



**The Lisbon Strategy and the
Malta National Reform Programme 2005-2008**

House of Representatives

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01. Introduction

The Lisbon Strategy aims to increase economic growth and jobs across the European Union in order to make it the most competitive *bloc*. This can be achieved through the consolidated effort of its Member states who were asked to formulate their own National Reform programmes aimed at addressing the Lisbon objectives.

Malta's first NRP is a collaborative effort of the various Ministries which was coordinated by the Management Efficiency Unit (MEU) within the Office of the Prime Minister. The majority of the NRPs were submitted by the 15th October 2005, after which the Commission published the Communication 'Time to move up a gear' which outlines the Commission feedback. This Communication also provided input within the March 2006 Spring European Council.

In 2006 Member States commenced with their implementation programmes. The First Annual Progress Report outlines the progress registered during the first year of the implementation process keeping in view the Spring European Council Conclusions. Malta's First Annual Progress Report was submitted to the Commission on the 15th October and in December 2006 the Commission published its reaction to the annual progress report through the Communication 'A year of delivery'

This paper is divided into three sections, namely:

01. the National Reform Programme 2005-2008;
02. the National Reform Programme First Annual Progress Report ; and
03. Consultation and the relation between the NRP and other strategic documents.

01.1 National Reform Programme 2005 - 2008

Background

The Lisbon Agenda, launched in March 2000, had the aim for Europe to become, by 2010: "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment".

In 2005 the strategy was revamped and re-launched with the intent to promote growth and job creation amongst Member States. Within this context Member States have been requested to draw up a National Reform Programme outlining specific measures in achieving the Lisbon Strategy. On the other hand, the Commission was in the process of drawing up a Community Lisbon Programme. This programme covers all the actions at Community level and the policy measures will fall under three main categories namely;

- knowledge and innovation for growth;
- making Europe a more attractive place to invest and work,; and
- creating more and better jobs.

The National Reform Programme (NRP) for Malta 2005-2008 is intended to outline Malta's response towards securing its competitiveness, economic growth and job creation in terms of the EU's Lisbon Agenda.

The National Reform Programme (NRP), with a governance structure based on a three-year cycle, that commenced in 2005 and which will subsequently be renewed in 2008, aims to set out a comprehensive strategy to deliver growth and jobs in line with the refocus of the Lisbon Agenda agreed to in the Spring European Council 2005.

01.2 Methodology

The Management Efficiency Unit had been tasked by the Cabinet Committee on Competitiveness with the drafting of Malta's first National Reform Programme. Within this context, the co-ordination team within the Management Efficiency Unit (MEU) appointed a contact point within each of the fourteen Ministries across Government. After having analysed the issues and opportunities arising from the external environment, Malta's comparative strengths and areas for improvements, Malta identified the following key priority areas within its NRP, namely:

- Sustainability of public finances;
- Competitiveness;
- Employment;
- Education; and
- Environment.

The achievement of the above five pillars is fundamental in ensuring the securing and strengthening of Malta's economic growth, competitiveness, and employment-creating potential.

The structure of the NRP addresses each of the identified themes by providing:

- Malta's current situation;
- the key issues/challenges emanating from the current situation;
- the policy responses to these challenges; and
- the specific measures Malta intends to adopt.

01.3 Policy Responses

Malta's policy responses for every pillar are summarized hereunder

Strategic Theme 1 - Sustainability of Public Finances

***Removing all barriers to economic growth
and implementing a fiscal consolidation process***

- Stimulating economic growth through:
 - refinements to existing tax policy
 - continuing privatisation, PPPs and strategic partnerships
- Reducing public sector expenditure and maximising human resource utilisation and productivity through retraining and redeployment
- Ensuring sustainable protection systems (in pensions and healthcare) to address the impacts of social-demographic trends.

