

Economic Vision for Malta 2014-2020

Full Report

 THE MALTA CHAMBER
OF COMMERCE,
ENTERPRISE AND INDUSTRY

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Foreword by the President

Under my Presidency, our Chamber strived to provide a business agenda to Government rather than a Government Agenda for business. With this in mind, we chose to be proactive in preparing an Economic Vision for Malta for 2014-2020. The existing economic plan for the country “Vision 2015” will soon come to a close and we, therefore, felt that the timing for the articulation of a new vision was in order.

Our vision is for Malta to have a focused and diversified successful economy underpinned by a high quality, dynamic, productive and innovative private sector that positions Malta as a global hub for business and investment leading to increased prosperity by 2020.

Our document is intended to serve as a blueprint to guide all stakeholders in the allocation of scarce resources. It will support us – the business community – in maximizing our contribution to the country in terms of wealth creation through our risk and through our endeavours.

Our Chamber is indebted to the group of twenty Chairpersons / CEOs of leading companies in Malta and to the Rector of the University who contributed to the articulation of this Vision and who serve as its signatories.

A word of thanks is also due to HSBC Malta plc; and Malta Hotels and Restaurants Association for their contribution.

We are confident that our Vision will receive the full support of the country’s authorities and stakeholders to ensure its implementation. The economic future of this country can be secured by working together towards an ultimate coherent Economic Vision for Malta that promises the growth and prosperity that our people deserve.

David G. Curmi

President

The Malta Chamber of Commerce, Enterprise and Industry

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1/Introduction

1.1/ Proactively influencing the formulation of Malta's Economic Vision

The Malta Chamber of Commerce, Enterprise and Industry (Malta Chamber) within the context of its mission statement which tasks it

“To vigorously influence the formation of policy at national and European level towards the development of an enterprise culture, the creation of favourable conditions to the advantage of Members and the interests of the wider community”

invited 20 Chief Executive Officers of leading enterprises in the manufacturing, retail, financial and services sectors who are members of the Chamber to support it in the formulation of an Economic Vision for Malta.

The Chamber believes that the timing for the articulation of such a Vision for Malta is apt. ‘Vision 2015 and Beyond’ which sets out a strategic pathway to the development of a knowledge based economy is coming to the end of its life term.

Malta is currently consulting on a Partnership Agreement for the forthcoming 2014-2020 European (EU) Union financing period which covers the following funds: Common Strategic Framework (CSF), i.e. the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

The Chamber, as the leading body representing the interests of business, is the chief consulting body to Government on business and economic matters. It has, indeed, reinforced this position post 2013 General Election. Recently, as well as traditionally, the Chamber has given objective and researched opinions in numerous consultations undertaken by Government and has also been an active partner on the Malta Council for

Economic and Social Development. The Chamber, in taking the lead to craft, together with leading CEOs of local, as well as, foreign investment companies operating in Malta, this Economic Vision seeks to pro-actively replicate the initiative taken in 1987 when, through the Confederation of Private Enterprise (COPE), it presented to the, then newly elected, administration its economic vision for the time – titled ‘The Task Ahead: Dimensions, -Ideologies and Policies’.

1.2/ A retrospective look at achievements

There is no doubt that Malta has, since 1987, undergone fundamental transformation. Malta’s economic policy, then one of austerity and import substitution is today an open economy. The Government has withdrawn from being a direct economic player and in doing so assumed the role of a policy and regulatory setter and the provider of public goods and services – a transition which has seen the Government divest itself of parastatal organisations in the banking, telecommunication and other economic sectors. The process of privatisation and divestment opened up new economic sectors to both major FDI players (HSBC, Vodafone, etc.) as well as local entrepreneurs. Direct consequences of this process are increased choice, quality, and price competition – all beneficial to citizens and business and enterprise alike.

Malta’s infrastructure – harbour, roads, water, telecommunications, energy, etc. – has been upgraded. New economic sectors such as ICT, iGaming, Financial Services, Aviation Maintenance, Maritime Registration and Pharmaceutical Manufacturing have been targeted, nurtured and have now become mainstays of Malta’s economy. The tourism sector has successfully evolved, and hopefully continues to evolve, to embrace the e-tourist (one who openly researches destinations on the Internet and books holidays directly) and a new type of tourism (shorter nights, more frequent travels) at the core of which is low cost accessibility.

The legislative and regulatory framework too has, in most instances been reformed – in part as a process to bring Maltese legislation in line with that of the EU and in part to respond to new and emerging challenges that require modern legislative solutions. Malta’s efforts to become an EU Member State (MS) and subsequently as a Member State in its own right has altered the way the country behaves – whether this relates to policy design (far more openness), higher level of quality (increased application of standards), to a complete reprioritisation of the political agenda and an ensuing revamp of how key policy sectors are managed (environment and waste management).

Over the past decades, an extensive further and higher education system has been forged: from one where the annual development of human capital and talent was limited

to hundreds of graduates to one which annually results in many thousands of youths graduating in further, higher and vocational education training (VET) in a vast array of disciplines, competencies and skills.

The investment in human capital and talent is complemented by a state of play where opportunities for value added employment have increased significantly. Indeed Malta has, over the past five years, bucked the trend with regard to employment generally and youth employment specifically when compared to countries in the Euro Zone – particularly those countries in the Southern Mediterranean region.

The quality of life in Malta, too, has undergone significant social development and improvements – whether this is the result of increased individual and household wealth on a per capita basis; increased availability and use of entertainment amenities, increased number of vehicles per household, etc.

The economic diversification strategy and financial direction adopted by Malta has enabled it, to a large extent, to successfully weather the economic and financial tsunami that has engulfed the world and more extensively the Euro Zone since 2008. Whilst Malta's neighbours in Southern Europe as well as other Member State of the EU have had to adopt austerity policy measures, Malta has been one of the better performing economies – including in the domain of job creation.

Much has been achieved. The Malta Chamber underlines the importance that the nation recognises how far it has come through graft, innovation, hard work and the ability to create the appropriate enabling environment that have enabled Malta not only to manage many an economic and social challenge but to continue to generate economic and social growth and wealth.

1.3/ Present and future challenges

The fact that Malta has achieved so much over the past years does not mean that it has done enough and should rest on its laurels. Malta cannot afford to remain at a standstill or it will risk being left behind by economies which are actively taking pro-competitiveness measures.

Malta needs to move forward both to address weaknesses that continue to limit its potential for growth, global changes and new challenges which, if they are not addressed, will threaten Malta's future wealth and prosperity; and actively addresses areas wherein Malta is in fact regressing.

One singular flawed characteristic of Malta that checks the country from outpacing its

competitors – as Singapore has managed to do – is the inability to instil a culture of excellence and quality within the national psyche. To a large extent, this is a culture which is reinforced by Government itself: most notably demonstrated by its continued willingness to accept mediocrity in public procurement through its predilection to select the cheapest.

The most recent Industrial Strategy for Malta (which expired in 2010 and which has not been replaced) identified five comparative advantages. In three of these (the other two being innovative legislative design and stability), the Chamber believes that Malta is losing its comparative advantage with regard to:

HUMAN RESOURCE CAPITAL:

The economy's demand for competencies and skills in all economic sectors is not being adequately supplied by the country's higher and further education institutions. The new supply of human capital and talent in the market is lacking in terms of discipline, work ethos, soft skills and diligence when compared to that of previous generation of workers.

ENGLISH AND THE MULTI-LINGUAL SKILLS BASE:

The excellent command of written and verbal English as well as the ability of commanding a foreign language which has traditionally provided Malta with an added edge over competing countries is being forfeited.

AGILITY THROUGH SMALLNESS:

Malta's smallness should result in an enabling environment that allows for immediate policy action to (a) leverage opportunities, (b) counter threats, and (c) provide for a pro-business climate that gives Malta an advantage over other countries. Despite years of investment in public service reform, e-Government and better regulation improvements, Malta's business climate has become more rather than less ponderous.

New challenges have emerged which require new solutions. Over the past five years, the cost of energy globally has increased exponentially. Malta's insularity and the fact that it is, to date, not connected to the European energy grid have meant that the cost of electricity to business and enterprise is one of the highest amongst the EU28 MS (preceded only by Cyprus). This reduces Malta's ability to compete on price in sectors such as value added manufacturing and tourism as Malta's overhead and cost structure is at the first instance much higher than that of its competitors.

In manufacturing, the state of play is further compounded by the fact that all raw material is imported and that the finished product must be exported, primarily, by sea. This adds another cost layer that further blunts Malta's competitiveness which is already affected by the minute domestic market size which negates any possibility for firms to build economies of scale and capacity muscle so important for local firms to be in a position to venture overseas. The Chamber underlines that Malta must do more to demonstrate to

the EU that this critical characteristic of Malta differentiates it from other Member States and that the assumption that Maltese companies operate within the same conditions and economies of scale as those companies operating in mainland Europe is not correct.

Whilst the euro zone crisis has ravaged the economies of Spain, Italy and Greece the Chamber is convinced that the restructuring underway to bring the annual deficits and debt structures under control will see these countries emerge onto the post-crisis world economy stronger and far more competitive. Romania, Bulgaria and other Eastern European Member States, renowned for their strong technical work force, are creating a business environment that is 'lean and mean' and pro-business friendly. Malta, similarly to Spain, Portugal, Ireland and Greece, is today struggling to compete, for example, in high value added manufacturing with Eastern European Member States given that the local structured cost base has year-on-year been increasing. In a post-crisis global and European economy, Malta will struggle to compete with a streamlined Southern Mediterranean in tourism and knowledge based service sectors.

The Cost of Living Allowance (COLA) mechanisms results in year-on-year increases in Malta's labour cost with no relative correlation to productivity and competitiveness. It is, perhaps, important for Malta to remember that Germany's economic success today is the result of the labour market reforms carried out under Chancellor Schroeder in the early 2000s. These were far reaching labour reforms which were carried out at the time when Germany was the 'sick man' of Europe being dragged down by "exorbitant labour and social security costs" and "painfully high" unemployment (The Economist: 22nd August 2002). Malta has no magic talisman and unless fundamental reforms are introduced unchecked increasing labour costs coupled with a shrinking and ageing citizen workforce will soon start to affect Malta's ability to seize growth opportunities.

A strong legal and judicial institution that is capable of implementing and enforcing the law within a reasonable period is a key decision-making factor for any business or enterprise investing in Malta – irrespective of whether it is local or foreign investment. Previous administrations' failure to reform Malta's judicial system has now resulted in a judicial framework that does not provide swift legal remedies and hence inhibits due process.

2/An Economic Vision for Malta

In creating and identifying with an economic vision, the Malta Chamber is of the considered opinion that Malta must look towards the long term. Five year vision horizons are susceptible to shifting global, regional and national trends that do not provide sufficient time for the undertaking and rooting of long term structural, institutional, infrastructural and societal change.

A vision for Malta must not only provide clarity of what the country aspires to be and where the country wants to go – within a global and regional economy that is and will in the future experience increased uncontrolled and unforeseen change – but should seek to provide continuity and coherence on previous direction. In doing so, a national vision must build on and leverage the strengths achieved and exploit the arising opportunities whilst undertaking the appropriate strategic action with regard to countering and addressing the threats and weaknesses that may impede the attainment of the Vision.

The Economic Vision that the Chamber is presenting spans a period of seven years: 2014 to 2020. The Chamber has made this decision for the following reasons:

- A seven year period will transcend two administrations – an election will take place in 2018. An Economic Vision that spans two electoral terms will secure continuity; particularly in the event of a change of government.
- The period 2014-2020 is an important cycle in the economic and social development of Malta. During this period Malta will continue with its efforts in implementing the Europe 2020 Strategy – with particular regard to implementing Malta's targets as established under EU 2020: investment in R&D; reduction in Greenhouse Gases; increased energy from renewable energy sources; increased energy reduction from energy efficiency technologies; increase in active employment of population aged 20-64; reduction in early school leavers; increase in students completing tertiary education; and a reduction of persons at-risk-of-poverty.

