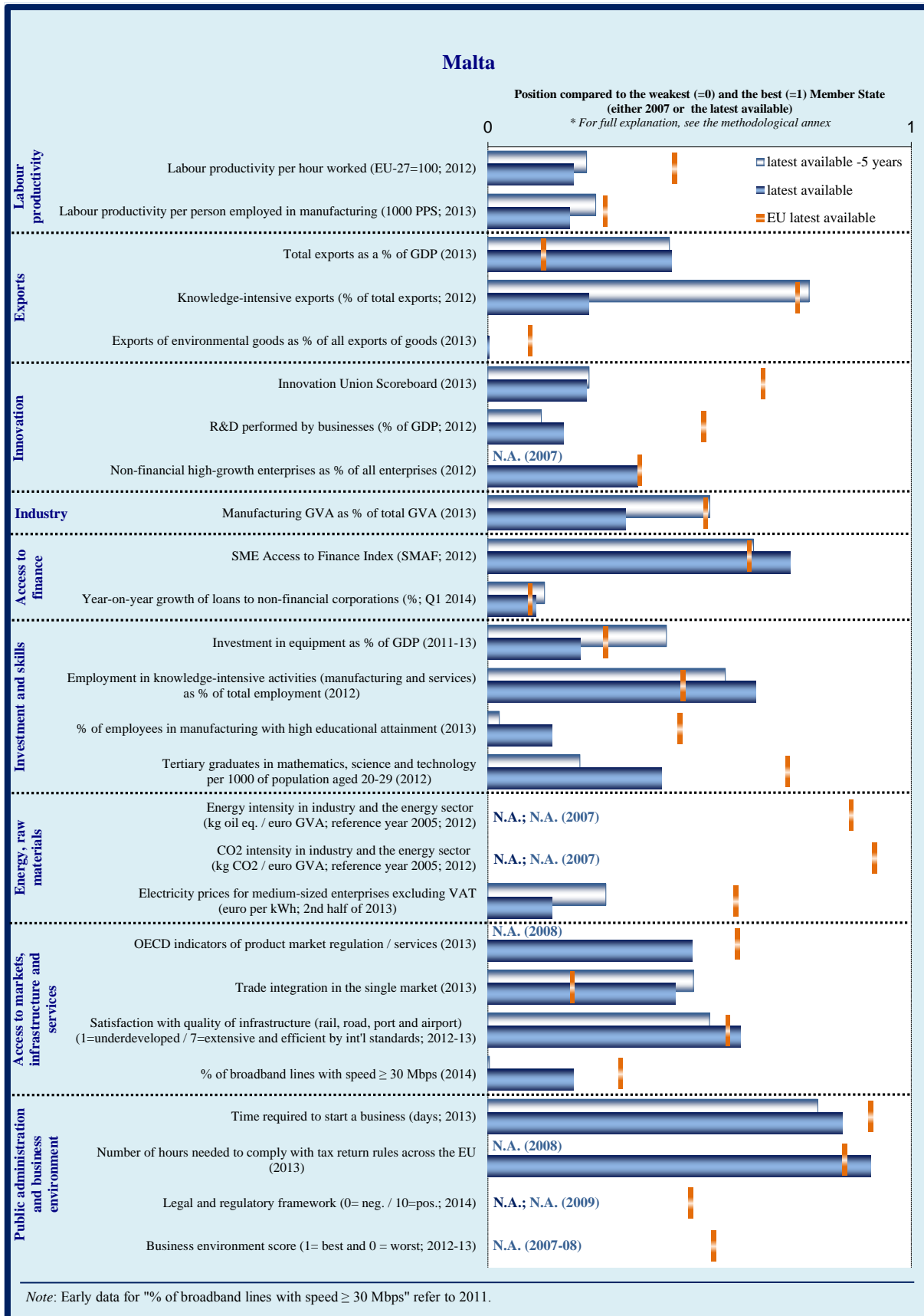


3.18 Malta



3.18.1 Introduction and performance

Although the manufacturing proportion of GDP in Malta (about 13 %) is lower than the EU average, some industrial sectors continue to expand. The service economy, traditionally dominated by tourism (10 % of GDP at direct impact level, 25 % when the full impact is estimated), has diversified as other activities are also expanding. In a pre-2014 budget document, ⁽¹⁾ the Ministry of Finance evaluated the country's competitiveness based on the performance of its industries relative to their EU-27 counterparts. It concluded that over the past 10 years Malta has gained a competitive advantage in the fast growing pharmaceuticals, computer-related, financial and business services and remote gaming sectors.

Productivity growth has lagged behind the euro area average over the past decade, but Malta remains a leader in export performance. This is reflected in the share of high-tech exports in total exports (see below under 'Access to markets').