Strategic Theme 2 - Competitiveness

Focusing Government's role in the economy on the regulatory aspect, facilitating rather than participating as an operator in economic activities

- Proposing a comprehensive enterprise policy aimed at:
 - Further improving FDI and enterprise start-up/development in targeted sectors;
 - Incorporating R&D and innovation in SMEs;

- Liberalising the petroleum and gas functions currently carried out by the State monopoly Enemalta;
- Removing unnecessary bureaucracy through better regulation and simplification of Government's administration;
- Improving the tourism product, branding Malta as a tourism destination and tapping into niche tourism segments; and
- Leveraging the nation's infrastructure by maximising the potential of Maltese ports.

Strategic Theme 3 - Employment

Supporting further the creation of more and better jobs

- ETC Youth Strategy;
- Measures to increase female participation in the workforce:
 - review of tax and pension system
 - family friendly measures
 - regularise and facilitate the provision of child care
- Supporting transitions in occupational status including developing further entrepreneurial skills
- A programme whereby all receiving unemployment benefits will be obliged to attend a mix of training and community services

Strategic Theme 4 – Education and Training

Developing a highly-skilled workforce by providing for lifelong education for all to improve the country's competitive edge by meeting the nation's competence needs

- Implementing inclusive education and training policies aimed at adult learners and at reducing the number of early school leavers:
 - reform in the compulsory education system; and
 - higher education directorate to ensure quality in education.
- Ensuring attractive, accessible and flexible learning pathways for all to provide maximum possible fulfilment of the potential of all persons throughout their working lives through lifelong learning
 - Guidance services;
 - ICT training; and
 - certification of informal and non-formal qualifications and skills.
- Responding to new occupational needs and future skill requirements:
 - matching demand and supply of skills.

Strategic Theme 5 – Environment

Upgrading the nation's environment in order to ensure an improved quality of life through sustainable development

- Promoting biological diversity:
 - national biodiversity strategy and action plans;
 - special areas of conservation;

- marine and coastal protected areas; and
- treatment of all sewage in Malta and Gozo.
- Drafting a national Environmental Technologies Action Plan to address environmental degradation:
 - greener public service and public procurement; and
 - ETAP
- Fighting against climate change:
 - capture of methane from waste disposal and treatment;
 - engineered landfills and treatment of municipal solid waste;
 - bio-fuels; and
 - greater use of non-conventional sources of water for uses that are on a non-potable origin.

Measures

To convert these policy goals to a concrete and measurable plan of action a total of fifty four (54) concrete measures have been drawn up. Each measure is owned by a specific lead Ministry. Moreover, target dates for completion as well as financial projections for the three (3) years covering 2005 – 2008 have also been identified. In the implementation phase of the programme, which started in 2006, these measures were monitored for progress periodically to ensure conformity with the entire program.

All the Member States NRP's have been reviewed by the European Commission and the feedback on all the respective NRP's published in the Spring European Council's Conclusions.

Commission's Assessment of Malta's NRP and Spring European Council Conclusion

In January 2006, the Commission published its Annual Progress Report outlining its assessment vis a' vis the NRPs of the various Member States. Within this context, the Commission has welcomed Malta's NRP and highlighted its strengths:

The programme's strengths include:

- the emphasis on improving human capital by raising educational levels and participation in training and lifelong learning; and
- the emphasis given to environmental sustainability.'

Moreover, within this report the Commission encourages Malta to vigorously implement the NRP taking account of the areas which need further attention namely:

- strengthening competition and improving the quality of the regulatory system;
- reducing the tax burden on labour and making work more attractive through a comprehensive review of the tax and benefit system.'

The Annual Progress Report presented by the Commission triggered the discussions leading to the Spring European Council where four specific areas for priority action have been identified. These include:

- Investing more in knowledge and innovation;
- Unlocking the business potential of SMEs;
- Increasing employment opportunities for priority categories; and
- Energy.

These actions have been reflected with Malta's First Annual Progress Report.

02. The 2006 National Reform Program Annual Progress Report

02.1 Methodology

Following the submission of the National Reform Programme in October 2005, Member States were bound to implement and monitor the achievement of the fifty four measures as outlined in the National Reform Programme. In fact, during 2006 Malta focused on the implementation and monitoring of these measures and also on the drafting of its First Annual Progress Report which had to be presented to the Commission by October 2006. Again, the Management Efficiency Unit led this process

Ministries were required to complete a Measure Status Report (MSR) template for each measure so as to provide a uniform means of assessing each measure. From the data gathered it was possible to evaluate, in concrete terms, Malta's progress vis a' vis the entire NRP. In addition, any complementary initiatives that Government pursued towards further increase in employment and economic growth were also noted.