Indeed, Malta is currently putting together a Partnership Agreement that will set out how it will apply financing under the 2014-2020 regulatory framework through the European Structural and Investments (ESI) Funds – which consist of the Cohesion Fund (CF), the

European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

In synchronising the Economic Vision to the 2014-2020 period, the Malta Chamber seeks to ensure that such a Vision is aligned to Malta's goals and objectives as a nation and as a Member State of the European Union. The EU has set the target to increase the industrial share of Europe's GDP from its current 15.3% to 20% by 2020. The EU has highlighted the importance to place Europe's industry back on the path of growth by swiftly addressing the bottlenecks which undermine the cost-competitiveness of European industry due to a propensity to over-regulate and impose multiple layers of labour or environmental taxes and levies on companies.

It is pertinent to note that the GDP contribution of industry to Malta's economy today is approximately 10%, below the current EU average. In essence, therefore, Malta effort's to increase industry's contribution to GDP to the EU 20 per cent target by 2020 requires increased focus and investment.

The Malta Chamber supported BUSINESSEUROPE in its call to the European Council in February 2014 to agree on an action oriented Industrial Compact which European Institutions and Member States are to support. The Industrial Compact focussed on the following seven key policy drivers:

- Strengthening competitiveness in energy and climate policy.
- Opening foreign markets and unleashing the potential of the Single Market.
- Promoting cooperation for innovation.
- Expanding trans-European (and national) infrastructure.
- Improving access to finance.
- Making labour markets more dynamic, strengthening flexicurity and productivity.
- Making education and skills fit for industry.

In presenting the policy fundamentals that underpin the Economic Vision articulated in this document the Malta Chamber has given due consideration to the policy drivers of the proposed Industrial Compact.

Malta's current vision is Vision 2015 – which establishes 'a path to a knowledge based economy'. The Chamber recommends that Malta's long term economic vision is that of:

“A focused and diversified successful economy underpinned by a high quality, dynamic, productive and innovative private sector that positions Malta as a global hub for business and investment leading to increased prosperity.”

The following are the economic vision imperatives:

(A) A FOCUSED ECONOMY:

Malta's resources must be focused towards those productive and economic sectors that will optimally leverage opportunities – existing, emerging and new; which focus is channelled and directed towards Malta's comparative advantages – those in place today as well as those that will arise over time. A 'scatter gun' approach, where the focus is diluted and where Malta is positioned as 'everything' to 'everybody', will diffuse resources which Malta, in the global environment in which it is competing cannot afford.

(B) A DIVERSIFIED ECONOMY:

The 2007-2010 Industrial Strategy positioned the fundamentals for the emergence and growth of the 'new' information economy, which fundamentals were developed further by the Vision 2015 which led to the evolution of Malta as a knowledge economy.

Malta's has a balanced economy – a balance that brings together 'traditional' business and enterprise with knowledge and Information Technology Enabled Services (ITES) enterprise; as well as a balanced demand for mixed skilled sets that emanates, primarily, from 'traditional' based business and enterprise. Whilst Malta must continue to develop and progress across the value chain with regard to knowledge and ITES enterprise it simultaneously must continue to create the enabling environment that will allow 'traditional' based business and enterprise.

(C) A SUCCESSFUL ECONOMY:

Malta's economy can only prosper if Government acts as a partner and not as a competitor, or worse as a barrier to enterprise and business. Enterprise and business will not succeed and flourish if the Government does not create the appropriate enabling environment – whether it is regulation, human capital development, addressing market failures, etc. On the other hand, painful experience has shown that a Government involves itself directly in productive activities as an economic operator - whilst in the process encroaching on the private sector - does not create the necessary prosperity for the country.

(D) A HIGH QUALITY ECONOMY:

Malta is competing in a global village which is increasingly defined by excellence and quality – and where mediocrity and sub-standards are ruthlessly and damagingly exposed through the relentless use of social media. Business leaders must partner with Government and civil society to inculcate a culture where the current ‘good enough’ attitude is replaced by “nothing but the best” – whether this relates to the products that are manufactured in Malta, to the professional services provided to simple courtesy and good manners towards tourists who visit our shores.

Malta must, now, make the transition from the knowledge to an innovative economy by leveraging emerging disruptive innovation.

(E) A DYNAMIC ECONOMY:

There is little doubt that the world has experienced massive transformation over the past 30 years. Technologies that were once considered ground-breaking, such as VCR machines, have gone the way of the dinosaurs. Long standing household familiar bricks and mortar companies have long since disappeared because they fail to recognise the transformational power of the Internet. Telecommunications, postal and TV companies had to re-invent themselves in the face of disruptive technologies such as VoIP, e-mail, and streaming. The pace of revolutionary and disruptive change as a result of the fusion of data, IT, telecoms, etc. will only increase exponentially.

Business, government and civil society leaders must recognise that Malta must dynamically respond to fast changing economic and social disruptions. This important understanding must be instilled and supported by structures that allow for change, reform and transformation to take place very quickly in the face of externally induced change if Malta’s economy is to survive let alone grow.

(F) A PRODUCTIVE ECONOMY:

Productivity is the cornerstone of economic growth. Growth in productivity is intertwined with investment in ICT and human capital development. With regard to the former, it is imperative that the appropriate enabling environment including access to finance is in place to allow enterprise, including micro-enterprise to invest in ICT. With regard to the latter, the most basic of jobs are ICT dependent. The real danger resides in the fact that productivity in Malta will falter unless enterprise, government and the education authorities put into place the appropriate structures and cultures that will instil multi-tasking, multi-skilling and lifelong learning.

(G) AN INNOVATIVE ECONOMY:

Malta’s approach to innovation is ‘Janus’ faced. On the one part it has consistently shown an ability to exploit and embrace innovation. Malta was one of the first countries globally that understood the importance of ICT, the role it could play to overcome the tyranny of distance and in doing so resulting in a new economic base that, literally, did

not exist 12 years ago. On the other part, however, Malta has been slow in establishing the soft and hard infrastructure required to spur RTDI in Malta. Important infrastructures such as clusters, incubation, twinning with international institutions and taking innovation to market, to name but a few, are still evolving.

R&I and the commercialisation of R&I must become a fundamental cornerstone of Malta's economy.

(H) A GLOBAL ECONOMY LEADING TO INCREASED PROSPERITY:

Malta must continue to enhance its business climate to further integrate into the global economy by attracting 'branded anchor' investment and by facilitating the global growth of trade in services and servicisation of manufactured products.

Malta must also position itself as a Global-Mediterranean hub where it becomes the key base for global players that seek to tap into opportunities offered by the European Union on the one hand and Africa on the other. The process to transform Malta into the Global-Mediterranean hub and the preferred home for business, where Malta becomes a synonym for excellence, demands a planned, sustained and managed journey of transformation.

An economic vision that delivers a successful economy will also result in increased national prosperity and in social harmony. Prosperity and harmony, in turn lead to a stable and welcoming environment which is paramount to successfully attracting foreign direct investment.

The Chamber underlines that it is imperative for the Economic Vision to be perceived as, and be managed in a flexible manner. It should not be etched in stone. In this regard, it is important that the Economic Vision is monitored on an annual rolling basis and reviewed every 3 years to ensure that progress is met and that the Vision is calibrated with the changing circumstances.

The Chamber recommends that Malta's long term economic vision is that of:

“A focused and diversified successful economy underpinned by a high quality, dynamic, productive and innovative private sector that positions Malta as a global hub for business and investment leading to increased prosperity.”

This Economic Vision should be monitored on an annual rolling basis and reviewed every 3 years to ensure that progress is met and that the Vision is calibrated as circumstances change.

2.1/ Targeting economic growth through investment

This Vision is strongly of the opinion that Malta's future economic growth is focused – directed towards building on past successes through the continued optimisation of Malta's comparative and competitive advantages whilst at the same being sufficiently dynamic, agile and innovative to channel current and new comparative and competitive advantages towards emerging economic sectors, investment and opportunities.

The Table below presents Malta's economic and investment strategy adopted by previous governments on the basis of the Industry Strategy and the Vision 2015 respectively.

Industry Strategy for Malta: 2007-2010		Vision 2015	
Targeted Sectors	Performance	Targeted Sectors	Performance
New Investment Sectors			
Financial Services	Expanded (including iGaming)	Financial Services	Continued to expand and grow
Consultancy	Partial – mainly with regard to traditional 'big 4'		
Business Process Outsourcing	Limited – Few back offices established in Malta		
ICT	Expanded with Maltese firms penetrating international markets with indigenous products	Integrated under Creative Industries Sector	
Creative	Preparation of enabling environment initiated and limited to being a film shooting location	Creative Industries: Includes ICT and iGaming, Renewable Energy and Efficiencies)	ICT maintained steady growth; iGaming continued to expand; new digital gaming sector successfully growing. In film making Malta remained a film shooting location.
Biotechnology, Bio-informatics and Pharmaceuticals	Expanded in pharmaceutical manufacturing	Termed as Life Sciences Sector: includes Pharmaceuticals, Pre-Clinical Trials , Health Tourism, Rehabilitation Care	Stable with pharmaceutical manufacturing sector. Establish enabling framework for the growth of a Life Sciences Sector including the building of a Life Sciences Centre
Aviation and Aviation Maintenance	Anchor firm 'Lufthansa Technique' attracted to Malta	Integrated in Advanced Manufacturing Sector	

Maritime and Maritime Maintenance	Super yachting facilities introduced and marinas extended	Integrated in Transportation and Logistics Sector	
High-Tech Manufacturing Sector	Limited	Termed as Advanced Manufacturing Sector: Includes Aircraft modification, engineering services, plastics and advanced materials	Stable and managed to ride financial crisis. Aircraft maintenance expanded
Logistics and Warehousing	Limited	Transportation and Logistics Sector: including Merchant Shipping, Related Shipping Services, Ship Management and Registration, Yachting /Super Yachting Services, Yachting Crew Training, Ship Repair	Reforms in port management allowed for transshipment management. Steady growth in freeport
Education	New foreign universities set up but no 'anchor' university attracted to Malta. Foreign language schools maintained steady growth	Termed as International Education Services Sector	Stable growth in foreign language sector
Health Care	Limited	Incorporated in Life Sciences Sector	Limited. Mater Dei Hospital not leveraged as an 'anchor' state of the art health care delivery institution
Traditional Sectors			
Manufacturing	Partial: Provided with support wrt quality, technology, etc.		
Tourism	Expanded: Transition to e-Tourism, new dynamics and opening up of new niche areas	Tourism Sector	Expanded
Clusters			
Horizontal value chains: Legal, Accounting, IP, Data Centre, etc.	Expanded particularly in iGaming, and Financial Services	Emphasis on development and sustainability of high impact economic clusters	
Vertical Supplier Chain Vendor Clustering	Expanded particularly in manufacturing sector where FDI and local 'anchor' firms outsourced work to smaller firms		

This Economic Vision recommends that Malta should target its resources to achieve medium to long term economic growth in the following sectors:

Essentials	New Target	Opportunity	Essentials
In Place			Required
Financial Services			
Tax and Policy Structures	Position the sector for the local Pensions Market	Third pension market to be opened	Educated local population
Competent and skilled Human Talent		Introduction of the Second Pension market	Higher level of financial literacy
Enabled value chain			New Savings Incentive Scheme
International market player	Extend the sector to embrace a Regional Financial District	Establish a regional district with exclusive jurisdiction over all civil and commercial disputes within the district	International reputation
International reputation and credibility			International excellence
Strong ICT backbone			Commercial and civil judges of international repute
	Extend the sector into soft Intellectual Property schemes	Royalties for films, licenses, etc.	Taxation framework
ICT (Including Digital Gaming)			
Tax and Policy Structures	Enable a transition towards productisation	Build IP Value of ICT companies	Access to finance
Competent and skilled Human Talent			Research and development
Strong ICT backbone			Clustering
Cyber legislative environment	Stimulate further competitiveness and growth	Establish the necessary prerequisites to ensure that the sector continues to grow	Incubation
			Distribution chains
			Marketing and sales
			Access to finance

