with an estimated cost of €120,000 or above, published by the Department of Contracts, are being published as e-tenders.

During the year 2013, it is planned that the transition to e-procurement will also be extended to Departmental Tenders and to those Contracting Authorities that carry their own public procurement without being obliged to refer the tenders to the Department of Contracts. A list of the latter can be found under Schedule III of the Public Procurement Regulations.

This full transition will increase both visibility and accessibility of public procurement, thus increasing competitiveness and possibly generating savings to both Government and Economic Operators thus providing new sources of economic growth and jobs.

Enabling Innovation through legislative and regulatory development

Innovation drives growth. Future growth must therefore increasingly come from innovation through the introduction of a new or significantly improved product whether a good or a service. Innovation is therefore essential if licensed firms are to thrive in today's highly competitive and connected global markets.

Innovation is also important in the Financial Sector. As the Maltese economy becomes more service oriented, financial services are becoming important to Malta's economic future. There is therefore a strong case for the industry to approach the sector's future growth with a strong determination to continue to push out the boundaries. A determination on the side of the industry to compete and innovate will ensure a successful future and provide customers with more choice.

Malta will continue working to create a legislative and regulatory framework that will nurture innovative products in this sector, while ensuring consumers are not exposed to unwarranted risks. Research and consultation with the industry is ongoing. A number of improvements to Legislation have also been identified and legislative changes will be implemented throughout 2013. Other proposed changes are currently under evaluation. Changes to legislation will be followed up in various seminars, workshops and also the publication of electronic and printed material to ensure adequate awareness on the changes.

A Strategy and Action Plan for the Promotion and Support of the Social Enterprise sector

This strategy would be a follow up on the Social Enterprise Act which, as already reported under Measure 'Social Economy' in Section 2 above is planned to be enacted in the second quarter of 2013. This strategy would seek to identify the best tools to promote the development of social enterprises through the best supportive policy actions.

Creating the necessary legislative framework is a necessary first step, however this is just an enabling measure and the sector needs the correct support policy measures to help it develop. Hence, such a strategy will indicate the preferred direction for the development of the Social Enterprise Sector in Malta together with an action plan for specific policy measures to be put in place to support this development.

This measure is planned to start in the second quarter of 2013 after the enactment of the Social Enterprise Act and to end in the second quarter of 2014.

Annex 1

A summary of the state of play as well as the estimated impact (qualitative and/or quantitative) of the ongoing and new Europlus Pact measures mentioned under this section can be found in Annex 1.

FLAGSHIP INITIATIVES

A Digital Agenda for Europe

The Digital Agenda for Europe represents the EU's ambitious goal of paving the road towards achieving the targets specified in the aforementioned strategy, namely the maximisation of the social and economic potential of ICT through high-speed internet and interoperable applications.

Since the launch of the Digital Agenda for Europe in 2010, the European Commission took the initiative of going to the individual member states to meet the stakeholders of the Digital Agenda in the so-called Going Local Event. The third round of the Going Local initiative included a meeting to Malta in December 2012.

In January 2012, the penetration rate of fixed broadband was 30.9% of the population, up by 1.4 percentage points (p.p.) year-on-year and it is 3.2 p.p. above the EU average of 27.7%. Malta is one of the four countries in the EU that presents both a penetration level and growth above the EU average

e-Commerce

One of the key performance targets of the Digital Agenda is to have 50% of the population buying online by 2015. Take-up of e-Commerce in Malta is above EU average, with 45% of the population buying online, an increase of 7% over the previous year.

Information Society

The MCA coordinates various projects with the aim of increasing internet take-up and making internet a safe place especially for children.

Connecting Europe Facility

The CEF will allocate funds to ICT related projects. Malta has communicated to the European Commission three projects which could be funded through this facility, namely; connecting households to fibre optic cables; laying an international underwater telecommunications cable between Malta and mainland Europe; and deploying a nationwide infrastructure of trenches, masts and towers.

Currently, the TEN-Tele Guidelines are being discussed at Council Working Party meetings. This proposed Regulation lays down guidelines to determine those trans-European telecommunication network projects that shall be supported in accordance with the Connecting Europe Facility.

Malta believes that interventions under the CEF should not only allow Member States to address issues of reliability, but should also allow them to intervene in order to overcome such significant problems which create barriers to the creation of the digital single market, such as those experienced by Malta. While Malta appreciates that the CEF is targeted

towards financial instruments other than grants, it cannot accept that it is entirely excluded from the possibility of using grants under the CEF.

Malta's characteristics are very different from those found in other densely populated areas in the EU - some of the differences being: Malta's entire territory is densely populated; it is a micro state with an economy that is composed practically entirely of micro enterprises; and it is geographically detached and distanced from mainland Europe. These characteristics may impact Malta's ability to use only financial instruments to facilitate the deployment of broadband networks. Malta has discussed these issues with the Cypriot presidency and is expecting a positive outcome in terms of amendments to the current text. This continues to be monitored and a revised text is expected to be issued by the Irish Presidency.

State Aid and Broadband Penetration

In 2009, the European Commission had adopted Guidelines on the application of EC Treaty state aid rules to the public funding of broadband networks. The Guidelines provide a clear and predictable framework for stakeholders and Member States to accelerate and extend broadband deployment.

In line with its state aid modernisation package, in 2011, the Commission carried out a first consultation of the guidelines, where most stakeholders found that the existing rules worked well, however required more clarification in some areas. As a consequence, in June, 2012, the Commission launched another public consultation with the scope of finding ways to adapt the current Guidelines to the objectives of the EU Digital Agenda. The proposed changes were aimed to ensure that state aid policy in the broadband sector is focused on facilitating well-designed aid policy in the broadband sector, as well as to clarify and simplify the existing rules. In its feedback, Malta welcomed the European Commission's proposal and shared its view that broadband is of strategic importance due to its contribution to growth and innovation. Malta highlighted the particular circumstances related to the size of the market and how this could differ from larger Member States.

One of MITA's Strategic Priorities is to enable the growth of the knowledge economy through the engendering of life-long ICT learning framework. As an integral part of this approach MITA and MITC have set a multi stakeholder consultative body between the main players in the supply and demand of ICT Skills and given it identity as an eSkills Alliance.

Since its launch, the eSkills Alliance has made strides towards promoting the many benefits of a career in ICT, and has helped to motivate interest in it from students, educators, parents and career counsellors. This was done through participation in numerous careers fairs and seminars organised by diverse stakeholders, and training for career counsellors. The future eSkills Policy for Malta is currently being discussed. The eSkills Alliance has held a workshop with the ICT industry, in order to take stock of the sector and collect the industry's recommendations on the policy actions that would facilitate the business to exploit the opportunities ahead for the sector.

Malta supports the proposed Connecting Europe Facility (CEF) and welcomes the opportunity for the financial instruments proposed to help the implement digital service infrastructures and cross-border services. As a general comment, Malta wishes to emphasise the importance of any help that it might get to implement such services both from the point of Malta being small in size and also being an island and therefore subject to

insularity. Should such projects not acquire the required help from the CEF, Malta wishes that such infrastructures, which are very important for Malta, received the necessary backing and support from the Commission when it comes to Cohesion Policy (Structural Funds).

European Platform against Poverty

The issue of poverty and social inclusion is a growing and important concept within the changing political, cultural, social and economic developments of Malta. The undertaking of a poverty and social inclusion strategy in Malta will seek to develop a multi-policy approach directed to address the link between poverty and social inclusion by addressing those major areas that directly or indirectly impact the prospects for inclusion.

In this sense, the strategy design will reflect the Maltese government's philosophy that the prospects for enhanced and effective social inclusion through poverty eradication require a holistic community-based approach that includes a horizontal focus that incorporates diverse vulnerable groups in order to promote social cohesion.

The strategy design will be based on iterative process that will include both pre and post drafting consultation. The strategy design will be concluded by the end of 2013.

Innovation Union

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

In seeking to build its knowledge base, Malta is focussing extensively on building human resource capacity in the widest sense – from increasing awareness and interest in science and technology in young children (through the construction of a National Interactive Science Centre²¹) to post-graduate and doctoral support schemes²². As a result, there is an increase in the number of students following post-graduate courses, increasing the research activity besides the availability and employment of high-level graduates in priority R&I sectors identified for Malta. In addition, agreements with international research organisations are enabling Maltese students to embark on training opportunities in these organisations.

Human resources have been identified as a weakness in Malta's innovation performance as captured by the Innovation Union Scoreboard. However it is encouraging to note that efforts over the past years are bearing fruit, with Malta's performance in the indicator on new doctoral graduates increasing by 31.6% and 18.9% in the 2011 and 2013 Innovation Union Scoreboard Reports respectively.

Being an effective player in the European Research Area and contributing to its realisation is an important goal of Malta's R&I agenda, which is clearly expressed in the draft National R&I Strategic Plan 2001-2020. Indeed the national R&I system is in tune with the principles underpinning the ERA vision, and Malta has actively sought to encapsulate the ERA

²¹ More information can be found in Malta's National Reform Programme 2012, measure no. 3.2.2.7 on page 123.

²² More information can be found in Malta's National Reform Programme 2012, measure no. 3.2.2.3 on page 93.

dimension and what it means for small countries through the coordination of an FP7 project (ERA-PRISM) focussed specifically on small country issues in participating in the ERA²³.