Communication with the European Commission was also a key factor in ensuring that Malta was on the right track in the implementation of the Lisbon Agenda. During a Commission visit held on the 19th June 2006, the Commission delegation had the possibility to evaluate *in persona* Malta's progress. Moreover, the delegation met with other stakeholders mainly through the Malta Council for Economic and Social Development.

In 2006, the Commission, through a Communication requested that the format of the Annual Progress Report should follow a specific pattern so as to facilitate the process of comparing amongst the individual member states. The Annual Progress Report was divided as follows:

- Macro Economic Policies;
- Micro Economic Policies;
- Employment ; and
- Education and Training

In fulfilling the Commission's requirements, Malta's Annual Progress Report also includes (as an Appendix) an Assessment Grid featuring the status of every single measure outlined in the NRP. This grid was introduced by the Commission as a uniform unit of measure for all Member States. Though not all Member States APR feature this grid, Malta welcomed this initiative by the Commission and included this Grid in its report.

Consultation with the relevant stakeholders features high within the European Commission agenda. Malta's First Annual Progress Report was discussed within the Malta Council for Economic and Social Development. In October 2006, the report was approved by Cabinet and tabled in Parliament.

The Malta Annual Progress Report 2006 was presented to the Commission on the 15th October 2006.

02.2 Malta' State of Play in 2006

Macro Economic Policies

Malta has been working to improve the sustainability of its public finances and such initiatives are already yielding results. Budget speech 2007 stated that the fiscal deficit to GDP ratio is estimated at 2.65% for 2006. This estimate falls within the range given in the revised forecast for 2006 by the Central Bank of Malta (2.5% - 2.9% of GDP¹). These figures are particularly significant when one compares to a figure of 5.0 % that prevailed in 2004. The declining deficit trend is being reflected in the debt to GDP ratio, where the rising trend of recent years has been halted, with the debt ratio falling from 74.9 % in 2004 to 74.2 % in 2005, and it is expected to decrease further in 2006.

¹ Central Bank of Malta (2006), Quarterly Review (2006;3) Volume 30 no 3.

Government's financial position has also been tested by the constant external fluctuations caused by the international price of oil. It is also worth mentioning the intensive exercise that has been ongoing in terms of establishing the right framework that will lead to an adequate and sustainable pension system. Concurrently, efforts are being made to strike solutions that would ensure that the prices of medicines are lowered in order to alleviate the burden on Government's expenditure in this area as well as on a number of households who are dependent on such products.

Government has embarked on an initiative of consolidation and better management of its human resources within the wider public sector. Figures clearly show that this initiative is succeeding with a cost saving of Lm 4 million in 2005, over 2004, and a further Lm 2 million are expected to be saved in 2006 over the cost of wages in 2005. This reduction in the public sector wage bill is mainly due to the further restructuring of government entities through, the centralisation of all recruitment in the public service, the introduction of redeployment practices where possible and overall reengineering of the service provision processes to increase efficiency. The latter measure has a two fold remit. By increasing efficiency one frees up valuable resources, which can be redeployed elsewhere for maximum utilisation and also provides a better service to the end user. Currently Government employment accounts for approximately 33% of total productive employment of the country, which represents a 5% decrease over a ten year period. In the Maltese context, with the potential working cohort aged between 15 and 64 of just under 247,000 persons, these figures are significant.²

Micro Economic Policies

From a microeconomic standpoint, the increase in Malta's competitiveness features high on Government's agenda. Competitiveness-enhancing efforts are driven by the pursuit of a vision of excellence in those sectors and activities contributing to further economic growth, competitive advantage and employment. Whether it is in provision of services to tourists or by developing a competent human resource pool that may be accessed by firms wanting to invest in Malta, competitiveness and quality must be kept at the forefront of all considerations and strategies without compromising an inclusive and participatory society. It is therefore logical for the Maltese NRP to have treated competitiveness as one of the main pillars of the Maltese NRP in 2005. Measures have been initiated to make Malta more competitive thus increase employment and economic growth.