Filming			
Tax and Policy Structures	Enable Malta to become the end to end production (including aspects of film shooting) production destination of choice	Move up the value chain	Filming shooting studio
Strong ICT backbone			Filming editing and sound studio
Advanced digital gaming skills			Digitalisation in filming
Competitive cost structure			Professional and technical competent and skilled staff in film production (shooting, editing, music, etc.)
Life Sciences			
Tax and Policy Structures	Establish a new economic sector	New bio-park infrastructure is being set up	Post-doctoral research facilities
Specialised infrastructure			Anchor Brand firm
Competent and skilled Human Talent			Specialised professional and technical competent skilled staff across the life sciences value chain
Competitive cost structure			
Maritime Transportation and Advanced Logistics			
Strong Port (including Air) Facilities	Re-position Malta as a global and regional hub	Move up the value chain	Holistic and coordinated strategy
Excellent Strategic Location			Infrastructure for warehousing, transshipment, etc.
			Port infrastructure upgrading and siting issues resolution
			Yachting dry docking, maintenance and repair infrastructure
			Specialised professional and technical competent skilled staff across the transportation and advanced Logistics value chain

Aviation and Advanced Logistics			
Anchor brand in LufthansaTehnik	Expand Malta as a global location for excellence for aviation maintenance	Establish the necessary prerequisites to ensure that the sector continues to grow	Holistic and coordinated strategy
Excellent Strategic Location	Expand Malta's Aircraft Register		Infrastructure for warehousing of cargo, etc.
Excellent training programmes and facilities in aviation streams	Re-position Malta as a global and regional hub for General and Business Aviation		Infrastructure expansion and upgrading and siting issues resolution
Excellent international reputation of Malta's International Airport			Increase value chain with regard to financial services, legal advice, MRO, etc.
			Introduce a regulatory approach to recreational aviation
			Re-evaluation of aviation duties and taxes regime
Tourism			
Excellent Location	Facilitate ease of access and movement for travellers while ensuring the safety and integrity of Malta's borders	Enhance visitor experiences through quality service and hospitality	
Excellent Location	Increase awareness of Malta as a premier tourist destination in the Mediterranean and establish Malta as a Distinctive Global "City" for Tourists and Corporate Offices	Move up the value chain	New amenities (such as an 18 hole golf course)
Excellent cultural and historical assets			All year cultural programme
Excellent amenities		Encourage product development and investments in Maltese tourism assets and products	Setting up of creative and art clusters distinguished for both their indigenous and international content
Strong ICT backbone			Re-invigorate urban centres and undertake urban regeneration in towns such as Bugibba and Qawra
Competent and skilled Human Talent		Fostering an adequate supply of skills and labour	Instil a service culture
			Tax and Policy Structures to attract corporate offices.

Green and Low Carbon			
New energy supply side infrastructure (including new LNG plant, electricity inter-connector, and potential new gas pipe line)	Establish Malta as a Smart Energy Island	Create a new economic sector	Privatise WasteServ Ltd
New waste management infrastructure			Private water treatment plants to enable for more effective use of treated affluent water
Climate change and energy as priorities of the EU			Strategy for near carbon buildings integrating energy efficiency and renewable energy technologies
ERDF and ESF investment in Green soft and hard infrastructure			Enable or enter into public private partnership for establishment of Energy-to-Waste infrastructure.
Competent and skilled Human Talent			Specialised professional and technical competent skilled staff across the green sector value chain
Health Services			
State of the art facilities in Mater Dei Hospital	Establish Malta as a global and regional Health Care provider of excellence	Create a new economic sector	Establish a link between Mater Dei Hospital and an international hospital of repute
Medical and health service professionals internationally recognised for their calibre			Establish a cluster that brings together the private health care sector, the public health sector and other key stakeholders including professional bodies
Strong pool of competent and skilled Human Talent			Attract medical professionals of international repute
Competitive cost structure			
Malta's tourism sector strengths and warm climate			

Education Services			
Malta is a neutral and safe place	Establish Malta as a global and regional Education provider of excellence	Create a new economic sector	Support the University of Malta to enter into an 'anchor' university of international repute
Good accessibility to Malta			Incentivise competing universities of repute to set up campus in Malta
University of Malta internationally recognised for its calibre			Open up Visas for Indian and Chinese students
Excellent competent and skilled staff in various disciplines			
Manufacturing			
Tax and Policy Structures	Stimulate further competitiveness and growth	Establish the necessary prerequisites to ensure that the sector continues to grow	Address competitiveness issues by introducing compensatory measures for geographical disadvantages in line with EU regulation
Just in time and cost-effective transshipment movement of goods infrastructure			Consolidate and strengthen existing manufacturing base – including local entities
Flexible, adaptable, trainable and skilled Human Talent			Provide incentives to support appropriate industries to upscale to advanced manufacturing
			Work with industry to identify opportunities arising from disruptive technologies

This Economic Vision recommends that Malta should target its resources to achieve medium to long term economic growth in the following sectors:

Sector	Target	Opportunities
Financial Services	Position the sector for the local Pensions Market	Third pension market to be opened
		Introduction of the Second Pension market
	Extend the sector to embrace a Regional Financial District	Establish a regional district with exclusive jurisdiction over all civil and commercial disputes within the district
	Extend the sector into soft Intellectual Property schemes	Royalties for films, licenses, etc.
ICT Sector (Including Digital Gaming)	Enable a transition towards productisation	Build IP Value of ICT companies
	Stimulate further competitiveness and growth	Establish the necessary prerequisites to ensure that the sector continues to grow
Filming	Enable Malta to become the end to end production (including aspects of film shooting) production destination of choice	Move up the value chain
Life Sciences	Establish a new economic sector	New bio-park infrastructure is being set up
Maritime Transportation and Advanced Logistics	Re-position Malta as a global and regional hub	Move up the value chain
Aviation and Advanced Logistics	Expand Malta as a global location for excellence for aviation maintenance	Establish the necessary prerequisites to ensure that the sector continues to grow
	Expand Malta's Aircraft Register	
	Re-position Malta as a global and regional hub for General and Business Aviation	
Tourism	Establish Malta as a Distinctive Global "City" for Tourists and Corporate Offices	Move up the value chain
	Increase awareness of Malta as a premier tourist destination in the Mediterranean	Encourage product development and investments in Maltese tourism assets and products
Green and Low Carbon	Establish Malta as a Smart Energy Island	Create a new economic sector
Health Services	Establish Malta as a global and regional Health Care provider of excellence	Create a new economic sector
Education Services	Establish Malta as a global and regional Education provider of excellence	Create a new economic sector
Manufacturing	Stimulate further competitiveness and growth	Establish the necessary prerequisites to ensure that the sector continues to grow

3/Policy fundamentals underpinning Malta's Economic Vision

The framework presents a series of interlocking policy fundamentals each of which embraces a number of important policy actions which are key to the realisation of the Economic Vision.

Policy fundamentals are required in order to enable :

- a) Determined and concerted efforts to address persistent bottlenecks to growth through a holistic approach to competitiveness, and
- b) Active measures to shape Malta's future in a dynamic manner

This section of the document presents the policy fundamentals that the Malta Chamber believes Government should implement between 2014 and 2020 in order to establish the foundations that secure the realisation of this Vision. The policy fundamentals are seen to be the following:

1. **SECURING ECONOMIC PROSPERITY**
2. **FOSTERING HUMAN DEVELOPMENT**
3. **SUPPORTING THE FURTHER DEVELOPMENT OF BUSINESS AND ENTERPRISE**
4. **BUILDING AN INNOVATION INFRASTRUCTURE**
5. **INVESTING IN INFRASTRUCTURE AND THE ENVIRONMENT**
6. **GOVERNMENT PARTNERING WITH BUSINESS AND ENTERPRISE**

The framework presents a series of interlocking policy fundamentals each of which embraces a number of important policy actions which are key to the realisation of the Economic Vision.

3.1/ Securing economic prosperity

The achievement of the Economic Vision presented in this document transcends different administrations. A review of the economic success achieved in Singapore, Dubai or Qatar shows that such success is primarily based on the respective country's ability to, on the one hand, achieve political unity, constancy of purpose and a culture of cooperation within society and, on the other hand, an ability to recognise and establish national priorities and to undertake economic and social measures that require time and a national concerted effort to come to fruition.

Some will argue that Malta cannot replicate the long term constancy of purpose achieved in Singapore or Dubai that enable economic and social growth over the long term given the significant difference between Malta's and Singapore's or Dubai's political system. There is no doubt that the political systems are different.

The fact that they are different, however, should not constitute an insurmountable barrier towards achieving political consensus on Malta's Economic Vision and the strategic pathway of translating it into reality. Presumably, both major political parties establish as a key political priority the further development of Malta's economic and social wellbeing. Of significant note is the fact that Malta has benefited in terms of economic growth when the two major political parties put aside their political differences and reached policy and strategy unity with regard to the continued development of manufacturing and tourism as Malta's main economic mainstays as well as the creation of two new economic sectors: the financial services and ICT sectors respectively.

The Chamber noted with satisfaction that the Government has accepted the invitation made by the Opposition for a bi-partisan approach to be adopted in the health sector. On the other hand, the Chamber strongly condemned the way that the Government initially introduced the passport investment programme, which resulted in the first serious breakdown in the bi-partisan approach adopted by the different administrations on financial services, was not correct and resulted in considerable damage to Malta's reputation of a global country with whom business can and should be carried out. Repairing this damage, in which the Malta Chamber played a constructive role resulting in a newly designed passport investment programme, will take time.

Realising the Economic Vision presented in this document requires a long-term bi-partisan agreement on the key policy issues so that as administrations change, as people exercise their democratic right, the consistency of economic direction is maintained.

An ancillary issue in this regard is that the Malta Council for Economic and Social Development (MCESD) which is an institution which can be the vehicle for securing a national economic and social charter to which political parties and civil society agree

and commit to has to date, despite various reforms, failed to play a pro-active significant role. It is with regret that the Malta Chamber concludes that MCESD in its latest guise is a rudderless irrelevant and inconsequential national institution. This is a sad state of play which demands urgent attention as MCESD, if given true independence and autonomy, is well equipped, resourced, and directed, is an essential institution for the attainment of non-partisan approach to economic and social development.

RECOMMENDATIONS

1. Malta's continued economic success and social development depends on its ability to achieve bi-partisan, constancy of purpose and a culture of cooperation within society as well as an ability to recognise and establish national priorities and to undertake economic and social measures that are both remedial and proactive and that require time and a national concerted effort to come to fruition.
2. The Malta Council for Economic and Social Development, if well equipped, resourced, and directed, is an essential institution for the attainment of a non-partisan approach to economic and social development.

3.1.1/Embracing fiscal prudence

Malta emerged relatively unscathed, at least when compared to other MS, from the worst economic and financial turmoil in the global economy generally, and in the Euro Zone more specifically. Nevertheless, Malta's General Government Deficit as a percentage of GDP in 2012 exceeded the Maastricht criteria of 3 percentage points - increasing by 0.5 percentage points over 2011. Furthermore, the General Government debt in December 2012 advanced to 71.1% from 62.0 percentage points in 2008. Malta, therefore, is still away from running a zero deficit budget whilst the General Government debt continues to rise.

The increasing General Government deficit creates inflationary pressures on Malta's economy in a number of ways. First, rising Government deficits represent an increase in aggregate demand over supply. Second, by shifting resources from the more productive private sector to the public sector, Government spending reduces productivity and increases the bias in the economy towards inflation. The management of inflation is an essential precondition for Malta's competitiveness – whether this stems from wage inflation as salaries are adjusted to reflect price increases or whether this is induced by means of artificially created market failures directed to increase retail prices. Besides, the lack of a proper enforcement structure has led to a two-tier economy in terms of tax compliance. As a result of this, honest productive operators pay above their share

to make good for what others fail to pay. The Malta Chamber views the rising general Government deficit with concern as this is likely to trigger higher tax burdens, exacerbate the above undesired effects and saddle future generations with debt.

Over the term of this Vision, Malta has to do far more than has been achieved to-date to manage government expenditure more effectively. The productivity and the quality of public services, therefore, must assume a higher level of importance wherein inputs of government are translated into outputs of increased value for money and improved public service performance. A critical milestone in this regard is that of introducing a government wide Performance Budgeting system that will ensure that the allocations of resources are more closely aligned to the outcomes and outputs to be achieved by such resources. The improved management of, particularly, recurrent expenditure will free finances which Government would be able to route towards productive investment required to develop and further improve Malta's infrastructure and utility sectors.