Malta's R&I policy is strongly business oriented and focused on applied research. Supporting the route from ideas to market in a holistic manner is a prime goal. 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 bear the desired fruit. A dedicated suite of incentives for industry to invest in R&I is in place, involving both grants and fiscal benefits.

Other incentives for industry focus on supporting effective use of knowledge generated through tax credits for the registration of intellectual property and fiscal benefits to persons receiving income from royalties²⁴. In addition, a dedicated awareness campaign on innovation is planned, with the aim of raising awareness on the need for innovation for growth. Indigenous R&D investment remains a challenge, and this campaign should help to further ingrain a cultural shift towards the importance of continuous change.

Business-academia collaboration is also the focus of dedicated efforts through the Technology Transfer Office (set up within the University of Malta in 2009), a scheme to support the loan of highly qualified personnel²⁵ as well as the National R&I Programme. This latter programme has recently (in 2012) been supplemented by a Commercialisation Programme, with the aim of providing support to the transformation of research outputs from the R&I Programme into new products and services on the market²⁶.

The Structural Funds programmed for 2007-2013 for research and innovation have been indispensable for Malta to be able to put in place an enabling framework for R&I. Many major projects have been financed, including the construction of a Life Sciences Park (known as the BioMalta Campus), new or upgraded research infrastructures and facilities at the University of Malta, post-graduate grant schemes, the construction of the national interactive science centre, industry grant schemes, and investment in knowledge transfer support²⁷.

Malta is presently working on the development of its Innovation Strategy for Smart Specialisation (RIS3), which will guide investments over the 2014-2020 period in a more focussed manner while retaining enough flexibility to exploit related variety and cross-disciplinarity – indeed the intersection between traditional academic disciplines or economic sectors is where most innovation potential lies. It is important to point out that a wide approach to innovation is being adopted, including technological, process, social and other forms of innovation. To this end, an analysis of Malta's economic and academic strengths is at an advanced stage. In addition, extensive consultations have been undertaken, involving most public entities and social partners. The private sector has also been engaged and further activities to facilitate a bottom-up identification and convergence towards Malta's niche areas in foreseen.

²³ More information: www.eraprism.eu

²⁴ More information can be found in Malta's National Reform Programme 2012, page 90-91.

²⁵ More information can be found in Malta's National Reform Programme 2012, measure no. 3.2.2.6, page 89.

²⁶ More information can be found in Malta's National Reform Programme 2012, measure no. 3.2.2.6, page 122.

²⁷ More information can be found at: http://www.ppcd.gov.mt/projects_07_13?l=1

In today's world, international collaboration in research and innovation is a sine qua non for a healthy R&I ecosystem. This is even more accentuated in Malta's case, with its young R&I culture and limited critical mass. Malta's efforts over the past few years bear testimony to the importance which Malta attaches to international cooperation. These include participation in European research infrastructure projects (such as BBMRI and CLARIN) as well as the signing of bilateral agreements with international organisations (e.g. CERN and the European Space Agency). In addition, support in the form of grants is available for industry to participate in cross-border collaborative research²⁸. Malta has also increased its participation in Joint Programming Initiatives – in addition to being a founding member of the Urban Europe JPI, it has also acquired observer status in three other (health-related) JPIs. Additionally, Malta has also recently joined the ENIAC Joint Technology Initiative through which it is participating in the Labs4MEMS project.

The Innovation Union flagship initiative is an opportunity to invest wisely in an economy built on creativity, knowledge and the potential of human capital to be put to use towards achieving higher living standards and economic growth. Malta's commitment to this end, to become a knowledge-based economy where innovation thrives is evident in its policies as well as in its investments, is evident and further actions to this end will continue to be rolled out and implemented over the coming years.

New Skills for New Jobs

Through this EU flagship initiative Malta has set out to develop better matching between skills and labour market needs. Indeed MQC/NCFHE has worked out an information package, the VQ Pack, for secondary school students, their parents and educators with the aim of attracting young people to the diverse and prolific world of vocational studies. This EU co-funded project (ESF 1.28 and which has a budget of €383,981) has established better synergy between training providers and job suppliers, thus enhancing the role of VET by making it more visible to learners in compulsory education. The project served to narrow the gaps between formal education and employment, knowledge and skills, theory and practice and thus fulfilled the strategic measures identified by the Copenhagen Process 2002 to promote industry-driven qualifications. The project facilitated the comparability of VET qualifications for employment purposes in mobility across Europe. A four-day Exhibition on the ESF Project VQ Pack was organised in April 2011. The exhibition targeted secondary students but was also open to the general public. The exhibition was split into nine sections covering the following sectors - Art & Design, Community Services; Agribusiness; Building and Construction Engineering; Business & Commerce; Electrical & Electronics Engineering; Mechanical Engineering; Tourism Studies; and Heritage Studies. There were also representatives from the Malta College of Arts, Science and Technology (MCAST) as well as the Institution for Tourism Studies (ITS) to reply to queries related to the different courses.

The Employment and Training Corporation (ETC) is managing the implementation of the ESF 2.201 project Enhancing Employability through Training (EET). This project aims to facilitate the reintegration of jobseekers and inactive persons into the labour market while also providing assistance to those in employment to secure and advance their position within the labour market. Training assistance is offered to jobseekers needing to improve their skills to enter the labour market and to those individuals who wish to upgrade their existing skills in order to re-enter the labour market, find alternative employment and/or acquire new skills to meet the labour market demands.

²⁸ More information can be found in Malta's National Reform Programme 2012, page 89.

For this project, ETC has drawn up a plan for the implementation of short courses six months in advance based on labour market needs. ETC has grouped its short courses under fifteen categories. In August 2012, ETC issued one wave of 15 departmental calls for tenders for the provision of training services including course profiles. Only bidders who could deliver all courses featuring in each category could apply. Bidders were bound to provide trainers satisfying the criteria indicated in the call for tenders. This means that for this project ETC will be dealing with one training provider for each category of courses. Shortly afterwards, ETC also issued a further four departmental calls for tenders for the provision of training services to Youth.Inc participants. Out of the first wave of tenders, ETC had to re-issue five of them because either the hourly rate quoted by the training service provider went beyond the maximum threshold set in the tender or no service provider was found.

Meanwhile the Corporation has issued a call for applications for the recruitment process. ETC obtained the approval from the Public Administration HR Office (PAHRO) and the People Management Department has initiated the recruitment process. Indeed in December 2012, the interviews with the prospective candidates were completed and the chosen persons were recruited in January 2013.

Youth on the Move

The EU flagship initiative 'Youth on the Move' offers a work experience abroad to apprentices in vocational training and to university students. The popular TV presenter Frank Zammit has been nominated as Malta ambassador for this initiative. Through this initiative Malta is aiming to improve education and training systems at all levels and to promote stronger policy efforts to improve youth employment. This initiative also facilitates local youth mobility both for learning purposes and work experiences.

The National Youth Employment Strategy 2015 builds upon the key messages of this flagship initiative. This Strategy aims to design a holistic framework that yields both immediate and long-term returns. The National Youth Employment Strategy 2015 focuses on the inter-relatedness and the inter-dependency of both economic and social factors and the development of a number of measures to address the challenges posed by macro- and micro-constraints. These constraints are mainly the result of the natural heterogeneity of young people and the fluctuating nature of labour market realities. These limiting realities have led to the formulation of a Strategy having multiple policy objectives focusing on the diverse needs of the targeted clients.

Thus the groups that the National Youth Employment Strategy 2015 is targeting include not only young job-seekers and inactive youth but also young people who are already in the labour market. This is because this Strategy is aiming to provide a second chance to young people who would have left school earlier and thus these youths would be able to avail themselves of re-training and up-skilling opportunities.

The priorities which the National Youth Employment Strategy focuses on incorporate the supporting of youths to complete formal school education by encouraging educational attainment and the formal validation of any training received. This Strategy also seeks to put into place structures to facilitate the successful reintegration into education, training or employment of young people who are disengaged or at-risk of being disengaged. This will be achieved by providing the learning tools which ascertain that young people are equipped with the necessary employability skills and then ensuring the sustainability of young people's entry into the labour market by addressing temporary, precarious and informal work arrangements.

Thus the initiatives proposed in this Strategy are split into five main categories:

- Renewed Youth-Centred Investment;
- Early Intervention and Prevention;
- Facilitating Transition between Education, Training and Employment;
- Equal Access and Opportunities to Education, Training and the Labour Market;
- Sustainability of Jobs

This Strategy is acknowledging that the entry patterns into the labour market and the choice of transition from school to further and higher education is dependent on a number of variables. These include the level and type of qualifications, skills and competencies attained through formal schooling and training; the learning experiences in compulsory education; each individual's familial environment and aspirations; the support services in place including guidance and counselling services and any active labour market programmes in place. This Strategy will thus be putting in place measures to address as wide a range of eventualities as possible.

The targets by which it can be determined whether the National Youth Employment Strategy 2015 is effective or not are measurable and include the reduction of absenteeism in compulsory education and the increasing of the participation rate of young people pursuing further and higher education. Closely tied with the success of this Strategy is the reduction in the rate of early school leavers and the concomitant increase in the participation rate of adults continuing with lifelong learning experiences. Measures are also to be put in place to increase both the educational attainment of students at the different levels of the education system (starting from the early years and going on to the post-secondary sector) as well as efforts to increase participation in non-formal activities coupled with an increase in the validation of such activities. Other planned initiatives include an increase in the breadth and number of apprenticeship and traineeships schemes that are available together with a reduction in the incidence of precarious and informal work. These measures will thus lead to a reduction in the unemployment rate of young people and a corresponding reduction in the NEET rate.