The new Europe 2020 R&D expenditure target for Malta is 2 %, (up from 0.67 %). A new National Research and Innovation Strategy 2020 approved in February 2014 was launched on 10 June 2014, raising Malta's ambition to put knowledge and innovation at the heart of the economy by fostering knowledge-driven, value-added growth.

3.18.2 Access to finance and investment

Malta has performed well on access to finance in particular for SMEs. The loan guarantee scheme JEREMIE (Joint European Resources for Micro to Medium Enterprises), ⁽²⁾ which has been very successful, was renewed in September 2013. Tax credits for investment continue to be granted under the 'MicroInvest' scheme. Malta intends to participate in the Commission "SME initiative" by offering uncapped guarantees for capital relief.

A number of new initiatives have been launched, to help provide seed capital for potentially high-growth

⁽¹⁾ http://mfin.gov.mt/en/The-Budget/Documents/The_Budget_2014/Pre_Budget_2014.pdf

⁽²⁾ JEREMIE was an initiative the European Commission developed together with the European Investment Fund for 2007-13. It promoted the use of financial instruments to improve access to finance for SMEs through European structural Funds interventions.

and innovative small businesses. They include a new guarantee scheme for start-ups agreed in January 2014 between the European Investment Fund (EIF) and the Bank of Valletta, and the allocation of EUR 100 000 to a seed capital fund to help graduates and entrepreneurs start a new business (the fund will be run jointly by the Ministry of the Economy and Investment and the Ministry of Education).

The 'Malta Trade for Growth' initiative aims to help local companies bolster their international trade, particularly with emerging markets. This EUR 50 million fund offers a reduction in interest rates on trade or receivables finance facilities. It also offers a discount on opening and advising fees for documentary letters of credit regarding international markets.

With interest rates in Malta relatively high, the Maltese authorities are reflecting on setting up crowd funding systems or a development bank to make it even easier for small businesses to access finance.

Investment in infrastructure geared towards developing innovative activities is a high priority, using European structural funds in particular. In addition to the Life Sciences Park and within it, Malta Enterprise is developing a digital hub which should be completed by the end of 2014. With the aim of stimulating small enterprise clustering, it will be able to house up to 15 new enterprises, employing around 120 people. It will also house around 12 hot desks where students and prospective entrepreneurs may work on their projects, with assistance from the businesses already set up in the hub.

The Maltese authorities continue to regularly upgrade infrastructure in the business parks they run. To date four of its industrial parks have been extensively upgraded and further upgrading is planned in the coming years.

3.18.3 Innovation and skills

Given the Maltese authorities' focus on innovation-driven growth and Malta's new R&D target of 2 % of GDP, the new National Research and Innovation Strategy 2020 includes a smart specialisation goal, identifying areas of the national economy that Malta can develop through innovation. The strategy will be accompanied by a rolling action plan outlining what must be done to achieve its objectives.

The National Research and Innovation Strategy 2020 is made up of three ‘building blocks’ aimed at tackling the shortcomings of the Maltese innovation system: support for research and innovation (helping innovative ventures to take shape and flourish), investing in a stronger knowledge base (building capacity and excellence in the earlier stages of R&D to achieve close-to-market R&D and innovation), smart and flexible specialisation (prioritising a number of thematic areas for long-term innovation). The strategy also proposes a mechanism for the co-design of implementing measures by different stakeholders, knowledge-based policy design and policy monitoring and review.

Malta must focus on three weaknesses as far as skills are concerned: a high rate of early school leaving, a relatively low rate of tertiary education attainment and an outdated vocational training system. Vocational education and training is being introduced in all mainstream secondary schools. National qualifications are being created in conjunction with further and higher education institutions and in the 2015-2016 school year, vocational education and training will be rolled out to all secondary schools in Malta.

Malta has made progress in setting up a comprehensive early school leaving monitoring system. It is also working on making education and training more relevant to the labour market and on reforming apprenticeship schemes; reforms in that area have been so far limited.

To better assess skill shortages and better match the supply and demand for skills, an employability index will be developed to alert students to job vacancies. The Employment and Training Corporation will also set up a skills bank with information from public and private educational institutions (such as the University of Malta or the Malta College of Arts, Science and Technology, (MCAST)). It will also attempt to forecast and anticipate skill shortages in a number of ways, by building closer relations with stakeholders.

A sector-specific skills committee will be appointed in 2014, with a number of sector-specific skills groups representing various local industry sectors. The sector-specific skills committee and the groups will be made up of representatives from industry, education, government and workers’ representatives.