The need to introduce greater fiscal discipline with regard to public finances will ensure that the Government is in a far improved position to leverage fiscal policy tools to respond to and influence economic cycles. Within this context, Malta faces growing and looming financial and economic issues such as the sustainability of pensions, long-term care, health and education. The manner in which these key sustainability issues are, or are not, addressed will determine Malta's near future economic progress as well as the prevailing social harmony which is so important for economic growth.

It is with regret that the Malta Chamber notes that for far too long, governments have prevaricated in placing these sectors on a far more sustainable basis. The previous administration's hesitancy to publish a blue-print for the introduction of a mandatory second pension during a period of economic stability and growth, potentially because of its concern of handing the Opposition with a political advantage with a general election on the horizon, is one such example where short-term political gain took precedence over the application of the right decisions that would bear fruit in the long term.

Malta's continued unwillingness to secure political consensus in order to grapple with the sustainability of pensions, long term care, health and education can destabilise Malta's economic and social model. One only needs to look at the pain and anguish underway in Spain, Italy and Greece to obtain an understanding of what potential economic fallout would mean to Malta.

RECOMMENDATIONS

3. Malta has to do far more than has been achieved to-date to manage government expenditure more effectively: productivity and the quality of public services must be translated into outputs of increased value for money and improved public service performance underpinned by a government wide Performance Budgeting system.
4. At the same time Government must ensure a fair market ‘playing field’ between all market operators by, once and for all, proactively enforcing taxes, laws and regulations on those that operate below the compliance radar and beyond the knowledge of any authority including fiscal.
5. Governments for far too long have prevaricated to secure political consensus on reforms required to pensions, long-term care, health and education on a far more sustainable basis – a state of play that must be reversed if Malta is to avoid a destabilisation of its economic and social model.

3.1.2/Expanding economic growth through increased productivity

Malta’s economy has performed well amidst the challenges of the past five or so years. With the nation’s aging population and slower growing workforce, Malta should seek to achieve economic growth by expanding productivity.

It is pertinent to note that Hong Kong’s services sector saw productivity grow by 3.1 percentage points per year over 1999 and 2008; whilst Finland’s manufacturing productivity grew by 5.8 percentage points per year from 2000 to 2008. Singapore has set a target to achieve productive growth of 2 percentage points to 3 percentage points over the next 10 years – more than double the 1 percentage points achieved in the 2000s – targeting a GDP growth of 3 to 5 percentage points per year.

Malta must emulate such significant productivity growth within its economy if it is to be in a position to compete. Opportunities for efficiency gains proliferate, cutting across sector boundaries. Improvements in technical and economic efficiency involve using scarce resources more effectively. Improvements in market efficiency focus on allocating resources among alternative uses to maximise social benefits. Where markets do not function well, “judicious” regulatory interventions can improve efficiency. By supporting the private sector towards addressing inefficiency in technology, physical infrastructure, public administration and processes the Government can make a lasting contribution to improved resource use over time.

A shift to productivity driven growth, however, requires new investments in skills, expertise and innovative capabilities of Malta's human capital and talent as well as of the public and private sectors respectively. Such a move requires a major qualitative transformation of Malta's economy. Such a transformation cannot be done in one fell swoop and results will not appear in the immediate or the short term. Yet, to ensure that Malta's economy by 2030 will be primed by productivity driven growth, the necessary changes have to start today.

To achieve this, Malta must seek to deepen skills and expertise within every sector of the economy with a view to equipping Malta's workforce with more skills enabling it can perform higher value added jobs – such as by handling more complex tasks or by providing better service.

The economy should be restructured. Private enterprise has to change the way it works: increasing the use of technology, enabling and unleashing innovation and continuously investing in up-skilling and re-skilling employees. Efficient enterprises should be given the room to consolidate and expand and not be overburdened with a share of fiscal responsibility which is not theirs

A fair market 'playing field' must be achieved wherein regulation and standards are applied to all enterprises – including the unlicensed hawkers, the marketers who with impunity import unregulated goods from other countries and others. Within a regulated market environment, market forces should be allowed to work: wherein those enterprises which operate outside the regulatory environment are forced to upgrade or phase out. Both private enterprise and Government must be agile: with the former continuously seeking new opportunities, consolidating or building capacity and with the latter establishing the enabling framework to allow this to take place.

RECOMMENDATIONS

6. Government should support the private sector towards addressing inefficiency in technology, physical infrastructure, public administration and processes in order to achieve improved resource use over time and hence seek to meet productivity growth underway in competitor countries.
7. Malta must undergo a shift to productivity driven growth which requires a deepening of skills and expertise within every sector of the economy so that Malta's workforce can perform more dynamic and higher value added jobs.

3.1.3/Securing Malta's taxation framework for international business

Malta's taxation framework constitutes an important enabling incentive investment framework and has become a key driver of economic advancement rendering Malta an attractive destination for Foreign Direct Investment.

Indeed, the corporation tax rate has allowed the country to continue to attract FDI to Malta despite the difficult economic and financial state of play globally and in the Euro Zone. The application of an imputation corporation tax framework has been complemented by a number of pro-employment, pro-training initiatives and pro-research and innovation policies.

This document underlines that the Government should continue to strengthen this Taxation Framework in order to ensure that the benefits this has generated to the Maltese economy will continue to be witnessed in the future. One important way of achieving this is through the negotiation, introduction and improvement of double taxation agreements with first (and second level) emerging economic giants such as, for example, China.

RECOMMENDATIONS

8. The Government must continue to strengthen the imputation corporation tax framework, complemented by a number of pro-employment, pro-training initiatives and pro-research and innovation policies, which are key drivers of economic advancement rendering Malta an attractive destination for Foreign Direct Investment. In this regard, Malta must ensure that permanent compensatory measures are allowed to neutralise its permanent physical disadvantages which translate in relatively higher operating costs. Such compensatory measures are not to be allowed on the basis of fluctuating measures such as GDP averages.

3.2/ Fostering human development

Malta's aging population renders it imperative that Malta's economic growth is primarily achieved by expanding productivity. Be that as it may, the underpinning of a knowledge-based economy is the availability of relevant talent.

Investment in higher and further education is essential to provide individuals with the competencies and skills that will enable them to find employment in either the 'old' and 'new' economy and to contribute to social mobility and fairness. The presence of excellent research-intensive tertiary and research institutions plays a key role in the training of knowledge based talent. Investment in tertiary education and in post-doctoral research infrastructure, including attracting leading universities as partners to the University of Malta and / or as competing campuses must continue unabated.

Malta's education system, following the implementation of the National Curriculum Framework (NCF) and its linkage with other education sectors, will become more integrated, stretching from early childhood education through to compulsory education to higher education and vocational education training (VET) and lifelong learning.

Both education and training must establish stronger links with Malta's labour market. Quality intelligence on labour supply and demand dynamics is critical in ensuring outcomes that address the needs of current and future labour markets. Malta today, however, has no structured intelligence vis-à-vis the demand and supply requirements for human capital and talent in both the medium and long term. There has been a dearth of national skills audit studies – with the most recent being regional (Gozo) and sectorial based (Tourism, Financial Services, etc.).

A skills supply and demand medium term forecast carried out by CEDEFOP shows that, in the period up to 2020, Malta will experience an increase in the services sector at the expense of the primary sector, utilities, manufacturing and construction sectors respectively. The projected change in occupational structure will occur in elementary occupation (reduction in job opportunities), skilled manual occupation (reduction in job opportunities) and skilled and highly skilled non-manual occupations respectively (both resulting in increased job opportunities). The undertaking and maintenance of a national skills audit and a human capital and talent strategic plan is a fundamental prerequisite for Malta's growth.

Malta's continued economic growth depends on upgrading and deepening the education, knowledge and skills of Maltese workers. Human capital is a key factor in the adoption of new technologies and the introduction of innovative practices. Much of the latter operates through growth in multi-factor productivity arising from improvements in

managerial practices, organisational change and inventions per se. Growth of skills and competencies embodied in workers and managers – or human capital – play a fundamental role in this process. Research shows that growth in output per employed person is partly attributable to increases in the human capital of those in employment. Aligning the economic objectives also requires a transition directed towards the deepening of skills and expertise through multi-tasking and up-skilling – and one that is tied to lifelong learning.

Enterprise, trade unions and Government should invest in incentivising low-wage workers to participate in training, which is a springboard for them to upgrade their skills and justify higher salaries. This will facilitate upward mobility for workers and provide employers with greater clarity on how different qualifications relate to one another.

Capital intensive based productivity growth is intrinsically linked with ICT – wherein even elementary occupations are today increasingly dependent on one's aptitude and ability to use ICT. In this regard, the Chamber positively acknowledges the placement of life skills in the new education curriculum. One other positive development resulting from the NCF is development of VET pathways as an alternative to academic based studies which provide the opportunity for students to develop their potential, and hence the possibility to continue to study to achieve higher value skills and competencies, to the maximum of their ability. This will reduce the level of early school leavers exiting the education system and hence unable to progress and achieve higher valued address competencies and skills.

Future workers should be instilled with attributes such as work ethic, flexibility, ingenuity, discipline, continuous development, etc. – attributes which increasingly are being eroded. In the event that the political consensus remains that students at higher and tertiary education are to continue to receive a stipend then two important reforms should be undertaken.

First, such stipends should not be provided gratuitously. In the event that stipends are to be provided, then students should be assigned to compulsory internship schemes in the summer periods with both government and the private sector. The work placement should be integrated into the ECTS credits system and would serve to instil a work ethic value system amongst students whilst giving them invaluable exposure to the real world.

Second, Government should link the stipend system to an Employability Index indicating the possibilities of employment and potential income on completion of a chosen study path. These measures are crucial in ensuring the availability of the skills required for the country to pursue its chosen economic direction. This process should be complemented by the availability of an Employability Index indicating the possibilities of employment and potential income on completion of a chosen study path. This is of particular importance given that Malta is not developing sufficient human capital and talent in

science, mathematics and engineering disciplines. Creating, developing and diffusing new products and processes require strong science and technology skills (as well as many non-research, soft and entrepreneurial skills discussed later in the document). There is, therefore, a need for an increasing emphasis on policy issues related to the availability of highly skilled labour, in science and technology. Strong science and technology skills facilitate the uptake and use of new technologies which drives innovation throughout the economy.

The above could be complemented with the introduction of an “employability index” of various qualifications and career choices offering the probability of employment chances, possible remuneration scales and possibilities of progression.

It is pertinent to underline that, for Malta to compete globally,, it must also be able to attract global talent. Malta’s challenges in this regard are considerable particularly given the size of Malta’s population. Indeed, the strong education infrastructure complemented by a strong family ethos that places importance on education has allowed Malta to produce talent that is disproportionate to its size. Malta’s, however, is an aging population. Economic theory recognises that the size of the population and the skill level of the human capital are key attributes for economic growth. Whilst, innovation, technology and arising efficiencies can compensate for a reduction in the size of the population and in the skill level of the human capital available, there is a limit to the extent that these can stem the demand of skills required and the skill scarcity that will arise in particular sectors and hence the corresponding negative impact on sectorial economic growth.

There is no doubt that Malta must continue to invest in education and human capital development targeting both high value added skills as well as targeting skills gaps where these exist. Yet, a decreasing, aging population will undoubtedly constrain Malta’s ability to plug all skills gaps as they occur. The Chamber proposes that the Government should revisit its current immigration and residency policy wherein it should adopt a selective immigration and residency policy directed to target persons who have the appropriate skills levels that the local economy is not in a position to provide in order to engender continued economic growth.

Additionally, the Chamber strongly underlines that Malta should make far more effective use of irregular immigrants. Allowing such persons to languish in ‘detention’ camps whilst their application for political asylum is under consideration is not only dehumanising but renders them a non-productive liability to the country. Indeed they should be encouraged to take up legal employment which will allow them to contribute to their well-being and to productively contribute to Malta’s economy.

RECOMMENDATIONS

9. Malta's continued economic growth depends on upgrading and deepening the education, knowledge and skills of Maltese workers. Human capital is a key factor in the adoption of new technologies, the introduction of innovative practices and in securing growth in multi-factor productivity arising from improvements in managerial practices, organisational change and inventions per se.