Malta's national Public Employment Service (the Employment and Training Corporation) has a number of programmes which focus specifically on young people. These range from personal action plans, employability programmes and work exposure schemes to traineeships, apprenticeships, and training courses.

In order to further assist young people, the Public Employment Service has allocated Youth Champions as part of its internal operating structure whose role it is to develop and provide youth oriented motivational seminars, newsletters, school interventions and other youth initiatives in areas including soft skills and job hunting skills (including CV and Interviewing skills) for graduates and unqualified school leavers as well for youths with social problems.

Moreover, in 2012, the Employment and Training Corporation has worked in collaboration with education providers responsible for compulsory schooling, further and higher education, and second-chance education to encourage young people at risk of becoming NEET to engage in an educational or employment programme. This initiative included a personalised follow-up for all young people who finished compulsory education without sitting for their matriculation exams and several activities targeted at this cohort. A number of young people have successfully enrolled in one of the programmes promoted.

National PES Schemes Targeting Young People

The ESF co-funded Employment Aid Programme contributed towards the integration of disadvantaged persons and persons with disabilities in the labour market and facilitated their access into employment through financial assistance. It helped to upgrade the skills of those furthest away from the labour market through work experience. The EAP targeted persons with disabilities and disadvantaged groups including students under the age of 25 who have not obtained their first regular paid employment, the long term unemployed (more than two years), persons older than 50 who do not have a job or are at risk of losing their job, registered disabled persons and persons who have not attained upper secondary level qualification (equivalent to ISCED level 3) and have been made redundant.

- The PES offers the Bridging the Gap Scheme to support and target disadvantaged groups in enhancing their capabilities in order to integrate them into the labour market. The scheme assists these client groups by providing counselling and placement services together with referrals to adequate training. The Bridging the Gap Scheme is designed to support the client during the transition period from unemployment to employment. It also allows the employer to evaluate the performance of the client in the workplace, prior to proper engagement. Bridging the Gap offers the client a period of work exposure with an employer with the aim to give them the opportunity to demonstrate the skills needed for a particular job. The employer and ETC enter into an agreement in relation to the work exposure period, whereby a client is placed on the scheme with the prospect of employment. The client is considered as an unemployed registrant without the obligation to turn up for his/her weekly signing-up. The target groups of this scheme are registered disabled persons and other people in disadvantaged situations, including youths. During the year 2012, a total number of 69 participants benefitted from the scheme, out of which 19 were youths aged 16 to 24.
- Work Trial Scheme is a nationally funded scheme. Two of the eligible groups under this scheme target young jobseekers aged 16-24 specifically. These target groups are (a) youth with no previous work experience; and (b) youth with previous work experience not in line with their respective job preferences. Through the Work Trial Scheme the Employment and Training Corporation grants the participants 50% of the national minimum wage per week. Placements can be for a maximum of 12 consecutive weeks. The work experience will be based on a 20 hour week (4 hours a day). During the year 2012, a total of 762 participants benefitted from the scheme, which includes 611 youths (16-24).
- The Community work scheme seeks to provide long-term unemployed persons the opportunity to undertake community work under the direction of Local Councils and NGOs' with a view of enabling them to obtain further skills, improving their employability and their chances of finding employment on completion of such an experience. Long term unemployed participants, including youths, are given the opportunity to further their skills, improve their employability and prospects of employment by carrying out 30 hours of community work per week for a period of 6 months and in return have their income increased up to 75% of the minimum wage. Participation is mandatory and those who refuse work without a valid reason are removed from the unemployment register and lose their entitlement to the unemployment benefit. During 2012, a total of 26 youths (16-24) had successfully participated in this scheme.
- In the coming months, a new programme entitled 'Active Youth for Employment Programme' will start being implemented by ETC. For details on this programme refer to Section 4 - Employment.

Meanwhile, Apprenticeship and Traineeship schemes are considered to be one of the main measures to integrate work-based elements in education. The Corporation has been administering such schemes since it was set up in 1990. In recent years, the traineeship scheme was launched under the ESF funded Employability Programme and operated on the dual VET system offering a combination of on the job training with an employer for 80% of the traineeship duration and 20% off the job training. The duration of the traineeship varied between 10 and 39 weeks, based on a 40 hour week, and was determined by the respective Training Programme's objectives and contents. Two nationally funded apprenticeship schemes at MQF (Malta Qualifications Framework) levels 3 and 4 are currently available - the Technician Apprenticeship Scheme (TAS) and the Extended Skill Training Scheme (ESTS).

The off-the-job training is delivered at one of two VET Institutions, the Malta College of Arts, Science and Technology (MCAST) and the Institute of Tourism Studies (ITS), depending on the chosen career path. The on-the-job training provides the apprentice with an excellent opportunity to learn through practice in a real place of work. Most of the employers engage apprentices with the intention of employing them as full time employees subsequent to the apprenticeship. According to the tracer study conducted in 2012, 35% of apprentices pursued further education following their successful completion of the apprenticeship course. 85% of the candidates, who did not pursue further studies, were in full time employment, whilst 7% were in part time employment in the first 3 months after completion of the apprenticeship. 61% of these were retained by the same employer who trained them throughout their apprenticeship.

In order to increase and strengthen the apprenticeships offered, a reform to apprenticeships was announced in the budget for 2013. For details on this reform refer to Measure 'National Apprenticeship Schemes' under Section 4 - Employment.

Youth.inc

The Foundation for Educational Services in collaboration with ETC and MQC launched a programme that incorporates academic and vocational training spread over a period of two years. This training leads to a recognised qualification that falls under the National Qualifications Levels 1 and 2. The plan is to increase this level of training to National Qualifications Levels 3 for 2013.

The programme is open to youths between 16 and 21 years of age that have not managed to pursue their studies, primarily because they either ceased attending secondary schooling or did not obtain enough SEC qualifications. In Budget 2013, it was announced that this programme will be extended to youths aged till 24 years.

The programme is aimed to motivate these youths to become more active participants in their own learning. The programme provides assistance to the participants that lack skills, basic knowledge and other social competences that are normally needed for integration into the community and work force. The programme aspires to serve as an opportunity for youths to acquire knowledge, skills and other competences through formal and informal learning.

Each group of participants is assigned a Professional Youth Support Worker that provides assistance, mentoring and also establishes a trusting relationship. The learning environment is aimed to promote the active involvement of the student keeping in mind that it is not the traditional classroom.

The programme that leads to the first level of the National Qualifications consists of a minimum of 1,000 hours spread out over 30 weeks, whilst the programme that leads to the second level of the National Qualifications is 1,500 hours long spread out over 44 weeks. These two programmes consist of 4 phases that assure that all participants are coping with the given tasks and more important to see that no one leaves the programme before completion.

Industrial Policy Flagship

The industrial strategy will not entail an overhaul of the current policy structure as Malta has an established, profitable industrial sector which benefits from a competitive business environment and has the full support of the Maltese Government. The strategy will focus on building on the current realities namely a Government-driven competitive business environment and a strong, established industrial sector and will strive to build on these strengths to enhance the dynamism, robustness and innovative capabilities of the local industrial sector.

The vision of the strategy is thus to create an environment and provide the tools which will stimulate the development of industrial enterprises which:

- respond dynamically to changes in the markets, including foreseeing opportunities;
- are able to withstand sudden shocks in a robust manner; and
- are capable of absorbing and adopting innovative ideas & technologies to ensure a competitive edge.

The strategy will contain clear, measurable targets (including direct reference to the EU Industrial Policy initiatives and Malta's 2020 targets) and the policies will be formulated under three key strategic pillars, which are competitiveness, innovation and entrepreneurship. These were selected because they form the fundamental building blocks required to achieve the mission statement and should the policy achieve improvements in these three elements, then a stronger sustainable productive sector will be established.

The development of the strategy will be spearheaded by Malta Enterprise, and will include extensive consultation with industry and stakeholders. The targeted completion of the policy is end of 2013.

Resource Efficiency Initiative

Malta recognises the work and efforts that need to be undertaken on strategies to facilitate the transformation of the EU into a resource-efficient Europe. Due to its cross-cutting nature there needs to be increased policy coordination and mainstreaming of resource efficiency in

key economic, environmental and social policies in different sectors. Resource efficiency is an essential means towards driving the achievement of the Europe 2020 Strategy goals for this flagship initiative at both national and European level.

Malta understands that resource-efficiency is also a matter of core lifestyle choices and thus improved public awareness, social acceptance of these choices and environmental education are vital elements for a more sustainable future existence. The shift towards resource efficiency cannot be realised without a change in consumption and production patterns. As a country we are very much aware of the need to be more efficient in the use of resources, particularly when it comes to natural resources, such as fresh water, limestone, soil and land. One resource which is in relatively large supply is the sea. In terms of marine resources, therefore, the question is how to manage as efficiently as possible, the different uses, including tourism and recreation, water and food provision, transport, energy and trade.