The primary thrusts of the competitiveness pillar are aimed at mobilising investment and reinforcing an entrepreneurial culture, removing as much as possible unnecessary obstacles or burdens to business growth. In fact a number of tax incentives have been proposed by Government in Malta's Pre-Budget Document 2007. In addition, a Better Regulation Unit has been set up with the aim of reducing the administrative cost of legislation to businesses and has already undertaken a review of existing legislation and procedures with a view to determining the extent to which these may be simplified in order to reduce the administrative burden on enterprise and the citizen. Moreover, this unit will also lead to a more effective policy making process. Complementing this initiative, Government also intends to create a one stop shop for individuals or companies wishing to set up business in Malta to facilitate new start ups.

Sectorially, new measures in tourism are being developed and introduced aimed at promoting Malta as a specialised niche destination, reducing its dependency on the traditional sun and sea segment. The Malta Tourism Authority has undergone a restructuring exercise with the aim of improving its operations. In consonance with this strategy, Malta is looking to preserve and upgrade its unique cultural heritage sites in order to foster the cultural tourism segment. To enhance the tourism sector, Malta has recently opened up the markets for low cost airlines, one of which started to operate to and from Malta.

Improvement in R&D is also on the priority list for Malta. In fact the policy making body relating to R&D, the Malta Council for Science and Technology, has been strengthened to take on the new challenge. Expenditure for R&D is expected to be increased to 0.75 % of GDP by 2010. A National Strategy for Research and Innovation has now been published alongside the Pre-Budget document 2007. This strategy takes into account the particular characteristics of the Maltese economy and culture, namely prevalence of small and micro enterprises, minimal R&D activity, limited resources and lack of penetration in overseas markets.

² Figures quoted are correct as at October 2006.

The reform of the Maltese ports is also moving at a considerable pace. The aims behind these reforms are to maximise the assets within the Valletta harbour to their full potential as well as removing the inefficiencies in the pricing structure through the involvement of the private sector. A contract for cargo handling has recently been awarded and it is anticipated that related fees will be lowered thus making Maltese exports more competitive.

Malta's geographical and demographic characteristics compel that environmental measures complement competitiveness-enhancing ones. To that effect, the NRP includes a strategic environmental thrust and a number of environment measures are included under Malta's microeconomic measures. The main ones are the halting of the biodiversity loss, the internalisation of environmental externalities and the fight against climate change. Various initiatives, such as the construction of sewage treatment plants as well as the development of new waste management facilities are currently in progress. Various educational campaigns are currently underway to make citizens aware of their environmental responsibilities. In parallel, Government has introduced a number of enforcement measures against littering and waste dumping with a view to protect the Maltese environment.

Employment

Malta considers its human capital to be its major resource and therefore labour market performance is seen as being critical to the island. Improvements in the labour market are apparent with the private sector registering an increase in full time employment of 1.4% in 2005 with 90,000 persons employed on a full time basis. This complements favourably to desired employment balance within the public and private sectors. The significance of these improvements is augmented in the light of the restructuring underway in the economy, particularly in specific manufacturing sectors. The successful finalisation of the SmartCity@Malta together with Tecom Investments is a development that Government looks forward to with great anticipation as it is expected that this will reflect positively on the employment situation in Malta and reflects the strategic direction that has been pursued in the past years. With an investment of 300million USD, it is envisaged that the SmartCity@Malta project alone will create 5,600 jobs between 2008 and 2015.

In entrenching the value Government attaches to its human resources, Malta is pursuing the increase in the rate of female participation in the workforce. Measures such as tax benefits to women returning to employment have already been included in the Budget for 2006. Other measures such as, the introduction of family friendly measures and the facilitation and promotion of the use of child care centres. In addition in the Budget for 2007 Government has introduced family friendly measures as well as measures to promote the use of child care centres. Such measures promote the reintegration of mothers into the world of work where they can contribute towards Malta's socio-economic progress whilst still ensuring that the fundamental concept of Maltese family life is maintained.