10. Education and training must establish stronger links with Malta's labour market given that quality intelligence on labour supply and demand dynamics are critical in ensuring outcomes that address the needs of current and future labour markets.

11. Enterprise, trade unions and Government should invest more in incentivising low-wage workers to participate in training, which is a springboard for them to upgrade their skills and justify higher salaries.

12. Stipends in higher and further education should not be provided gratuitously: in the event that they are to be provided at the first instance students should be assigned to compulsory internship schemes which would serve to instil a work ethic value system amongst students whilst giving them invaluable exposure to the real world.

13. The stipend system must also be linked to an Employability Index indicating the possibilities of employment and potential income on completion of a chosen study path. These measures are crucial in ensuring the availability of the skills required for the country to pursue its chosen economic path.

14. For Malta to compete globally, it must also be able to attract global talent and should revisit its current immigration and residency policy wherein it should adopt a selective policy directed to target persons who have the appropriate skills levels that the local economy is not in a position to provide in order to sustain continued economic growth.

15. Malta must ensure a more effective contribution by irregular immigrants wherein they are encouraged to take up legal employment which will allow them to contribute to their well-being and to productively contribute Malta's economy.

3.3/ Supporting the further development of business and enterprise

Malta's businesses and enterprise are the primary drivers of economic growth. Malta's ability to retain prosperity, social harmony and the social security safety net is largely dependent on the success of business and enterprise.

3.3.1/Inculcating a culture of excellence

Excellence must become the hallmark of Malta's businesses and enterprises irrespective of the economic sector they are operating in. A culture of excellence is a determination and disposition to excel: a commitment to be the best. Excellence is a way of being and thinking: a culture of excellence is a premeditated choice and a commitment to go beyond the ordinary or 'averageness'.

Achieving a global and regional recognition for excellence enables Malta to attract increased foreign investment, high networked persons, research, etc. To achieve and support excellence, Malta's supporting hard and soft infrastructure as well as policy design and implementation with regard to business and enterprise have to be strongly aligned.

The inculcation of a culture of excellence requires a multifaceted approach over the long term. A culture of excellence will not happen by chance. It must start at the top by Government and private enterprise demonstrating in the most emphatic manner that going for second best – such as the procurement by Government of goods and services on the sole basis of the cheapest price – is not acceptable.

A process of developing cross-institutional excellence in both the private and the public sector is necessary. Business and enterprise should be supported by institutions such as Malta Enterprise (ME) to transform themselves through the implementation of international standards and accreditation in order to improve the quality and standard of the goods and services they provide. Government departments, in general, should be tasked to establish Key Performance Indicators and to draw up Quality Service Agreements on the quality and timeliness of the service they provide to the citizen and / or entrepreneur.

The Government should seek to reward firms that invest in upgrading quality and achieve high value-added not only by promoting quality and excellence but by leveraging its purchasing power, which on average stands at approximately 16% of the GDP, to reward, in the most demonstrative manner. This can be achieved through a marked shift in the criterion for selection from that mainly of price to quality and track-record

where Government will unequivocally demonstrate that achieving 'quality and high value-addedness' positively pays

Excellence requires continuous change, stimulation and innovation which should be spurred through positive competition. Experience has shown that the privatisation of incumbent monopolies such as Telemalta Corporation has resulted in a market that is far more efficient, with a higher level of quality, client satisfaction and service provision, a higher level of choice and reduced prices as a result of direct competition. On the other hand, monopolistic utilities that continued to be owned and managed by the State continue to perform badly – and in the case of Enemalta Corporation actually threatening Malta's economic sustainability.

Education is central to the fostering of a culture of excellence – and in this regard there must be strong synergy with the fostering of human development. The afore-mentioned NCF takes a strong step forward in this regard. It adopts a student centric approach to learning that seeks to imbue children, and hence tomorrow's workforce and parents, with positive attitudes towards excellence, commitment, responsibility, flexibility and entrepreneurship. The NCF provides, if followed through, an opportunity to develop Malta's future generation of workers and parents within a milieu of excellence.

RECOMMENDATIONS

16. Excellence must become the hallmark of Malta's businesses and enterprises irrespective of the economic sector they are operating in. At the national level, an emphasis on Quality is to be driven by all social partners who together must inculcate a culture of excellence across the entire population.
17. Business and enterprise should be supported by institutions such as Malta Enterprise to transform themselves through the implementation of international standards and accreditation in order to improve the quality and standard of the goods and services they provide.
18. Government departments should be tasked to establish Key Performance Indicators and to draw up widely applicable Quality Service Agreements on the quality and timeliness of the service they provide to the citizen and / or entrepreneur.
19. Government should leverage its purchasing power to reward, in the most demonstrative manner, quality and excellence when securing goods and services for its use.

3.3.2/Achieving a flexible competitive labour market

Labour Market inflexibility and the out-dated COLA mechanism are contributing to a steady erosion of Malta's labour cost competitiveness. The competitiveness challenges that Malta will face in the medium term will not only come from highly technical but low employment cost countries such as China or India but, more worryingly, from closer to home: Europe.

Malta is no longer an attractive destination for foreign investment in the manufacturing sector. Eastern Europe is a far more attractive destination than Malta both with regard to the ease to do business as well as with regard to employment costs and labour market flexibility. It is to be noted that the general consensus amongst the leading foreign investment manufacturing plants in Malta is that if the investment decision to open a new subsidiary overseas was made today the decision would be that they would not set up shop in Malta.

As discussed earlier, once the economies of Spain, Italy and Greece emerge from the post economic crisis they will be stronger and far more competitive than Malta in the services and new economy sectors.

Malta must take heed of the evolving competitive dynamics, particularly in neighbouring South European and Central European countries. Malta ignores them at its peril. Enterprise, and particularly foreign investment enterprises, will only invest if the returns make economic sense. The moment they fail to do so the companies will uproot and relocate at the expense of Malta's economic fundamentals in terms of employment, exports and capital formation.

The economic world has changed, and changed dramatically. There is no 'business as usual'. To survive, let alone to continue to grow economically to secure and create further social development Malta must break away from traditional labour practices that in today's environment render Malta uncompetitive. Malta has no choice but to undertake such change, difficult as it may be in the immediate and short term.

The Malta Chamber cannot but emphatically underline that the COLA mechanism is contributing towards undermining Malta's ability to compete unsustainably. There is a need for urgent realisation by the Government and the trade unions of the consequences which will arise if a reform of the COLA mechanism, that reflects productivity as well as inflation, is not carried out in the immediate term.

The Malta Chamber is equally against the increase of the minimum wage – beyond a reformed COLA mechanism. The wage is a function of productivity and not spending

power and an across-the-board increase in the minimum wage would further negatively impact Malta's competitiveness.

Malta's labour laws are inflexible. The unintended consequences of Malta's labour law environment are starting to hit home as Malta's competitors are seeking to ease restrictive laws to get more people into the work place. Unfortunately, whilst Malta's competitors are reforming their respective labour regulatory framework to secure effective flexibility, Malta has gone to the other extreme. The so-called fight against 'precarious work' by the Unions is misguided and misjudged. Removing the ability of a business to employ persons on temporary and flexible terms can only have one resulting impact: businesses will not invest in Malta or employers may prefer not to employ in the absence of the necessary flexibility to contract out on the basis of business needs and market performance.

A call for a less inflexible labour environment does not mean that the Chamber condones employers who abuse of labour employment rules – whether this relates to employing people below the minimum wage, applying unacceptable work practices or any other irregular practice. The solution, however, is to beef up the Government competent authorities to regulate employment practices and to sanction employers who carry out such abuses. It is relevant to mention once again that even in this context, it is vital to ensure the adoption of fair and proportionate enforcement amongst all enterprises.

Employers who have abused in the past will find ways to circumvent the introduction of inflexible employment rules primarily because the regulation of employment practices, too often, weak as it is, tends to target those employers who play fair and within the rules which will be affected negatively. The end result will be a further accentuation of an unfair playing field against legitimate employers and employers who behave legitimately, will be negatively impacted, and consequently hold back from increasing employment.

RECOMMENDATIONS

20. Malta must take heed of evolving competitive dynamics, particularly in neighbouring South European and Central European countries. There is a need for urgent realisation by the Government and the trade unions of the consequences which will arise if a reform of the COLA mechanism, that reflects productivity as well as inflation, is not carried out in the immediate term.

21. Wage is a function of productivity and not spending power and appeals for unjustified increases in the minimum wage across-the-board must not be entertained until Malta registers sustainable and significant rates of economic growth. Otherwise, the measure would further negatively impact Malta's competitiveness.

22. The unintended consequences of Malta's labour law environment is starting to hit home as Malta's competitors are seeking to ease restrictive laws to get more people into the work place. Removing the ability of a business to employ persons on temporary and flexible arrangements will result in businesses not investing in Malta or employers preferring not to employ in the absence of the necessary flexibility to contract out on the basis of business needs and market performance.

23. A call for a less inflexible labour environment demands a beefing up the Government competent authorities to regulate employment practices and to sanction employers who carry out such abuses and thus ensure the adoption of fair and proportionate enforcement amongst all enterprises.

24. Tangible measures must be taken to enable Malta to move up the World Bank rankings for ease of doing business. Malta ranked in the 103rd place out of 189 surveyed economies – slipping from the 100th position in 2013. In this context, Malta is the lowest ranking EU Member State. Improvement definitely requires a sharp focus on smart regulation to cut red tape and competitiveness-enhancing public policies. Business and the country will benefit from a renewed entrepreneurial spirit.

3.3.3/Managing the energy challenge

The Chamber is cognisant that inherent limitations (external dependencies, insularity, etc.) render it difficult for Malta to benefit from the economies of scale, infrastructure and lower prices enjoyed by business and enterprise operating in mainland Europe. This emerges clearly from the fact that the price of electricity for business and enterprise in Malta is the second highest amongst the EU 28 Member States – preceded only by Cyprus, another island state. Be that as it may, as a small, resource-constrained country, it is of the utmost importance to ensure that energy does not become a limiting barrier for Malta's economic competitiveness and growth.

Energy rates are a sensitive issue which directly affect the cost structures and cash-flows of business operations. The situation also has serious implications on the country's competitiveness and attractiveness to new investment.

Malta's energy policy must address the efficient production, transmission and distribution of energy, and create a drive for a more efficient and competitive service. The Malta Chamber understands that Enemalta can never enjoy the economies of scale that are available to energy producers in larger countries. However, this does not mean that the private sector needs to be disadvantaged. The monopolistic nature of utility provision and the operational and administrative inefficiencies, should not be the cause for additional burden on end-users.

In fact, the Malta Chamber strongly emphasises that the cost of Enemalta Corporation's inefficiency should not be passed on to the productive sector. Enemalta Corporation's inefficiencies arise in a number of ways: inflated headcount; inability to manage theft and administrative errors which constitute 8 percent of all electricity generated; and high losses in generation due to obsolete use of steam technology, to mention a few. The Malta Chamber believes that it would be helpful if clear distinctions are drawn between the costs of efficient energy production, transmission and distribution.

The Malta Chamber took note of the investment by Chinese-state owned company Shanghai Electric Power in the equity of the Corporation. Independently of this however, Government should introduce measures that would lower domestic energy prices for industry and business to levels comparable to those applicable in the rest of the EU.

This above could be achieved through a number of measures including:

- allowing business and enterprise to undertake bulk buying and joint purchasing;
- allowing bulk consumers to opt for fixed or variable tariff ;
- allowing privately managed energy distribution grids and substations in Industrial parks;
- considering the introduction of energy vouchers to incentivize private investment in alternative sources of energy and in increased efficiency of energy;

The Malta Chamber also highlights the opportunity to venture further into measures which incentivize energy efficiency and the use of alternative sources of energy, in order to systematically diminish Malta's high dependency on fossil fuel oil. This would contribute to the achievement of EU emission targets which are expected to put further pressures on the sector. In this regard, there needs to be timely implementation of certain measures which will lead to appropriate and affordable energy solutions for business and the country as a whole, including the completion the smart meters installation project; a clear and advantageous policy with regards to use of factory roofs for energy generation; and comprehensive incentives to stimulate the Green Economy.