To address, among others, these challenges, Malta has recently prepared its National Environment Policy setting out a policy framework that responds to the challenges of sustaining a quality environment while still pursuing its economic goals. The National Environment Policy addresses resource efficiency primarily through its policy's objective of 'using resources efficiently and sustainably'. This objective aligns Malta's environmental policy with the Flagship initiative 'A resource-efficient Europe' under the Europe 2020 strategy aiming to deliver smart, sustainable and inclusive growth. The vision of the National Environment Policy has been developed in line with the vision of the 'Roadmap to a Resource Efficient Europe':

'...by 2020, the Maltese environment will be providing an improved quality of life, which will result in improved well-being, increased appreciation of Malta's natural and cultural environment, and a strong sense of pride in Malta's environment. Malta will have effectively addressed its main environmental problems, implementing its national, EU and international environmental responsibilities and achieving economic prosperity and well-being for its people in a sustainable and environmentally-responsible manner. Malta will be well on its way to implementing its long-term vision of transforming itself into a low-carbon, zero-waste society by 2050.'

The National Environment Policy also provides the framework based on national consensus required to support the integration of the Roadmap in Malta's overall policy framework. In addition, the National Environment Policy has a broader scope to that of the Roadmap as it comprehensively takes into account all aspects of the Maltese environment that are of concern.

This chapter highlights the way Malta is addressing the objectives of the Roadmap through the relevant National Environment Policy measures. The structure of this chapter in fact reflects that of the Roadmap to enable ease of reference, also for monitoring purposes. This chapter is organised around the following four themes:

1. Transforming the economy
2. Natural Capital and Ecosystems Services
3. Resource efficiency roadmap key sectors
4. Monitoring

Transforming the Economy

The challenge to transform the economy to a more resource efficient one lies in the sustainable management and use of resources throughout their lifecycle and producing more value with less material with a view to decouple economic growth from environment degradation. The key to achieving this transformation lies in creating enabling conditions for the integration of environmental, especially resource efficiency, considerations in economic development planning and market operations, whilst promoting through various means the uptake of eco-innovation initiatives. The National Environment Policy aims to achieve the above through its chapter entitled 'Greening the Economy', where the initial and lead measure is to:

Measure 2.1.1: Prepare a Green Economy Action Plan by 2013 and ensure its timely delivery

Details on the said measure can be found under Measure 'Launching of the "Greening of our National Economy" document' above.

Market Based Instruments, Environmental Taxation and Environmentally Harmful Subsidies

One of the first challenges to transform the economy into a resource-efficient one is the need to ensure that market prices, which guide consumer decisions, reflect the true costs of resources for the transition to take place. Malta will be putting in place the necessary enabling conditions for this transition; however, the latter has to be managed and adequately financed, in order to succeed. To support more sustainable consumption and production patterns Malta will be supporting and rewarding sustainable economic activity and confronting those operations whose business practices pose a serious threat to a sustainable future. This will promote solution-oriented eco-efficient and resource-efficient enterprises. One of the actions envisaged to facilitate, encourage and incentivise decision and behaviour towards greater resource efficiency, is to integrate externalities into economic decisions taken by market operators. Malta recognises that environmentally- and socially-harmful subsidies are a deterrent to the facilitation of this transition and therefore their gradual and progressive removal is essential. Malta also recognises that a stepped approach towards environmental taxation provides a suitable and meaningful mechanism that promotes a resource efficient economy only if it is revenue-neutral and does not penalise vulnerable groups. The green economy will require a substantial level of finance to be achieved. In this respect, the use of good public policy and innovative financing mechanisms is expected to mobilise the required financial resources. In addition, Malta will organise support information campaigns designed to educate and disseminate information among all stakeholders on initiatives undertaken to achieve the transition. The following are the relevant measures in the National Environment Policy:

- Measure 2.1.8: Formulate Action Plan for the development of market-based instruments in the environmental field by 2013.
- Measure 2.1.9: Carry out communication campaign to accompany implementation of economic instruments strategy by 2014.

- Measure 2.1.10: Continue to take a stepped approach towards environmental taxation.
- Measure 2.1.28: Evaluate current subsidies and taxation policies and their impact on the environment and propose any necessary revisions by 2015.

Work on the action plan for market-based instruments (2.1.8 and 2.1.9) commenced in 2012 with the Ministry of Finance, the Economy and Investment and the then Ministry for Tourism, Culture and the Environment meeting to lay the groundwork by first identifying a current updated list of market-based instruments using international standard reporting definitions. An inter-ministerial working group is to be set up to coordinate the drafting of the Action Plan during 2013. The Communications Campaign will accompany the launch of the Action Plan. The action plan will also address measures 2.1.10 and 2.1.28.

Sustainable Consumption and Production

A second prerequisite for transforming the economy into a resource-efficient one relates to achieving more sustainable patterns of consumption and production. In addition to the above mentioned measures, the Maltese Government, through its procurement activity will also promote good purchasing practices, reduce its environmental footprint, and maximise on economic opportunities for environmental goods and services. Malta will also be promoting the creation of jobs in the environment sector, building on existing green jobs and developing new areas, while also assessing the training requirements for employees to be able to work in these sectors. The following are the relevant measures that have been identified and included in the National Environment Policy:

- Measure 2.1.15 : Prepare a Green Jobs Strategy by 2013
- Measure 2.1.16 : Formulate a Green Jobs Training Strategy by 2014

During 2012 discussions commenced between the then Ministry for Tourism, Culture and the Environment, the Ministry for Education and Employment and ETC on the Green Jobs Strategy (2.1.15 & 2.1.16).

- Measure 2.1.24: Implement and monitor the National Action Plan for Green Public Procurement

The National GPP Action Plan was launched in 2011, on the basis of which targets for 18 product and service group were established, along with a series of measures to ensure their attainment. After a year of operation during 2012, just over 20%, both in number and value, of all tenders that fell within the relevant 18 product groups were found to be found to be compliant. Over 158 government tenders worth approximately EUR31million were compliant with the national criteria.

- Measure 3.7.4: Raise awareness about environmental labels, to encourage their use

MCCAA has organised awareness campaigns and training sessions with Government Green leaders in the context of Green Public Procurement, and a number of one-to-one meetings held with local manufacturers.

- Measure 3.7.5: Promote sustainable consumption, possibly in partnership with leading supermarkets.

Preparations are underway on this measure.

Turning Waste into a Resource

A third key element concerns turning waste into a resource. The EU's strategic policy objective with respect to waste is to move towards a recycling society which seeks to avoid the creation of waste, and to use waste as a resource. Malta shares this objective and as stated in its Environment Policy's shall endeavour to move towards managing waste in an environmentally-sustainable manner, to be achieved through the following lead measure:

- Measure 2.3.37: Implement current waste policy, update Waste Management Plan by 2014, and prepare any necessary subsidiary waste plans as per EU schedule.

This measure is in progress and an updated Waste Management Plan is being prepared.

Supporting Research and Innovation

The fourth prerequisite to transform the economy is the promotion of environmentally-friendly innovation initiatives. Increased eco-innovation promotes economic growth, while limiting the burden on the economy, and is thus an essential pillar of the resource-efficient economy. Malta is committed towards actively supporting the promotion of eco-innovation as evidenced in the following relevant measures:

- Measure 2.1.11: Ensure that the environment is retained as a thematic and horizontal priority in the National R&I Strategy up to 2020
- Measure 2.1.12: Ensure that the GPP Action Plan delivers innovative and creative procurement, letting the bidder be innovative and creative with respect to how results can be achieved
- Measure 2.1.14: Promotion of environmental technology courses at University.

The environment has been retained as a thematic and horizontal priority in the National R&I Strategy (measure 2.1.11), although the final version of the Strategy has not yet been launched. The latest draft of the 2011-2020 National R&I Strategy says that "[the Plan] retains the four priority themes identified in the 2007-2010 plan but seeks to orient these to better align with developments in the international sphere, specifically with the Grand Challenges approach" (pg 3).

The 2007-2010 strategy had introduced four "platforms of strategic importance" of which one related to environment and energy resources. The new R&I strategy dovetails the four strategic platforms of importance with 12 specific challenges, of which five relate directly to the environment. These are: (2) energy; (3) environment, agriculture and sustainable development; (4) water; (5) climate change; and, (6) waste management. Therefore subject to ensuing changes as a result of the consultation process, the new draft of the National R&I strategy maintains environment as one of the fundamental themes towards which national R&I funding is to be directed up until 2020.

With respect to treating environment as a horizontal theme, with the objective of greening research proposals, the (lightweight) project proposal form associated with the 2013

Research and Innovation Programme²⁹ assigns extra points for applicants indicating that they have a green procurement policy and/or plan to use green procurement in the project.³⁰ It also rewards innovative procurement, which coupled with the points awarded for green procurement, is in line with NEP measure 2.1.12.

Malta Enterprise has continued to provide financial assistance for eco-innovative start-ups, businesses implementing eco-innovative solutions and for companies bringing innovations to market. Through structural funding, 3 million Euros were allocated for eco-innovation through the ERDF Innovation Actions Grant Scheme (Environment) between 2008 and 2013, however the take-up from applicants for eco-innovation related grants has been low.

Finally, the University of Malta provides various courses that foster eco-innovation. A review of courses and study units available in 2012 indicate that there were almost 20 full degree courses that address environmental technologies, and, within other courses, 13 study units.