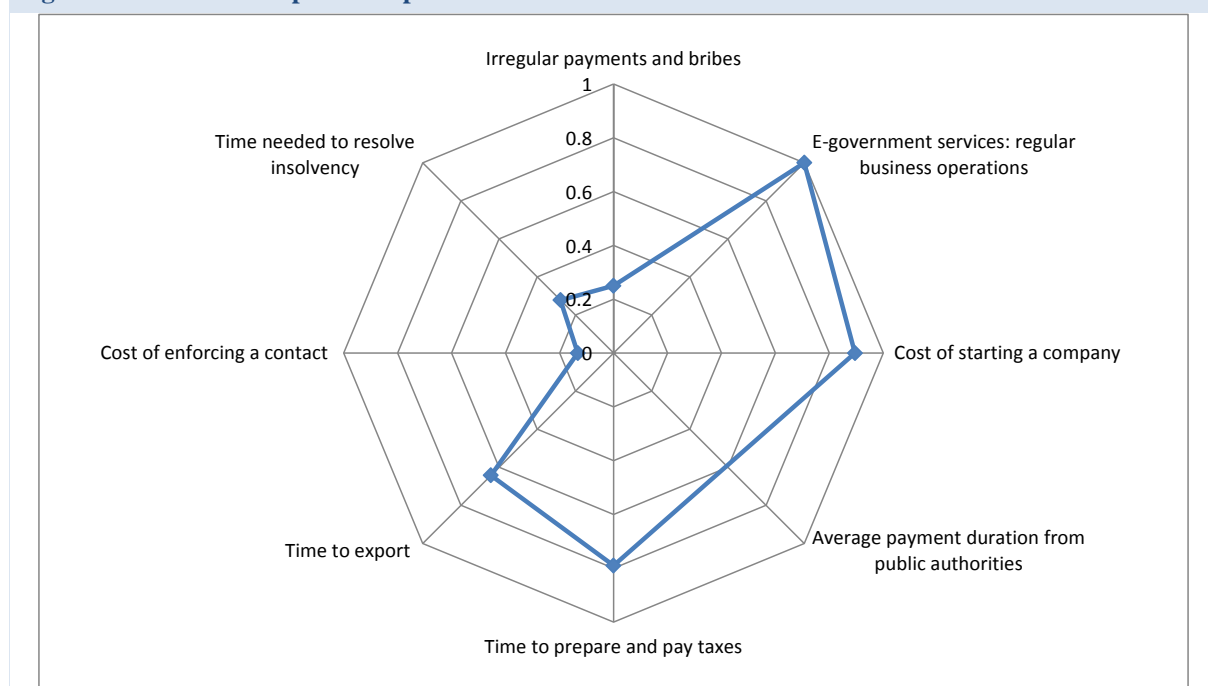
The committee’s main aim will be to develop occupational standards reflecting the demands of industry and serving as benchmarks for recognising knowledge, skills and competences individuals have informally acquired.

The University of Malta and MCAST have designed new courses that are relevant to industry needs. They also have upgraded their apprenticeship schemes. Between 2014 and 2015 all courses at MCAST will be renewed, modernised and upgraded to better reflect the needs of industry. There are also plans to offer more course as apprenticeships, to give MCAST more control over the learning process during the work stage of the apprenticeship and to integrate more work-based units as accredited parts of a course.

3.18.4 Energy, raw materials and sustainability

The authorities are reforming the energy system. The completion of the electricity interconnector with Sicily, expected at the end of 2014, will link Malta to the European grid. This will diversify the country’s energy supply, help cut its greenhouse gas emissions and make it possible to decommission the obsolete facilities at the Marsa power plant. To further reduce Malta’s reliance on imported oil, it is planned to shift energy generation to natural gas. Under an agreement between Enemalta and the Chinese company Shanghai Electric Power, an existing Enemalta power plant will be converted to gas. Enemalta is about to finalise a power purchase agreement for which a consortium will be given the task of commissioning new gas producing capacities to be used in conjunction with the electricity interconnector. Malta is also considering connecting to the European Gas Network. This would result the price of electricity for households (-25 % on average in 2014) and businesses (-15 % on average in 2015).

It remains difficult to generate renewable energy. The large scale wind energy projects, originally designed to help reach most of the national energy target for renewable energy sources (10 %), are likely to be abandoned due to environmental concerns. Malta is shifting the focus to producing decentralised renewable energy using solar panels. This was successfully sped up, but not enough to get close to reaching the national target for renewable energy sources.

Figure 3.18.1: Overall profile of public administration - Malta

Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing business; Intrum Justitia; OECD; World Economic Forum; European Commission

Making the transport sector more efficient and reducing the impact of congestion on the economy remains key challenges. Poor performance in these areas impairs productivity growth and affects health. Preventing and reducing waste generation, increasing recycling and fostering innovative eco-friendly product design also remain a challenge. In particular, against the backdrop of water scarcity, water savings rates are still relatively low.