In fact, Government should be far more proactive in supporting business and enterprise to manage their energy consumption demand more efficiently through the adoption of Renewable Energy Sources (RES) and Energy Efficiency (EE) technologies. The Chamber is disappointed that under the 2007-2013 EU programming period, Government did not channel a larger portion of European Regional Development Fund (ERDF) to assist business and enterprise to invest in RES and EE technology.

Therefore, the Malta Chamber states, in the most emphatic terms possible, that under the 2014-2020 EU financing period the Government must channel more funds from the ERDF and other EU financing instruments to support business and enterprise to undertake critical investments in RES and EE technologies. Such funds should not be limited solely to energy generation but also to the replacement of existing plant and other technologies by ones that are more resource efficient.

The Malta Chamber also expresses concern with regard to the management of water production. The current 'low' price of water has been possible to date only due to the fact that the Water Services Corporation (WSC) extracts slightly less than 50 per cent of the water produced from the water table. This over-exploitation of the water table cannot continue sine die as the sustainability of the water table is in danger. Should the sustainability of the water table collapse then the consequences to business and enterprise (and the rest of society) are dire: increased dependency on Reverses Osmosis water production with the subsequent negative impacts arising from increases in the water tariffs.

It is, therefore, of paramount importance that the Government ensures that it introduces schemes under the 2014-2020 programming period that will incentivise business and enterprise to invest in water conservation projects.

RECOMMENDATIONS

25. The Chamber strongly emphasises that the cost of Enemalta Corporation's inefficiency; inflated headcount; inability to manage theft and administrative errors which constitute 8 percent of all electricity generated; and high losses in generation due to obsolete use of steam technology, etc., should not be passed on to the productive sector.

26. Government should introduce measures that would lower domestic energy prices for industry and business to levels comparable to those applicable in the rest of the EU. This could be achieved through a number of measures including:

- allowing business and enterprise to undertake bulk buying and joint purchasing;
- allowing bulk consumers to opt for fixed or variable tariff ;
- allowing privately managed energy distribution grids and substations in Industrial parks;
- considering the introduction of energy vouchers to incentivize private investment in alternative sources of energy and in increased efficiency of energy;

27. At the same time, it is crucial for the country to maintain flexibility to increase the share of energy sourced via the interconnector in the overall energy mix should it be more advantageous from a cost perspective to source energy for the private sector from Sicily or eventually mainland Europe.

28. In the 2014-2020 EU financing period Government must channel more funds from the ERDF and other EU financing instruments to support business and enterprise to undertake critical investments in Renewable Energy Sources and Energy Efficiency technologies.

29. The over-exploitation of the water table cannot continue forever as the sustainability of the water table is in danger and its collapse will have dire consequences on business and enterprise. Government must ensure that it introduces schemes under the 2014-2020 programming period that will incentivise business and enterprise to invest in water conservation projects.

3.3.4/Enabling access to finance to SMEs and the knowledge economy sectors

There is good evidence to suggest that access to finance does have a beneficial impact on business start-ups and growth, which will contribute to economic growth. There is also evidence to suggest better access to finance leads to higher productivity within an economy. Production is far more likely to increase the most in countries with relatively strong access to finance. Unlike other EU Member States, the financial crisis did not lead to a reduction in the supply of credit from the banking sector to business.

Nevertheless, Malta has a market failure with regard to access to finance for SMEs and knowledge based industries - affecting the supply of both debt and equity finance to SMEs. Malta's financial banks are primarily retail financial institutions. Access to loans and overdrafts, therefore, are only made available to traditional 'bricks and mortar' business and enterprise where collateral can be presented. Financial institutions require borrowers to provide collateral as security for the finance. Therefore, a market failure exists because the financial institution's decision to lend is largely based on collateral, rather than the economic viability of the business.

Knowledge based industries, however, have no 'hard' collateral as they primarily deal with intellectual property and copyright. The absence of financing instruments designed for a knowledge based economy, today mainly limited to the JEREMIE schemes which allows for reduced collateral requirements, is limiting Malta's ability to leverage local talent to take up entrepreneurial activity in this important economic growth sector. There is no doubt that the JEREMIE scheme had a successful impact on SME business and enterprise, and, thus, similar schemes, whether EU or locally designed, should be introduced over the term of this Vision.

Additionally, it is recognised that an 'equity gap' exists in the provision of modest amounts of equity finance to SMEs. There are few, if any mechanisms that enable SMEs and start-up business owners and investors to come together, with investors thus being more likely to channel financing towards more established enterprises. The result is that viable SMEs and start-ups businesses with growth potential not being able to obtain equity finance.

The above is also exacerbated by information market failures affecting the demand side for businesses seeking finance. SMEs or start-ups may not fully understand the potential benefits to their business of raising finance which ultimately means they do not apply. This may restrict the growth of businesses. Business owners are likely to lack knowledge of funding sources available or lack the skills to present themselves as investable opportunities to investors, which combine with problems on the supply-side.

The Government is encouraged to work with the Malta Chamber and other stakeholders to create collateral-free loans under a form of credit guarantee fund trust schemes directed to promulgate increased entrepreneurship in the new knowledge economy as well as to assist start-ups to access early state capital during the early years of an enterprise's life cycle.

SMEs, in particular, face significant barriers and high risks when embarking upon exporting their goods or services, including a lack of knowledge of foreign markets, the necessity to develop a foreign customer base, lack of resources to address barriers to trade, being financially unable to wait any significant period of time for payment for exported goods, etc.

Thus, the launch of the €50 million fund by HSBC as part of the bank's 'Malta Trade for Growth Initiative' directed to assist Maltese business and industry to flourish by increasing international trade with growing and emerging markets and, equally importantly, encouraging international investment in Malta through a range of discounts and incentives, including capital to support their international trade, the waiving of administration fees for finance against trade export or import, facilities for trade with emerging markets, and discounts in pricing when upgrading from traditional overdrafts to Structured Trade Finance products, such as export loans or invoice finance is an exciting and welcomed development. This is a development that should be replicated by other financial institutions in Malta.

Government is encouraged to work with the Malta Chamber to introduce export finance support schemes to facilitate export finance to SMEs and businesses to mitigate the risk of default or late payment on export orders. This would be complementary to commercial services made available by financial services intermediaries such as invoice financing and factoring.

RECOMMENDATIONS

30. Government is encouraged to work with the Chamber and other stakeholders to create collateral-free loans under a form of credit guarantee fund trust schemes, structured access to equity, structured information on access to financing, etc. directed to promulgate increased entrepreneurship in the new knowledge economy as well as to assist start-ups to access early state capital during the early years of an enterprise's life cycle.

31. The Government is encouraged to work with the Chamber to introduce export finance support schemes to facilitate the provision of export finance to viable SMEs to supplement similar initiatives provided by financial services intermediaries such as invoice financing and factoring.

3.3.5/ Strengthening business's and enterprises' ecosystem for overseas growth

Very few Maltese firms have branched out of Malta and developed into multi-national companies – although a relative number of Maltese business and enterprises have successfully penetrated into the North African market.

The expansion of Malta's private business enterprise overseas requires a strong supporting ecosystem. Whilst Malta's entry into the EU has, theoretically, opened up Europe's 500m population inland market to local business and enterprise experience to-date shows that local firms are struggling to penetrate the Single Market. Primarily, this is the result of the fact that local business and enterprises face an imbalance in terms of institutional support with particular regard to companies with a potential to export knowledge based services as well as a manufactured product.

The ability to prepare and launch an overseas market penetration strategy is dependent on the strength of the corporate ecosystem of the business and enterprise seeking to undertake such a strategic move. The ability of Maltese firms to develop a strong corporate ecosystem is very much constrained by the size of the domestic market. A successful firm in Merseyside in England, for example, invariably evolves into a regional and subsequently into a national chain within the United Kingdom; wherein it is aided by the fact that it does not need to deal with different languages, currencies, laws and regulations. This allows it to build a corporate infrastructure and muscle as well as a strong client base which acts as its launching pad for European or global expansion.

Ironically enough, however, Malta's small local domestic market forces a local enterprise to contemplate whether it expands its economic activity overseas much earlier than a business or enterprise operating in a larger country. A local business or enterprise may find that it is constrained to continue to operate locally once it reaches a natural saturation and may be compelled to expand overseas prematurely.

A Maltese local firm does not, however, have the same opportunity as a similar enterprise in Merseyside with regard to building a similar strong corporate ecosystem that allows it to successfully penetrate and compete in mainland Europe. Additionally the risk of failing is high – and more significantly such an expansion, should it fail, is likely to compromise the local enterprise's future wellbeing.

The Malta Chamber strongly underlines that local enterprises, supported by a strong enterprise and marketing support infrastructure facilitated by Government, should

continuously explore new opportunities in the EU and elsewhere. The Chamber is of the considered opinion that Government should partner with it through the appropriate authorities and assume a far more focused approach directed to increasing successful export market entry by Maltese businesses and enterprises.

Such focused activity by Government should extend beyond the traditional measures of acting as 'trusted' intermediary where the Government either through (i) ME or its diplomatic service, or through (ii) different competent authorities such as Malta Tourism Authority and Transport Malta plays a number of important roles with regard to promoting, (a) 'Malta Inc.' and with regard to (b) the specific economic sectors which include but are not limited to the following:

- Provision of information where it would not otherwise be available at an appropriate cost, including the facilitation of trade fairs, visits overseas, etc.
- Facilitating beneficial private sector cooperation.
- Strengthening the social networks and institutions which underpin private sector activity in trade and investment, especially in culturally distant markets.
- Helping businesses overcome barriers to market access, including through political and diplomatic support.
- Undertaking of national marketing and advertising campaigns which promote Malta under the umbrella of which private industry and business is encouraged to partake in through their respective campaigns.

The Chamber recommends that, in tandem with upgrading quality and standards mentioned earlier in this document, the Government should take actions that include but are not limited to the following:

- Ensure that business enterprise firms have access to expert advice and support on global expansions. The costs of trying to find effective ways of navigating a new business environment can be high if firms do not have access to the right advice and help. Weaknesses in internationalisation skills, if not addressed, are likely to increase the costs of entering overseas markets, for example as a result of pursuing poor quality marketing research or market entry strategies which waste resources or increase risks of failure.

- Ensure that, in targeting new export markets, such as the fast emerging growing markets, the pool of expertise which is likely to be much thinner is strengthened as otherwise weaknesses, if not addressed, are likely to negatively affect the ability of businesses to compete in that market.
- Assist business and enterprise with raising the level of international marketing and export competencies.
- Assist business and enterprise to exploit the information economy and in this regard identify and assess the key barriers and obstacles for business and enterprise to trade cross-border in the EU and recommend actions to boost cross-border trade.
- Assist business and enterprise, particularly SMEs, to make full use of the Internet and associated activities such as e-commerce.
- Assist business and enterprise selling innovative goods and services that also tend to encounter greater difficulties with legal and regulatory issues, including intellectual property.
- Support export orientation through increased higher and further education international trade, traditional marketing, digital marketing, etc.

RECOMMENDATIONS

32. Given that internationalisation assumes greater importance for companies in a small island economy Government should partner with the Malta Chamber through the appropriate authorities and assume a far more focused approach directed at increasing successful export market entry by undertaking actions for business enterprises to ensure that they (i) have access to expert advice and support on global expansions; (ii) have access to a pool of expertise particularly in emerging markets; (iii) are assisted in raising their level of international marketing and export competencies; (iv) are assisted to exploit the information economy through overcoming obstacles with regard to trade cross-border and in making full use of the Internet and associated activities such as e-commerce; (v) are assisted in selling innovative goods and services; and (vi) are supported in export orientation through increased higher and further education of international trade, traditional marketing, digital marketing, etc.

3.3.6/Positioning Malta as a premium global brand

Malta has no single brand. The matter of whether Malta should have a national brand or whether there should be different brands depicting different facets of Malta's 'products' has and continues to generate controversy (this is not surprising given that academic literature and research is divided on the importance and value of nation branding).