Natural Capital and Ecosystem Services

The diverse living organisms do not just represent a value in their own right, but also have direct use value to human society. They provide life-support systems, provide a source of income to fisheries and agriculture, and contribute immeasurably to the setting of recreational, cultural, artistic and tourism-related activities. These assets all form part of our natural capital which contributes to the economic prosperity and wellbeing of a society. It is the objective of the European Union as a whole to ensure the long-term supply of ecosystem goods and services by halting their degradation by restoring the biodiversity on which they are based. To achieve this, Malta is committed to assess the economic value of biodiversity and its ecosystems with a view to integrate these values into accounting and reporting systems based on the ecosystem approach. The National Environment Policy addresses this challenge through the measures under the chapter Long-term sustainability. The lead measure under this section is to:

- Measure 2.6.13: Finalise National Biodiversity Strategy and Action Plan by 2012

The National Biodiversity Strategy and Action Plan was approved by Cabinet in November 2012 and launched in January 2013.

Biodiversity and Ecosystems

Malta fully supports conserving biodiversity and ecosystems, with a view to halting the loss of biodiversity by 2020. To achieve this, Malta is building its efforts on three pillars: providing a comprehensive policy framework for protecting biodiversity; improving the status of biodiversity by safeguarding ecosystems, species and genetic diversity; and reducing direct pressures on biodiversity and promoting sustainable use. In relation to the first pillar Malta is

²⁹ <http://www.mcst.gov.mt/national-funding/ri-programme/current-ri-programme> (accessed 19th February 2013).

³⁰ http://www.mcst.gov.mt/sites/default/files/pa_documents/ri_2013_lightapp_v1_0_your_acronym_here.xls (accessed 19th February 2013).

committed towards finalising the National Biodiversity Strategy and Action Plan to provide an overall policy framework for protecting biodiversity and ecosystems. In terms of the second pillar, in order to improve the status of biodiversity by safeguarding ecosystems, species and genetic diversity, Malta will ensure that adequate regulation and enforcement together provide effective safeguards and deterrents for habitats and species protection. In relation to the third pillar, Malta is committed to take action to reduce the direct pressures on biodiversity and promote sustainable use. The following are the key measures in the National Environment Policy:

- Measure 2.6.14: Ensure an adequate knowledge-base, including baseline information about national biodiversity and ecosystems by 2015

This is ongoing.

- Measure 2.6.16: Reflect environmental change related to biodiversity in national accounts within umbrella of green accounting in line with EU timeframes

Preparations are underway on this measure.

- Measure 2.6.18: Boost efforts to safeguard species and habitats in the context of the Natura 2000 network to ensure improved sufficiency of coverage by 2017

Relative to its size, the country with the largest contribution of marine protected areas in September 2012 was Malta, with 183 km² of marine areas designated, creating the basis for a solid marine network in the surrounding waters. The new Maltese marine sites will help the conservation of *Posidonia* sea grass beds and submerged reefs, and offer a vital habitat for the endemic Maltese Topshell *Gibbula nivososa*, a brightly coloured sea snail. (http://europa.eu/rapid/press-release_IP-12-1255_en.htm)

- Measure 2.6.19: Continue and strengthen the management of protected areas

Data gathering and fieldwork have commenced for the preparation of management plans for all 34 terrestrial Natura 2000 sites in the Maltese Islands, covering 13.6% of land territory. This project is part-financed by the European Agricultural fund for Rural Development.

- Measure 2.6.23: Prepare policy framework for the agriculture sector to integrate biodiversity considerations into future directions for the sector by 2014

This measure is in progress.

- Measure 2.6.24: Prepare policy frameworks for the fisheries sector to integrate biodiversity considerations into future directions for the sector by 2014.

Preparations are underway on this measure.

Coastal and Marine Waters

Malta's coastal and marine environment is of importance not only due to its rich biodiversity, but also because of the ecosystem services it provides to support various coastal activities. The Strategic Plan for Environment and Development is expected to provide a framework for economic growth for maritime activities, whilst also supporting the achievement of good environmental status of marine waters in line with the Marine Strategy Framework Directive. This plan shall integrate recreational, tourism, shipping and fisheries activities in the coastal and marine environment. The following are the relevant measures in the National Environment Policy:

- Measure 2.3.14: Prepare a maritime spatial plan in line with IMP by 2012.

This measure is in progress as part of the Strategic Plan for Environment and Development.

- Measure 2.3.13: Implement Malta's Water Catchment Management Plan in line with its timeframes

This measure is in progress.

- Measure 2.3.15: Ensure that positive record with respect to bathing water quality is maintained.

This measure is ongoing.

- Measure 2.6.26: Regulate exploitation of species in line with national and international obligations.

This measure is ongoing.

Minerals

The local building stone, limestone, is an important mineral natural resource. It is central to Malta's built environment, contributing to its urban character and thereby national identity. Malta's strategy for achieving the efficient use of limestone rests on the following six actions. First, information about minerals extraction will be improved. Second, an assessment on the best method for internalising environmental costs into the price of the resource will be carried out. Third, research into cost-effective methods for reconstituting stone blocks from smaller material will be undertaken. Fourth, regulation of minerals extraction operations and other related operations will be carried out through environmental permitting, as well as enforcement and remedial action. Fifth, quarry operations will be required to excavate and restore parts of their quarries in phases, and to reuse or recycle overspill material prior to further excavation. Sixth, a policy framework for the minerals extraction sector will be developed. The following are the relevant measures in the National Environment Policy:

- Measure 2.3.1: Ensure adequate statistics on minerals extraction and stocks by 2014.

With regard to this measure, the software system has been set up, but is still encountering some difficulties relating to different survey methods of contractors.

- Measure 2.3.2: Carry out an assessment on the best method for internalising environmental costs into the price of stone by 2015.

Preparations are underway on this measure..

- Measure 2.3.3: Carry out research into reconstituted stone by 2014.

Some work on this measure has been carried out by the Faculty of the Built Environment at the University of Malta.

- Measure 2.3.4: Ensure that quarry operators are required to excavate and restore parts of their quarries in phases by 2012.

During 2011 and 2012 there were eight quarries that were being operated for mineral extraction and restoration of the exhausted parts of the quarry: HM28 Ta' Birguma I/o Naxxar, HM29 Torri Falka I/o Mġarr, HM03 Wied Inċita I/o Żebbuġ, HM12 Wied Inċita I/o Attard, HM32 Misraħ Suffara I/o Rabat, HM33 Ta' Belula I/o Siġġiewi, HM35 Ta' Żuta I/o Siġġiewi, SG03 Ta' Xrajjaħ, I/o San Lawrenz, Gozo.

- Measure 2.3.5: Formulate a policy framework for the minerals extraction sector by 2014.

Preparations are underway on this measure.

- Measure 3.5.2: Step up the process of environmental permitting to ensure that all operations requiring permits are permitted by 2016.

This measure is ongoing.

- Pilot project 3: Undertake a demonstration project on an energy and water self-sufficient home making efficient use of resources in the construction sector.

Preparations are underway on this measure.

Fresh Water

Fresh water in Malta is a limited and scarce natural resource. This is due to the high population density and sub-humid climate of the Islands. The two principal pressures with respect to Malta's fresh water resources are abstraction from the aquifers and indirect contamination of water bodies. These concerns, coupled with the ever-increasing demand for fresh water and the predicted impacts of climate change in the Southern European region, make it imperative to ensure sustainable water management practices in the Islands. In order to manage ground water resources in an environmentally-sustainable manner, Malta's objective is to ensure that extraction of fresh water resources is kept within the sustainable yield of the aquifer, and that the qualitative status of waters meets EU standards. These goals will be achieved through conservation measures, water-pricing policies that provide adequate incentives for users to use water resources efficiently in accordance with the Water Framework Directive, the use of alternative supplies to groundwater and enforcement. The following are the relevant measures in the National Environment Policy:

- Measure 2.3.6: Finalise and implement Malta's Water Policy

Malta's Water Policy was launched in June 2012 and under implementation.

- Measure 2.3.7: Implement Malta's Water Catchment Management Plan.

Malta's Water Catchment Management Plan is under implementation, with 15 basic measures that were completed or ongoing by end 2012, 23 supplementary measures: that were completed or ongoing at the same date, and 4 measures that were not yet started. Supplementary measures are measures that a Member State could adopt over and above the basic measures. An Inter-Ministerial Committee to monitor the Plan's status has been set up and is operational.

Air Quality

Clean air is also a precious resource. Monitoring results show that Malta's national air quality in general meets EU standards. However, in common with most EU countries, Malta's most significant air pollutants are particulates and nitrogen oxides in urban areas, mainly due to heavy traffic flows in such areas. Ozone is also of concern in rural areas. Hence in order to

improve and maintain the air quality within EU thresholds, Malta shall primarily endeavour to achieve these standards through the Air Quality Plan which includes, among other measures, a series of transport related measures. The following are the relevant measures identified as a priority in the National Environment Policy:

- Measure 2.2.5: Implement the Air Quality Plan.

Malta's Air Quality Plan is in operation.

- Measure 2.2.7: Continue to reform the public transport system.

This is being implemented.

- Measure 2.2.8: Prepare a proposal to improve the design of financial instruments to encourage more environmentally-friendly modes of transport to private cars, by 2015.

This will be implemented as part of measure 2.1.8 (Action Plan on Market-Based Instruments)

- Measure 2.2.11: Identify by 2012 and implement a set of controlled emission zones to address urban air pollution hotspots, by 2014.