Education and Training

Government considers education to be the key social, economic, and environmental policy for securing Maltese society's future³. The launching of the policy document "For all Children to Succeed" has given a strategic direction for a successful educational setup in compulsory education. Government is determined to strengthen the provision of higher education and to promote life long learning. A National Commission for Higher Education was set up with the aim to guarantee the quality of higher education. Life long learning is being promoted through the regulation of the vocational educational sector and the provision of incentives in the form of scholarships at Masters and Doctorate levels.

The Commissions Assessment of Malta's NRP Annual Progress Report 2006.

In December 2006, the Commission published its assessment of the Member State APRs for 2006. In its Communication 'A year of delivery' the Commission gave a general overview of the progress in the implementation phase of the Lisbon Agenda. The Commission's overall assessment is a positive one with the Commission acknowledging the effort being done by Member States to implement the reform.

³ Pre Budget Document 2007 – "Securing Our Future". Available online from: www.doi.gov.mt [Accessed on: 4th September 2006]

However, the Commission did note that in several Member States stronger action is needed in areas such as the sustainability of public finances, labour market reform, R&D, climate and energy policies, innovation, as well as competition particularly in network industries and services.

With reference to the Maltese APR, the Commission commented that Malta is making good progress in the implementation of its National Reform Programme. Moreover, the Commission is acknowledging that Malta is also addressing most of the commitments made within the Spring European Council Conclusions 2006. The Commission also highlighted the extensive consultation exercise with stakeholders that Malta's NRP involved and notes that this positive practice has been consistent.

The implementation efforts in the micro-economic and employment area are more moderate and these need to be stepped up. The Commission advised the Government to

- improve competition in several sectors, including professional services;
- reduce and redirect state aids;
- boost investment in R&D; and
- improve labour supply by stepping up efforts to attract more people into the labour market, particularly women,
- intensify efforts to tackle undeclared work and
- implement changes to the tax and benefit system to make working more attractive.

Currently all Member States are preparing for the Spring European Council (SEC), which will highlight the important pillars to be tackled across Europe for the coming year in terms of the Lisbon Agenda. In preparation for the Spring European Council, within the Competitiveness Council a draft working document identifies the key challenges which are to be discussed in the SEC, namely:

01. Completing the Internal Market;
02. Advancing the Better Regulation Agenda;
03. Investing more in Research and Innovation;
04. Unlocking Europe's Business potential especially in key sectors and for SMEs; and
05. Strengthening Europe's External Competitiveness.

These challenges are still in the drafting phase and have to still undergo the various discussions under different Council formations. Once these issues have been finalised and the conclusions issued, the Member States will be requested to refocus their National Reform Programme taking into consideration the Spring European Council Conclusions 2007.

03. Consultation and the Relation between the NRP and other strategic Government Documents.

Many of the measures in the Maltese NRP require a substantial amount of funding and thus the best use of EU funds allocated to Malta is deemed crucial. To this effect the link between the NRP and the National Strategic Reference Framework is a determining factor and the recently released NSRF document reflects this agenda. Moreover the NRP is also reflected in the Budget and Pre- Budget documents. In both 2005 and 2006, NRP measures have been reflected in these documents which reflect Government's commitment in achieving the Lisbon Agenda.

Stakeholder involvement features high on Government's agenda; in fact the Maltese NRP is a result of an extensive public consultation exercise with the five strategic themes being chosen after intensive interaction between the public service and sector, social partners, civil society and is also tabled in Parliament. The same principles of continuous consultation have been maintained throughout the implementation phase.

Finally, the context of the NRP is also being harmonised to link appropriately with the principles of sustainable development, particularly in the light of the recently revised EU SDS which enshrines three main pillars – Social, Economic and Environmental, the three of which are amply reflected within Malta's NRP. The Maltese Government looks forward to the continued implementation of the NRP and augurs that all stakeholders do their part in order to achieve the climate we all desire and one that befits the Maltese Islands and its population.