The Chamber unequivocally underlines the importance that Malta 'tells' its story well and in a coherent manner. The general consensus within the Chamber, however, is that the way that Malta is currently organised to project itself today may be substantially enhanced. The Chamber is of the considered view that the export, FDI, tourism, etc. related activities that the Government carries out to-date could be far better planned and effective if Government had to work more closely with the private sector.

The Chamber, in fact, recommends that a model that has been successful in promoting Malta as a centre of excellence and which has resulted in a robust economic sector that brings together international business, local enterprise, and a vibrant supporting value chain is FinanceMalta. FinanceMalta is a public private partnership vehicle, where government appoints four members out of a board of eight members, which brings together Government and associations such as the Malta Funds Industry Association, the College of Stockbrokers, the Malta Bankers Association, Malta Insurance Managers Association and the Institute of Financial Services Practitioners with a purpose to:

- Co-ordinate closely with relevant industry players in order to promote and market regulated and other business areas in the financial services sector such as investment services, mutual funds, trustee services, insurance, banking, etc.
- Assist practitioners to market the Malta concept and advantages in order to attract foreign direct investment in group treasury, international trading operations, investment portfolio trading, back office operations and call centres, services connected with private aircraft management, aircraft leasing, etc.
- Raise Malta's profile as a quality finance centre, both locally and internationally.
- Implement and refine the brand strategy and road map developed for the financial services industry.

- Promote ownership of the Malta brand among all stakeholders.
- Create business and networking opportunities for firms operating in the sector.
- Feed off the successes in one area to attract investment in another area creating more opportunities up-front and synergising different investment sub-sectors pushing them to complement and not compete with one another.

The Chamber is of the considered view that the FinanceMalta public private partnership model is replicated in other economic sectors where Government and the private sector work together not only to be charged with the mission to promote Malta as a premium destination internationally but also to further develop the enabling framework that will allow each such economic sector and its respective value chain to grow.

RECOMMENDATIONS

33. The FinanceMalta public private partnership model should be replicated in other economic sectors where Government and the private sector work together not only to be charged with the mission to promote Malta as a premium destination internationally but also to further develop the enabling framework that will allow each such economic sector and its respective value chain to grow.

3.4/ Building an innovation infrastructure

Malta's capability to innovate and to bring innovation successfully to market is a crucial determinant of its ability to compete at a global level. Increasingly innovative activity is the main driver of economic progress and well-being, as well as a potential factor in meeting challenges such as aging, energy and health.

The World Economic Forum ranks Malta among the 35 economies classed as being in the innovation-driven stage of economic development (with services accounting for 65% of GDP in contrast with 14% linked to manufacturing industry). The EU Innovation Scoreboard 2013 ranks Malta among the moderate innovators. Between 2007 and 2012 Malta's gross research and development expenditure as a % of GDP increased from approximately 0.55% to 0.72% which resulted in Malta being among the top 5 European countries registering a considerable growth in innovation performance (over 3%) between 2008 and 2012.

Although the increases are relatively modest it demonstrates that the Government has started to address the soft and hard infrastructural deficit in Research and Innovation with a goal to render it a driver of Malta's economy. The Chamber is of the considered view that Malta becomes a recognised destination to international business as a hub and home for innovation and commercialisation.

The building of an innovation infrastructure, that cuts across any of the targeted economic sectors presented in this document, will build on the recommendations presented earlier with regard to human capital development.

3.4.1/Incentivising innovation in productivity improvement in business and enterprise

The last decade or so has shown that the widespread use of information technology by organisations has powered a revival of productivity growth, increases in the quality of goods and services and the creation of new products. Economic theory underlines that productivity growth is the best aggregate measure of the economic consequences of innovation – wherein productivity can be increased by raising the value of goods and services produced or productivity can grow by producing a given set of goods or services in a more technically efficient manner.

Business and enterprise in Malta must be in a position to raise their levels of productivity if they are to remain competitive. The Malta Chamber recommends that Government should assist business and enterprise to identify innovative business models, processes, technology, research, benchmarking and other actions directed to improve productivity. It should primarily achieve this through the setting up of a Government-University of Malta-Business and Enterprise centre that will conduct applied research on productivity and innovation for enterprise to tap on.

It should focus of different areas: growth markets; the emergence of disruptive technologies such as '3D Printing' that can be leveraged by local enterprise, sectors where unless economic operators increase their productivity are likely to move to relocate or close down.

Advanced manufacturing, for example, is emerging as an especially potent driver of future economic growth. A distinguishing feature of advanced manufacturing is its continual improvement in processes and rapid introduction of new products – which means that over the medium term, an increasingly automated environment will become less dependent on labour-intensive mechanical processes and more on sophisticated

information-technology-intensive processes. This trend will likely accelerate as advances in manufacturing are implemented. Challenges to Malta's manufacturing as a result of the growth in advanced manufacturing has the potential to result in a state of play where jobs are lost and opportunities for growth are lost.

Such a Centre would act as an R&I hub between private industry and tertiary education institutions in sectors that include but are not limited to the pharmaceutical industry, life sciences, materials science research, manufacturing production technologies and informatics. This will ensure that Malta will have the appropriate innovation infrastructure that will assist manufacturing businesses to upscale, for example, part of their manufacturing infrastructure to embrace advanced manufacturing.

RECOMMENDATIONS

34. Business and enterprise in Malta must be in a position to raise their levels of productivity if they are to remain competitive and Government, University of Malta, business and enterprise should come together to create a Research and Innovation Hub that will conduct applied research on productivity and innovation for enterprise to tap.

3.4.2/Establishing Malta as a leading 'Living Lab' centre

Malta has the right environment to become a regional, if not global leading "living lab" for businesses to conceptualise, co-create, undertake incremental innovation, test-bed and commercialise future-ready solutions for a region.

Malta is an ideal "living lab" grounded on the ability to pilot with speed and scale within a compact urban environment for controlled experimentation, testing and lead adoption. Malta should build on its position to become a 'trusted' location and with strong business and enterprise ties and competencies, coupled with close collaboration between the private and public sectors, to develop as the reference nation for regional solutions and whereby product and process standards selected areas are developed and exported from Malta.

To achieve this Malta would have to invest in a living laboratories infrastructure that would allow companies to test technologies, product and process standards as well as to showcase their products. Malta has demonstrated success with this concept in the

past: for example Telecell, today known as Vodafone, in the 1990s had used Malta as a test market before expanding regionally and globally. There is no reason why this concept cannot be replicated, for example, with regard to electric cars where Malta's small distance and investment in road and grid infrastructure can be of an advantage given that they are within the vehicle battery range.

RECOMMENDATIONS

35. Malta is an ideal “living lab” grounded on the ability to pilot with speed and scale within a compact urban environment for controlled experimentation, testing and lead adoption. Government and the private sector should partner up to invest in a living laboratories infrastructure that would allow companies to test technologies, product and process standards as well as to showcase their products.

3.4.3/ Stimulating innovation and research

The Industry strategy for Malta designed by Government together with the Federation of Industry in 2006 stated that “entrepreneurship is a major driver of innovation, competitiveness and growth ... a number of good entrepreneurial concepts fail to start-up due to the absence of financing ... Passion, perseverance and dedication go a long way in determining the success of an enterprise but such traits can only take the business so far ... access to Venture Capital is therefore critical if concepts are to be translated to start-ups, and start-ups to grow ... [there is a need for the] setting up of proper venture capital funds”.

Malta still today does not have a vibrant climate of innovation where new businesses and enterprises seek commercial success to new products, services, etc. derived through the R&I chain from research to commercialisation. It is, indeed, disconcerting to note that seven years since the Industry strategy was penned there is still no private sector led Mezzanine Venture Capture framework in Malta.

Progress in emerging technologies, experience has shown, has primarily originated from start-up companies, which often have little assets other than the innovation that they need to protect and use to raise capital. These companies help bring new ideas and inventions to the market. The National R&I Programme introduced in the late 2000s although addressing, in part, the prevailing market failure in this regard is far too small to make any significant impact. There is no doubt that the country must significantly increase its investment in science and technology.

Malta cannot afford such institutional paralysis in addressing such important matters. It has to be far more nimble. If this market failure cannot be addressed in the short term, then Malta must start looking at innovative solutions other than the traditional innovation vehicles. One manner of addressing this market failure is the creation of a Malta Development Bank or an Enterprise Bank which, amongst other matters, would have the responsibility to promote the enterprise in the economic growth sectors.

There are, also two important infrastructures – incubation centres and business angels network – that have to be in place for innovation in Malta to be simulated and unleashed.

With regard to the former, Malta is experiencing considerable progress. The setting up of the Microsoft Incubation centre is seen to be an important first step. For the first time a private sector entity has invested significantly in an incubation infrastructure directed to support entrepreneurs to set up and subsequently spin-off. The University of Malta has strengthened its industry to academia research infrastructure which has positively resulted in spin-offs and commercialisation of research. The new Bio-Park being developed by ME will also have an incubation capacity.

The setting up of a formal business angels network – whether to assist new entrepreneurs with financing or providing mentoring and coaching – has taken a long time to take root. Although the Malta Chamber recognises that informal business angel support has been taking place such support was not openly available to any up and coming entrepreneur. The recently launched €1m business start-up fund by PwC is therefore an important, and welcome, development. Malta needs to be far more creative in incentivising established business and enterprises to act as business angel – and one way of achieving this is through the provision of further fiscal incentives to those private sector organisations which adopt a formal business angel's role.

These are encouraging developments that indicate that resources of public, private and research institutions respectively are being organised, marshalled and leveraged to enable an innovation landscape for Malta. The Chamber underlines that it is imperative that the Government and the private sector as well as research institutions work closely together so that the exciting initiatives underway with regard to the building of an innovation infrastructure complement one another and come together so that Malta builds the necessary critical mass in this regard.

RECOMMENDATIONS

36. Malta cannot afford a continued institutional paralysis in rendering available financing for innovation and if this long outstanding market failure cannot be addressed in the short term, then Malta must start looking at innovative solutions other than the traditional innovation vehicles, such as the creation of a Malta Development Bank or an Enterprise Bank.

37. The progress being achieved in the development of incubation infrastructure needs to be complemented by a formal business angel's infrastructure as a vehicle for equity financing for start-ups and SMEs which could be encouraged through the innovative use of fiscal instruments.

3.4.4/Setting up a post-doctoral research and innovation hub

The contribution of education and human capital accumulation to economic growth is well documented. Some of this occurs through science and innovation. Investment in the education and training of researchers and other highly skilled workers is a major factor in determining the contribution that scientific research can make to scientific progress and innovation. Over the past years, the higher and tertiary institutions have undergone a radical transformation which has seen student population and taught programmes increase significantly with capacities now in place leading to the award of Masters and PhDs in a number of disciplines. Nevertheless, Malta, to date, has no capacity to host post-doctoral research fellowships.

The absence of post-doctoral fellowship capacity may result in a state of play where persons who, at considerable cost, have been sponsored to follow PhD programmes and who wish to continue to build their research career may be attracted not to return to Malta due to the lack of post-doctoral fellowship opportunities. This would constitute a brain drain of positive and expensive efforts carried out to-date to build human capital and talent in R&I. Additionally, the absence of research staff within tertiary education institutions in Malta who hold, at least, one post-doctoral fellowship limits the possibility of building R&I hubs between tertiary education institutions and private sector in the identified industry sectors. The setting up of research hubs underpinned by researchers with post-doctoral fellowships is, therefore a significant and important priority for Malta to build indigenous research communities.

RECOMMENDATIONS

38. The setting up of research hubs underpinned by researchers with post-doctoral fellowships is a significant and important priority for Malta to build indigenous research communities based on past and on-going human capital investment through Government scholarship programmes in doctoral studies.

3.4.5/Encouraging entrepreneurship

Central to encouraging business and individual engagement to drive growth is ensuring that there is a strong entrepreneurial culture in Malta. Economic growth depends on there being incentives to drive the creation and growth of businesses. Boosting economic growth requires the presence of a large group of individuals who are actively thinking about starting a business and have the attributes and skills to achieve their ambitions.

Entrepreneurial development of Maltese people, especially of youth and women, should, therefore, be extensively encouraged to increase their involvement in the private sector. As mentioned earlier in the document, the reform of the education system directed to replace content learning by student centric learning, with entrepreneurship and innovation being embedded within the national curriculum is an encouraging step forward.