This measure is being addressed as part of the implementation of the Air Quality Plan (measure 2.2.5).

- Measure 2.2.12: Improve the environmental performance of commercial vehicles and heavy diesel-driven private vehicles through regulation, education, incentives and enforcement by 2014.

This measure is being addressed as part of measure 2.1.8 (Action Plan on Market-Based Instruments)

- Measure 2.2.21: Promote the protection, upgrading and creation of additional public open space, through spatial and transport planning, and ensure its delivery through the work of central government and Local Councils.

This work is ongoing.

Land use

Due to Malta's relatively small size and high population density, land is a most valuable resource. Land provides the physical context for the natural and human systems that support human and other life forms. Despite the Islands' high proportion of urban land, which is partly attributable to the high population density, Census statistics show (NSO, 2005) that 22 percent of all residential properties were permanently vacant. In addition, five percent of all properties were second or holiday homes. The principal cause of this high provision is the use of land and property for investment purposes, and the strong influence of the construction sector in the wider economy. These considerations highlight the need for measures to improve the efficiency of land use in Malta. Malta is thus committed to ensure that, where appropriate, existing buildings will be restored and re-used rather than redeveloped. In addition, schemes, developments and uses that improve environmental quality will be encouraged. The following is the lead measure in the National Environment Policy on land use:

- Measure 2.3.32: Ensure that the spatial planning system makes efficient use of land, without the need of extending the development boundaries.

With the enactment of the Environment and Development Planning Act of 2010 (EDPA) the approach to strategic planning has been broadened to encompass the concept of spatial planning where the focus is in translating economic, social, cultural and environmental policies in a geographical context. This legislation calls for the preparation of a Strategic Plan for Environment and Development (SPED) which shall regulate the sustainable management of land and sea resources on the basis of an integrated planning system.

In February 2012, Government issued a set of Strategic Objectives that are to guide the formulation of the SPED. Overall the objectives call for a spatial planning framework that enables the shift to a low – carbon and resource efficient economy, through the way development is to take place both on land and sea in line with the objectives of the National Environment Policy. The formulation of the draft policies is in an advanced stage.

Soil Conservation

Soil is one of Malta's most important natural resources, with socio-economic and ecological significance. Malta's soil resources are imperative for the maintenance of ecosystems health, agriculture and water management, as well as supporting tourism and recreation-related activities in the countryside. However soils are continuously being threatened by the loss of organic matter and related biodiversity impacts, as well as contamination, soil sealing and erosion. National legislation for the prevention of loss of soil and obligatory maintenance of soil-retaining structures already provides a framework under which further soil protection measures may be put in place. The National Environment Policy has sought to strengthen and complement the current legal framework through the following soil-related measures:

- Measure 2.3.26: Undertake a legislative review to address lacunae related to threats to soil quality such as erosion and contamination by 2014.

Preparations are underway on this measure.

- Measure 2.3.27: Continue to promote soil conservation measures through future agricultural programmes by 2013.

This measure is being addressed through the preparation of Malta's rural development programme 2014-2020.

- Measure 2.3.28: Put in place a soil quality monitoring system by 2014.

This measure is ongoing as part of the ERDF monitoring project being carried out by MEPA.

- Measure 2.3.31: Investigate the sources of significant risk factors in terms of soil contamination, leading to the identification of potential contaminated sites, and formulate action plan to address them by 2014.

Preparations are underway on this measure.

Resource Efficiency Roadmap Key Sectors

Malta recognises the importance of the key sectors identified within the Roadmap, namely food, buildings and mobility and Malta agrees that these sectors are priority areas. These sectors are critical for Malta from a resource efficiency perspective, mainly due to their

considerable input requirements in the form of water, chemicals and energy. This creates the potential for considerable resource efficiency gains with a view to strengthen and exploit the synergies of these sectors to move towards a resource efficient, low carbon future. Furthermore, the pathways adopted to move towards more sustainable forms of resource use for each of these sectors needs to be addressed separately due to the different characteristics of these sectors.

Food

The production of food is an important element which tends to have a considerable impact on the surrounding natural environment. With respect to consumption the public has to be informed of the health risk associated with chemicals in food products, whilst educational campaigns on waste reduction need to be given due importance the theme of food. The following are the relevant measures in the National Environment Policy:

- Measure 2.2.28: Prepare a national action plan for the sustainable use of plant protection products, by 2012.

Malta's National Action Plan for Sustainable Use of Pesticides 2013 – 2018 was published In 2012.

- Measure 2.2.30: In cooperation with other partners, carry out an environmental education campaign on the health impacts of chemicals used in the home, including in food.

This campaign is ongoing. MCCA published various articles in *L-Għażla* magazine concerning the safe use of chemical products in the home hair dyes and on the various pictograms found in products, such as cosmetics, chemicals, textiles and batteries. It also published material about safety issues concerning children's toys and sleepwear. In 2012 the MCCA published three articles in the local press concerning cosmetic product regulations, chemical labels, and handling chemicals.

- Measure 2.3.39: Use waste data to design targeted educational campaigns on waste reduction.

This measure has not yet started and is envisaged to commence with the launch of the revised waste strategy and management plan.

- Measure 2.4.28: Continue to enhance the role of agriculture as a steward of the environment through agricultural programmes by 2013.

This measure is being addressed through the preparation of Malta's rural development programme 2014-2020.

- Measure 2.6.24: Prepare policy frameworks for the fisheries sector to integrate biodiversity considerations into future directions for the sector by 2014.

This measure has not yet started.

- Pilot project 4: Awareness raising campaign in the area of waste reduction with households in Gozo.

This project is currently under way.

Buildings

Looking at resource efficiency in the building sector requires that improvements in resource and energy use during the whole life-cycle of a building are considered. The resource-efficiency dimension of stone used in construction has been already discussed above. With respect to energy use there are important synergies that can be exploited between climate change, the energy sectors and the built environment. The following are the relevant measures in the National Environment Policy:

- Measure 2.3.35: Ensure that social housing prioritises rental subsidies, or the purchase of existing buildings, rather than building on previously unbuilt land.

This measure is ongoing.

- Measure 2.6.10: Ensure that the energy performance of new buildings meet national standards in line with the EU Directive on energy efficiency in buildings by 2012.

This measure is ongoing. The new recast Directive was transposed in October 2012.

Measure 2.6.11: Review current spatial planning guidance and regulations with a view to further promoting climate change-related improvements by 2014.

As of end 2012 a study by a consultant had identified focus areas, but no review had taken place. Climate change-related improvements form an intrinsic component of the rationale of the Strategic Plan for Environment and Development.

- Measure 2.6.12: Assess possible modifications of the transaction tax related to sale of buildings to reflect energy performance of the building by 2015.

This measure is on track and under assessment.

- Pilot project 7: Turn the cultural building of St. James' Cavalier to become showcase of environmental technologies, by hosting numerous cultural events for demonstrating environmental technologies.

Preparations are underway on this measure.

Mobility

An improved resource efficient transport sector in Malta aims primarily to reduce dependence on private personal mobility and reduce air emissions arising from this sector. With a view to promoting clean and effective modes of transport, in addition to the extensive transport related measures under air quality, the National Environment Policy sets out the following measures:

- Measure 2.2.15: Promote the use of electric cars through the Electric Transport Strategy, by 2012.

The National Strategy for the Introduction of Electromobility in Malta and Gozo was published in July 2012.

- Measure 2.2.17: Prepare a strategy to encourage additional transport efficiency through the development of a market in freight distribution, by 2016.

Work on this measure has not yet started. However the DemoEV LIFE + project will examine the use of electric vehicles for freight transport

- Measure 2.2.18: Implement the Green Travel Plan for Government by 2013.

This measure is ongoing. As of end 2011 implementation was at 16% with 1 cluster operational, while by January 2013 implementation had reached 33% (2 clusters operational).

Monitoring

The management of the environment and its resources requires monitoring and self-assessments which provides a solid basis for decision-making at all levels and which contribute to a self-regulating integrated system.

The indicators developed under the Flagship initiative 'A resource-efficient Europe' will need to follow an integrated approach due to the horizontal and cross-cutting nature of the matter and to reduce duplication of resources these indicators will need to be integrated in the already currently established national monitoring procedures.

Government will calculate on an annual basis the Domestic Material Consumption indicator, which has been identified as the provisional lead indicator for 'resource productivity'. Additionally, indicators on key natural resources such as water, land, materials and carbon are integrated into the annual reporting on the state of the environment as well as other reporting obligations related to international obligations. The indicators associated with the monitoring of the National Environment Policy, which is currently ongoing, will complement these indicators as they provide information on progress with respect to key initiatives described above.

Contribution Expected or realised through the different EU Funding Programmes to Support the Implementation of Ongoing Measures or Envisaged During 2013

Malta's current National Reform Programme proposes a number of measures which seek to ensure smart, sustainable and inclusive growth (as per Europe 2020 Strategy). Whilst the Europe 2020 targets are being addressed through the NRP, employment and education challenges are being given priority since the Maltese government believes that these two challenges hold the key towards improvement in the social sphere as well as in research and innovation. To this end, and in this context, the NRP clearly supports employment, education, environment, poverty and research and development. Such a commitment address labour productivity and improve market functioning, two factors which are primary sources to address Malta's competitiveness challenges.