3.18.5 Access to markets, infrastructure and services

The Maltese economy is very open with exports representing over 100 % of GDP (over 25 % of which are classified as knowledge-intensive goods or services) and high-tech exports about 32 % of total goods exports, the best performance in EU27. According to the Ministry of Finance's analysis of sectors, ⁽³⁾ competitive advantage gains (see introduction for the corresponding sectors) are generally associated with gains in export market shares. Malta is better at gaining market shares in services than in manufacturing, and its exports of goods are more sensitive to exchange rate movements than its exports of services.

⁽³⁾ For the source of this information, see note 1 above.

Inward foreign direct investment (FDI) is concentrated mainly in financial and insurance activities (about 80 %), followed by transport services, accommodation and real estate activities and manufacturing. Malta Enterprise has approved a number of FDI projects aimed at improving Malta's knowledge base and innovation capacity. It observed a sharp upturn of new projects approved in 2013, compared to low activity in 2010-2012. It is confident that 2014 will compare well with 2013.

3.18.6 Public administration and business environment

Further administrative simplifications include integrating various revenue departments (VAT, customs and Inland Revenue), simplifying social benefit procedures and the procedures for registering and procuring medicines.

Malta ranks low on the EU's league tables in terms of the efficiency of public procurement procedures. However, the average duration of the most frequently used procurement procedures was reduced by around 15 % in 2013 (from 295 days in 2010 to 249 days in 2013 – 119 days on average for the EU). In 2013, the government announced its objective of reducing the lengths of the tendering/advertising periods, and of

the average adjudication period. The average tendering period in 2013 was 50.5 days and the average adjudication period was 149.5 days. The roll out of e-procurement has been completed in respect of public tenders above the EU threshold. By the end of 2014 significant progress will have been made on e-procurement take-up for tenders below the EU thresholds. The new system has received positive stakeholder feedback is expected to become more efficient over time.

Despite on-going reform, the judicial system is still flawed. Proceedings in civil, commercial and administrative cases are shorter than before but are still amongst the highest in the EU. The courts' rate of resolving civil and commercial cases at first instance improved. However, the rate of resolving administrative cases is the lowest known in the EU. ⁽⁴⁾ The World Bank's *Doing Business* report regards insolvency procedures as flawed, - it estimates that they take up to three years to finish. The judicial reform expert commission delivered its final report to the government on 30 November 2013. It contains about 450 recommendations on improving the administration of justice. The government is consulting the stakeholders on the measures proposed. The time frame for the implementation of all the reform measures is 2014 to 2016. Some of them will require amendments to the constitution.

In the "*Doing Business*" Report 2014, Malta ranks 103rd out of 189 economies, falling by three places to the equivalent of its 2013 ranking. The Maltese authorities acknowledge that certain problems had to be solved to make it easier to do business and make the country more attractive to foreign investors. However, they have raised about the methodology used in the World Bank report and its direct applicability to all countries surveyed.

While Malta has made considerable progress towards streamlining regulations since adopting the Small Business Act Malta (SBA) in 2011, progress towards implementing an SME test seems to have slowed down. New legislation requires explanatory notes and user guidelines to be provided. Those in charge of coordinating implementation of the SBA in Malta are working with those involved in drafting legislation to provide training and information on the requirements and implications of the SBA for Malta. The Maltese

authorities are aiming to have passed primary and secondary legislation on the subject by the end of 2014 and to have brought it into force by the first quarter of 2015.

With regard to entrepreneurship, indicators measuring entrepreneurial activity, such as the entrepreneurship and the self-employment rate, remain below the EU average. However, the traditionally reserved attitude towards entrepreneurship seems to be changing with the entrepreneurship rate increasing from 6 % in 2009 to 17 % in 2012. ⁽⁵⁾ Schemes to promote and support entrepreneurship are in place, and at all stages of education a number of measures have been put in place to foster entrepreneurial attitudes.

For example, the Malta College of Arts, Science and Technology currently offers high-level entrepreneurship courses. It is now working on expanding its entrepreneurship curriculum by offering training at all levels as part of its educational and training courses. At the beginning of 2014, Malta Enterprise was finalising an agreement with MCAST and the Kordin Business Incubation Centre to lease offices at special rates at the centre to MCAST students who are starting a business.

3.18.7 Conclusions

Malta has continued to weather the international crisis relatively well. Maintaining financial stability and external competitiveness remain crucial conditions for economic growth.

In terms of structural reforms, the country has adopted more ambitious plans to deliver knowledge-based growth and continues to work on improving skills, making better use of human capital, rationalising the energy supply system and modernising and simplifying administrative procedures.

More should be done to ensure that growth and the economy in general are sustainable. Efforts to implement the Small Business Act with the help of the business community could be stepped up.

⁽⁴⁾ 2014 EU Justice scoreboard, figure 7. http://ec.europa.eu/justice/effective-justice/files/justice_scoreboard_2014_en.pdf

⁽⁵⁾ See the 2013 SBA Fact Sheet for Malta at http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/malta_en.pdf.