The main aims of the structural measures of the NRP are that of recapturing Malta's pre-crisis levels growth. It is expected that through the measures proposed, such as community work scheme, the revision of means testing social assistance, pro-rata NI contribution for Part-Time self employed women, childcare centres, afternoon school programmes, training programmes for minimum wage earners, incentives to support persons with disability to participate in labour market, R&I and commercialisation programmes and Life Science Centres, will stimulate job creation. Furthermore, the investment in various infrastructural projects in energy, transport, education, industrial facilities, research and development are also expected to improve growth, and, in this regard, Structural Funds investments are providing a significant contribution.

The NRP 2011 identifies 5 major bottlenecks to growth (further reiterated in the NRP 2012) which are:

- (i) Ensuring the Long Term Sustainability of Public Finances in View of Ageing of the Population.
- (ii) Ensuring that Productivity Growth Underlines Wage Developments to Safeguard Competitiveness.
- (iii) A further move to Higher Value-Added Activities by Raising Investment in new areas of growth
- (iv) Ensuring better Utilisation of the Economy's Labour Potential, in particular that of women and older workers, and Improving the Skills Base Force
- (v) Addressing the Weaknesses in the Business Environment and Enhancing Competition.

These bottlenecks can be translated into three main challenges for Malta, namely:

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

The thematic objectives targeted through this NRP which seek to address these challenges and bottlenecks, with the aim of ensuring growth in line with the Europe 2020 Strategy, are (i) Employment, (ii) R&D, (iii) Energy, (iv) Education (v) Poverty.

Target 1 – Employment

The Maltese Government identifies Employment as one of the key factors that need to be addressed in order to reach the Europe 2020 Targets. The main challenge identified for this priority area is to increase the participation rate in employment by those capable and able to work. This includes women who opt not to work due to family commitments; making work pay; receptiveness to incentives of older workers; ageing population and weak uptake of work-life balance, and availability of childcare. To address its challenges, Malta aims at increasing the participation of women in the labour market, increasing the employment rate of older workers, activating vulnerable groups, improving the employability of the workforce. In this regard, the European Social Fund is a major contributor towards this aim.

Various interventions being undertaken seek to encourage women to enter in the labour market. Amongst such interventions one can find Media Campaigns that aim to instil a sense of financial independence in women while at the same time addressing men so as to promote the benefits of sharing paid and non-remunerated work between the family. The aim is to change the idea that women should take the full burden of family and household responsibilities and consequently lead to an increase in female employment rates. Raising awareness by targeting employers is also targeted through ESF. In this regard, one finds interventions that seek to promote greater work-life reconciliation measures at the workplace.

Furthermore, the Employment Aid Programme assists disadvantaged persons, including inexperienced young jobseekers, inactive women, older persons, persons with disability and the long-term unemployed, to enter in the labour market. This is being achieved by facilitating access to employment through financial assistance and upgrading skills through work experience. Through this scheme, employers receive part of the wage costs as a subsidy with the aim of increasing employment levels of these vulnerable groups. As a result of this intervention, as at the end of 2011, 901 disadvantaged persons were retained in employment.

In order to increase employment levels of young people ESF is also funding other initiatives which seek to increase the employability and labour market integration of young people, particularly early school-leavers, through further training, actions such as career guidance, psychological services, occupational Therapy Services and Outreach Services.

Other ESF funding initiatives implemented by the national Employment and Training Centre, are aimed at facilitating the integration of job seekers (including but not limited to youths) through various means such as job searches seminars, job skills programmes, work orientation initiatives, traineeship schemes, and training subsidies. The Training Aid Framework scheme promotes, develops, manages and implements a system through which eligible employers implement training programmes for their employees. This is done through the support of undertakings in providing training to their workforce and upgrading their skills through the provision of financial incentives for these training costs. By the end of 2011, over 2,000³¹ undertakings had benefitted from the scheme. Other initiatives contributing to this theme have been explored in previous chapters.

Target 2 – R&D

In line with the Innovative Union Flagship Initiative, the NRP highlights the importance of efforts to support knowledge as well as the transformation of good ideas and research results into innovative products and services. Both Operational Programmes are, as a result, contributing towards this measure.

One of the Grant Schemes financed by the ERDF seeks to help enterprises invest in R&D activities by supporting pre-R&D activities required to develop and test the concepts of the envisaged research project; supporting industrial research and experimental development activities; supporting interactions between large companies and SMEs and also between industry and the research institutions; and supporting SMEs in the patent registration.

Moreover, through the ESF, bursaries are being provided to students in the areas of R&D. Various students have benefited from these scholarships – in fact, up to December 2011, there were 219 people bursaries in this area of which 77 were following a Doctoral Programme.

The NRP places particular attention on Malta's aim to place the R&D target in a wider context of supporting local innovation. Several measures are planned through the ERDF in

³¹ This includes repeat beneficiaries.

this regard including the provision of investment for the infrastructure of a Life Sciences Centre which aims to encompass the whole Innovation life cycle and supply chain process for companies specialising in areas related to Life Sciences and to facilitate innovative start-ups. The measure is expected to result in an increase in RTDi expenditure of around 0.45% of GDP and has an employment potential of 138 people.

All this is in addition to investments within the University of Malta for equipping labs with the necessary equipment to enable students to learn and use equipment typically identified in industry and to make it possible to host post grad students. In fact, by means of the ERDF funded projects, the UoM is now in a position to supply the Maltese labour market with a steady influx of graduates and researchers properly trained in various areas of R&D, ranging from chemistry to physics, biotechnology and medical engineering, geared to adequately contribute to Malta's continuous strive to improve its credentials in R&D and innovation. Furthermore, the Faculty of ICT, also financed through the ERDF, will provide the economy with hundreds of IT graduates to further enhance and sustain the Government's vision of a Smart Malta and an increasingly e-economy.

Target 3 – Energy

In enhancing Malta's growth potential and the achievement of smart, sustainable and inclusive growth, the NRP includes measures aimed at consolidating Malta's progress towards its EU 2020 targets for, inter alia, energy. In this respect, Malta has set ambitious targets for energy efficiency, renewable energy and greenhouse gas emission reduction. Operational Programme I includes, in fact, a dedicated Priority Axis chapter that is supporting and implementing the strategy outlined in the NRP.

One of the mostly welcomed investments under ERDF is the incentive provided for the installation of renewable energy infrastructure in the domestic sphere. This ERDF investment, coupled with a Government impetus through a feed-in tariff, shifted awareness to the importance of RES. A second ERDF investment is currently being assessed to meet the ever-increasing demand and to make the best use of the limited space available to the Maltese Islands.

As highlighted in the NRP, though not being the major large-scale projects, a great share of renewable energy will be generated from a relatively higher number but smaller capacities of renewable energy sources distributed across all the Maltese Islands mainly integrated in existing building infrastructures due to Malta's limited space and the conflicting use by other activities. The ERDF has been pivotal in securing funding for a large number of Government buildings that have increased the uptake of RES. The buildings hosting MCAST and the Housing Authority have benefitted from the ERDF to install renewable sources of energy (through photovoltaics and a wind-turbine) and energy efficient measures (through lighting optimizers). The ERDF is also providing investment for larger RES installations at the Gozo General Hospital and Gozo educational and vocational institutions. Apart from the Government-owned buildings subscribing to address Malta's targets under the EU 2020 targets, a substantial number of non-governmental, voluntary and church organizations are also investing mainly in RES but also in energy efficient technologies under the ERDF. These investments are explained under CSR 5 of the NRP. In addition to these, the ERDF

is also financing investments in RES for a new intake of the above-mentioned non-governmental, voluntary and church organizations.

Investments in the form of capital grants for renewable energy and energy efficient technologies in the commercial and industrial sector are also being provided through the Energy Grant Scheme under the ERDF. The success of this scheme exemplified the needed fund injection to which this sector positively responded as a result of the adverse economic scenario.

The ERDF is also supporting the investment to instil an effective modal shift which should lead to a curtailment of private transport use and a consequential GHG reduction from private passenger transport.

The generation of energy from Renewable Energy Sources (RES) and Energy Efficiency is a key objective in the Government's energy policy given that it can contribute towards the economy as well as help in achieving social and environmental objectives. In this regard, the NRP sets various targets for energy efficiency, renewable energy and greenhouse gas emissions reduction. The NRP highlights also the commitment of Government to improve energy security and to reduce carbon emissions given that these methods also have the double effect of reducing costs since a range of sources of supply will lead to competitive prices as opposed to the current scenario of total dependence on imported fuels and the relative international price.

With regard to Waste, the Cohesion Fund is also envisaged to finance one mechanical biological treatment plant and a Civic Amenity site equipped with energy recovery measures.

Capital grants for residential solar photo voltaic systems and solar water heaters are also being financed through the ERDF. The RES support scheme provides financial support to cover part of the costs of RES equipment used in the domestic sector (solar water heaters photovoltaic panels and micro wind turbines). Available funds are allocated according to the type of equipment purchased and an education campaign focusing on reducing energy usage is currently operating in line with these schemes. Investments in the form of capital grants for micro-generation renewable energy technologies in the commercial and industrial sector are also being provided through the ERDF.

In fact an ERDF Grant Scheme is providing the possibility of financial assistance for proactive businesses that are willing to invest in solutions that will reduce their carbon footprint, whilst also helping them reduce the impact of energy costs on their business. Enterprises are thus being given the opportunity of a 50% refund on their approved projects, whereby costs can be claimed on investments in energy saving solutions such as: intelligent lighting systems, solar heating, thermal insulation, build management systems and energy-saving lighting, and alternative energy technologies such as solar power and wind power.

Moreover, it should be noted that the ERDF is also financing an extensive number of projects which contribute to the share of renewable energy trajectory targets, including curtailment of CO₂ emissions. Such examples include the installation of electrical power generating systems at the Malta College of Arts, Science and Technology and the University

of Malta as well as the installation of Photovoltaic systems in various strata of society including government buildings, households and commercial premises.

Apart from a specific Priority Axis under OPI dealing with Energy, achieving a low carbon Programme is an overall (horizontal) impact indicator of the OP and therefore other projects across the Programme are encouraged to include energy efficient and renewable energy components within these projects.

Target 4 – Education

Under the thematic objective of 'Education' within the NRP, Malta targets to reduce school drop-out rates and to increase the number of mature students accessing and completing tertiary level of education. In order to reach these aims, the primary aim of this measure is that of offering more Opportunities for Participation in Vocational Education. In fact, Vocational Training is deemed to be an important tool towards encouraging more students to continue their education beyond the school-leaving age and to develop their true employment potential. In this respect, the setting up of MCAST has been an important milestone, allowing Malta to register significant improvements in educational attainment levels over the last few years. Through ERDF funds, MCAST is currently implementing a project for the extension of its Campus including new buildings for the Institute of Applied Sciences and the Institute of Business and Commerce. This new campus will host 10,000 full-time students and many others on a part-time basis. This will represent a ten-fold increase from the initial full-time students enrolled in vocational courses at MCAST in the first year of operation.

Other education initiatives being targeted under Priority Axis 6 (OP I) include different operations involving extensions and upgrading of buildings and services at secondary, post-secondary and tertiary educational institutions, such as the University Computing Services Centre building and the Junior College building extension.

Education is considered to be a cross-cutting objective in OP II (ESF) of particular relevance are initiatives financed within Priority Axis 1 of the OP which addresses formal education particularly by strengthening capacity in the educational system through the consolidation and upgrading of existing resources in the various institutions, including the University and MCAST, through the provision of [post-graduate] scholarships, as well as by introducing new qualification levels at MCAST. The OP is providing for a comprehensive approach towards education reform by ensuring that all stakeholders involved in the delivery of formal education, including parents, are supported. Top-up degrees are being offered in collaboration with reputable research institutions to develop academic courses in an effort to improve the current offer and to launch new educational opportunities for students and staff. Furthermore the ESF is also providing funding for the training of teachers through an eLearning Platform as an additional intervention which directly contributes towards this theme.

Target 5 - Poverty

In line with the EU 2020 strategy, Malta is committed towards promoting social inclusion, in particular through the reduction of poverty. Malta is primarily focusing on those people who

are materially deprived, amongst whom are those who are both materially deprived and at risk of poverty. Three particular target groups have been identified namely children, the elderly and jobless households.

In this regard, the ESF has a major role to play, particularly through interventions financed under Priority Axis 3, which seek to increase the employment levels of vulnerable people. Interventions are also being focused on efforts towards combating child poverty. Operational Objective B of the aforementioned Axis seeks to contribute towards the integration, retention and progression of disadvantaged groups in the labour market. This is being done particularly by increasing employability of young people, addressing early school leavers, supporting young adolescents with emotional behaviour and enabling young people to get a fair start in life. This is being done through various actions such as training, outreach and guidance services (as already explored and explained within this chapter and elsewhere within this document.

The provision of Incentives and Support to Persons with a Disability to Actively Participate in the Labour Market is also a main aim under this NRP target. OP II, particularly through PA3, contributes directly towards this aim by providing incentives such as the support of disabled persons to enter the labour market through training aimed at facilitating their integration into the labour market and retention of jobs. On the other hand, OPI has also assisted in a parallel manner with the setting up of the independent living centre where disabled individuals are guided on the use of assistive devices with the ultimate aim of living more independently.

The ESF not only assists this vulnerable group by facilitating its access to employment, but also provides training to people that work with them such as trainers and therapists, with the aim to help them prepare disabled people for increased independence. The ESF also seeks to identify the main obstacles and labour market distortions which need to be addressed to develop, improve or change policies and systems that contribute towards the access, integration, retention and progression in particular of disadvantaged groups.

An ERDF project is aimed to launch an integrated urban regeneration project for Cottonera. The interventions include, amongst others, the development of different locations through embellishment and the upgrading of social conditions through housing programmes.

Together with the five headline targets of the NRP, various other measures to achieve the national and European objectives for growth are being implemented through Structural Funds investment. Such examples include but are not limited to:

- (i) Public Infrastructural Projects – Investment expenditure related to major infrastructural projects such as investments in renewable energy sources, municipal solid waste, the management waste water, and investments in transport sector. Such investment is expected to increase Malta's gross fixed capital formation.
- (ii) Private Investment Incentives – A total of seven ERDF grant schemes focus on the promotion of R&D, Innovation, Eco-Innovation, ICT, Energy, Start ups and growth through the tapping of new markets. It is expected that 450 SMEs will benefit from these grants. As at the end of 2011 120 SME's have benefited from these grants. Furthermore, the ERDF has also allocated a total of €10million

towards the creation of a rotating Financial Engineering fund (JEREMIE) with the aim of creating a portfolio of over €50 million in first loss portfolio guarantees for the benefit of SMEs and Start Ups. These ERDF initiatives seek to complement the ESF schemes in providing assistance in the infrastructural set up of a business which can concurrently benefit from the training and supporting initiatives covered by the ESF co-financing.

- (iii) Better Regulation – Also in line with EU targets, Malta intends to reduce the administrative burden on business by 15% by 2012. This was being done through a study financed through a project under the ESF which is currently during its last stages and which seeks to identify, measure, and reduce administrative burden in the priority areas as well as introduce 100 simplification measures across line Ministries. At the time of writing of this report a draft code of practice has been presented and training to public administration officials was all undertaken as planned.
- (iv) Strengthening Market Structures – This NRP identifies the set up of the Malta Competition and Consumer Affairs Authority as a means to improve competitiveness of the Maltese markets. In this regard it is worth noting that the European Social Fund is currently investing in the training within this Authority with the aim of ensuring that officers are in a better position to take a more proactive approach in investigating allegations of market abuses. Training of the Authority is particularly needed to address the current legal framework brought about by the amendments to the Competition Act.

Health and Oncology sector – ‘Health’ is identified in the NRP as one of the national research priorities in Malta’s National Research & Innovation (R&I) Strategic Plan 2007-2010, which recommended the development of a thematic research strategy in the area. The mentioned priority areas have been retained in the new draft Research and Innovation Strategy 2011-2020 which was launched for public consultation in December 2011. With respect to Health, the ERDF is co-financing a Major Project for the construction of an Oncology Centre physically annexed to the Mater Dei General Hospital. This Centre is aimed to provide, together with oncological care and treatment, the infrastructure needed by diagnosticians to further their research on the incidence, prevention and treatment of cancer and enhance the diagnostic aspect of cancer care. This project was submitted to the European Commission for funding in January 2012, and subsequently approved in April of the same year. Work is ongoing and the Centre is expected to be fully operational in early 2014.

2014 - 2020 Common Strategic Framework

In preparation for the new programming period, Malta has set up an Inter-Ministerial Committee on Programming 2014 – 2020, intended to provide strategic input to the programming process, as well as assess and provide appropriate feedback and guidance to issues arising from the programming process. The IMC is being assisted by 7 Sectoral Sub Committees with a view to give input and support to the IMC in particular in terms of the consultation process with NGOs, Unions and business representatives in fact.

These Sectoral Sub-Committees each tackle one of the following policy areas, namely:

- Accessibility (including ICT and e-accessibility);
- Growth and Competitiveness (including research and innovation and support to SMEs);

- Education, Employment (including institutional capacity and efficient public administration);
- Social Inclusion (including combating poverty);
- Environment and Climate Change (including risk prevention and resource efficiency and energy efficiency);
- Agriculture (including rural development) and Fisheries (including relevant maritime); and
- Gozo.

In line with the Partnership Principle, within these Sectoral Sub-Committees, a thorough consultation process is currently ongoing, with a view to identify the priorities in relation to the future programming period in terms of the EU 2020 priorities. Upon completion of this process, Malta will be in a position to outline the main priorities for the upcoming period to feed-into the Partnership Agreement and subsequent Operational Programme/s.

6. Institutional issues and Stakeholder Involvement

Political Involvement

The political responsibility for the monitoring and implementation of the NRP is vested in the Minister for Finance. The Policy Development Directorate (PDD) within the same Ministry is responsible for drafting the NRP and co-ordinating the required input from the other key stakeholders. Each line Ministry has a designated contact person who reports on the progress of every measure falling under their respective responsibility.

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

Social Partners and other Stakeholder Involvement

In its intention to continue to seek the involvement of all stakeholders in the drafting, monitoring and implementation of the NRP, Government actively involves the Malta-EU Steering Action Committee (MEUSAC) and the Malta Council for Economic and Social Development (MCESD), two forums which bring together many of the social partners in the Maltese islands.

Communication Strategy

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

Monitoring

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

Use of EU Funds

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

Governance

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