Barriers to entrepreneurship should be studied and initiatives launched, including incentives, business training and capacity-building in areas relevant to labour market needs. Increasing the participation of Maltese persons in the private sector and reducing their dependence on public sector employment entails a narrowing of the gaps in conditions of work.

One such barrier to entrepreneurship is the stigma that is associated with an entrepreneur in the event that his or her business or enterprise launched fails must be removed. Failure is an intrinsic part of economic life and not all businesses and enterprises succeed – with the failure rate of start-ups is likely to be far higher than that with mature businesses. One important measure required in this regard is the review of the onerous bureaucracy governing insolvency or dissolution in order to see how barriers for honest entrepreneurs are reduced to allow them to make a fresh start without unduly harming their creditors' interests.

RECOMMENDATIONS

39. Boosting economic growth requires the presence of a large group of individuals who are actively thinking about starting a business and have the attributes and skills to achieve their ambitions. A radical overhaul of the enabling environment building on the new National Curriculum Framework must be embarked upon.

40. Government should partner with the Malta Chamber to create a partnership to deliver support and mentoring services to SMEs, micro-enterprises and start-ups. The partnership should be private-sector driven and will provide competitiveness-enhancing and capacity building services in areas such as corporate governance, access to finance, business transfer, internationalisation, EU regulatory and funding opportunities.

3.5/ Investing in infrastructure and the environment

Whether it is the Internet or the road network, infrastructure improves the function of an economy. Telecommunications, for example, has an immediate and direct correlation with economic growth. ICT, on the other hand, has a significant impact on productivity. Investment in infrastructural development is not only a means to stimulate economic activity in Malta but it is essential for ensuring that the country has a strong economy and a strong business and enterprise base that is positioned to compete globally. This means that investment in Infrastructure needs to be prioritised based on priorities which have the potential to maximise and protect economic growth.

3.5.1/Prioritising and financing investment in infrastructure

Infrastructural investments have not necessarily moved at the same pace as demand. As discussed previously, it is only in the past six years that considerable investment has been directed towards energy and related infrastructure – with still much more to be carried out in the distribution and transmission network. Investment in water infrastructure in terms of RO plants and flood relief has been significant. Nevertheless not much investment has been carried out in upstream harvesting and soak-aways infrastructure to enable water catchment and to allow the water to filter into the ground water table.

The roads have become hopelessly grid locked as a result of a legacy of underinvestment in the distributory and arterial road network. The failure of the reform of public transport

has only compounded matters further. As discussed earlier in this document, considerably more investment is required in science and technology and research institutions.

The Chamber is of the considered view that Malta faces considerable physical infrastructure bottlenecks which, if not addressed in a structured and planned manner, will negatively impact Malta's future economic and social posterity. The Malta Chamber recommends that Government draws up a long-term national infrastructure strategy – up to 2030 – that articulates and priorities the investment required both with regard to new physical infrastructure as well as the retro-fitting / upgrading / technology refresh of existing physical infrastructures.

The undertaking of such an investment strategy will also ensure that investment that will be undertaken between 2014 and 2030 is truly 'genuine' investment – that is investment that will truly contribute to the long term economic and social development of Malta as well as the expansion of Malta's productive base. In this regard, particular priority should be focused towards but not limited to the following infrastructure projects:

- Digital Infrastructure for telecommunications, Fixed and Mobile Broadband and redundancy.
- E-Infrastructure for Bioscience (open-access infrastructure to drive knowledge generation from genotype (simple 'big-data') to phenotype (massively complex 'big data') to ensure that strategic areas have access to a suite of informatics technologies that can be both generically enabling and, where required, tailored to meet specific strategic needs.
- Infrastructure in port, freight capacity and logistics management.
- Innovation Campus development aligned to national strategic research and innovation strategic focus.
- Distributory and arterial road network.
- Infrastructure in waste-to-energy management, particularly incineration infrastructure.
- Infrastructure for water management.
- Infrastructure for energy generation, distribution, and efficiency.
- Health disease and aging.

The strategy should be designed in a manner that ensures that the investment embarked upon is sustainable and that it does not result in increases in the debt to national GDP levels of Malta.

The use of private investment financing (PIF), public private financing (PPP) or foreign financing in infrastructure projects has been limited. PIF and PPP financing instruments have been primarily applied in the care of the elderly sector with limited forays in other sectors such as landscaping. Foreign investment financing (which brings with it know-how, technology, global supply chains and access to markets) in infrastructure has taken place in those economic operations that have been privatised such as Maltacom, the Freeport, the airport, etc. This direction is also being taken in the energy sector with regards to the new power station as well as the Chinese investment in the field which are both currently being finalised.

The Malta Chamber, therefore, recommends that a national infrastructure strategy should underline those investments that are carried out by national funds, EU financing instruments and a mix of different private investment instruments. With regard to the latter, the Malta Chamber underlines that it is imperative that there is greater transparency and accountability as and when such instruments are applied.

Additionally, such a strategy should also look at the reasons why infrastructure projects take too long to complete. Examples abound: small stretches of road reconstruction take over 12 months to complete which in turn result in negative social-economic impacts such as congestion time resulting in productivity loss, fuel loss, unnecessary emissions emitted, etc. The bottlenecks that result in such delays, particularly with regard to project work undertaken by means of public procurement are not acceptable and should be addressed. It is imperative that the culture of excellence which is being suggested to be nurtured in other areas is also transposed into infrastructural projects.

Very often project delays that would be unacceptable in the private sector are considered to be the norm in public infrastructure projects. The management of these projects must be carried out in such a way as to ensure that full visibility of the costs and timelines is maintained in real-time in order to ensure that the project is kept on schedule and within budget. The laissez-faire attitude with which these projects are often executed is unacceptable and the opportunity costs caused by delays and overruns need to be acknowledged and owned with a view to their ultimate reduction and elimination.

RECOMMENDATIONS

41. Malta faces considerable physical infrastructure bottlenecks which, if not addressed in a structured and planned manner, will negatively impact Malta's future economic and social posterity. Government should draw up a long term national infrastructure strategy – up to 2030 – that articulates and priorities the investment required both with regard to new physical infrastructure as well as the retro-fitting / upgrading / technology refreshing of existing physical infrastructures.

42. Investment that is to be undertaken between 2014 and 2030 must be truly 'genuine' productive investment – that is investment that will truly contribute to the long term economic and social development of Malta as well as the expansion of Malta's productive base and not 'pet' white elephant projects. Such productive investment shall include (i) Digital Infrastructure for telecommunications; (ii) E-Infrastructure for Bioscience; (iii) Infrastructure in port, freight capacity and logistics management; (iv) Innovation Campus development aligned to national strategic research and innovation strategic focus; (v) Distributory and arterial network; (vi) Infrastructure for water management; (vii) Infrastructure for energy generation, distribution, and efficiency and (viii) Health disease and aging.

43. Investment in infrastructure must be sustainable and should not result in increases in the debt to national GDP levels of Malta. Government must consider more extensive use of private investment financing (PIF), public private financing (PPP) or foreign financing in infrastructure projects.

3.5.2/Energy infrastructure

A stable energy supply at affordable prices is the bloodline of all economic activity in Malta. The Chamber recognises that Malta, as an open economy and one which is dependent on imported prime energy sources (whether this is fossil oil or natural gas) for the generation of electricity is vulnerable to a number of supply risks such as geopolitical conflicts and natural disasters which can cause temporary disruptions in supply or hikes in prices. The trend of prices in primary energy sources experienced in recent years is likely to persist over the medium to the long term - driven primarily by the continued growing demand in China and India. The increased concentration of oil and gas resources in relatively few countries and transit routes increases the vulnerability to accidents, war and terror, threatening security of supply and price stability.

The investment in power generation capacity carried out in the recent past as well as in the construction of a submarine energy interconnector with Italy currently underway will ensure that Malta will not only have sufficient capacity over the term of this Vision but that the marginal cost of production is significantly reduced. The Malta Chamber

also notes the recent announcements that the submarine energy interconnector will be commissioned by the end of the 2013. In this regard, it is crucial for the country to maintain flexibility to increase the share of energy sourced via the interconnector in the overall energy mix should it be more advantageous from a cost perspective to source energy for the private sector from Sicily or eventually mainland Europe.

The development of the Liquid Natural Gas (LNG) infrastructure will increase Malta's energy security by allowing it to diversify away from fuel oil. The robustness of the transmission and distribution system requires strategic investment to reduce the high percentage of technical losses experienced in the distribution of the energy generated. It is, nevertheless, imperative that Malta should adopt the strategic approach to invest in critical energy infrastructure sufficiently ahead of demand in order to always ensure stability and certainty in the generation and provision of electricity.

RECOMMENDATIONS

44. Malta must adopt the strategic approach to invest in critical energy infrastructure sufficiently ahead of demand in order to always ensure stability and certainty in the generation and provision of electricity.

3.5.3/Urban regeneration

As Malta's economy continued to grow, the urban problems have progressively become worse. The seaside promenade from Gzira to Paceville, to mention one area, has seen the brunt of urban destruction – with beautiful town houses being replaced by faceless high rise buildings.

At the same time, streets in Valletta, such as Strait Street, which can become the hub of modern and traditional culture, entertainment and art, continue to remain abandoned to decay. This is not to mention the social and economic deprivation that exists in the inner harbour areas.

The Chamber underlines that the undertaking of an urban regeneration programme should become Malta's strategic focus towards which the building and construction sector is directed towards channelling investment in regeneration as against the continued, and unnecessary development of virgin land. The Malta Chamber defines urban regeneration in its broadest sense: both in terms of the physical and aesthetics aspects such as land use, planning, design and open areas as well as in dealing with social and economic

issues. In designing and adopting a strategic approach to urban regeneration the Malta Chamber believes that the Government should take the central leading role.

The Malta Chamber recommends that in this regard, the Grand Harbour Regeneration Corporation is restructured into a Malta Urban Development Corporation that would also incorporate the private sector and potentially public shareholding. The Malta Chamber is convinced that with strong Government leadership provided through a vehicle such as a Malta Urban Development Corporation, major achievements can be achieved in securing a healthier urban environment.

Two examples are mentioned where an urban regeneration programme can result in lasting impacts. Bugibba and Qawra two 'new' towns built on a green field site have since the early 1980s sprawled into one of the most hideous urban centres in Malta. An opportunity to build a beautifully town planned tourist city was lost. Additionally, as the towns sprawled to also include a residential community the opportunity for integrated urban green spaces was lost. Government should not allow the two localities to continue to expand without incorporating greenery and open spaces. Thus, through a Malta Urban Development Corporation, the Government together with the private sector, owners of residential and commercial property could embark on a process of 'retro-fitting' the two localities in a way that results in an improved balance between open spaces and built up areas.

Run down urban areas, for example, such as the Three Cities can be transformed into a prosperous area if the region is developed in a holistic manner and one that is intertwined with economic and social development. The efforts invested in the Three Cities to-date has already seen economic and social activities spinning off. A concentrated and integrated urban regeneration development effort that is culture-led and embraces the fortifications in the Three Cities including the Cottonera and Margherita Lines respectively – which are as grand and majestic as any found in Floriana, Valletta or Mdina – with local tourism activity can result in positive economic and social activity which at the same time ensures that the Three Cities do not lose their charm.

RECOMMENDATIONS

45. The undertaking of an urban generation programme should become Malta's strategic focus towards which the building and construction sector is directed, channelling investment in regeneration as against the continued, and unnecessary development of green field sites.

46. In designing and adopting a strategic approach to urban generation the Government should take the central leading role through the restructuring of the Grand Harbour Regeneration Corporation into a Malta Urban Development Corporation that would also incorporate the private sector and potentially public shareholding and in such a way as to ensure improved balance between retro-fitting and new buildings and between open spaces and built up areas.

3.5.4/Unleashing Malta's green credentials

The Malta Chamber strongly supports efforts to significantly improve Malta's Green credentials. It is imperative that as decisions are made today the welfare of future generations is taken into account. There is no doubt that sustainable development, climate change and the environment have, over the past 10 to 15 years, become important issues in the policy agenda. In part, this change in focus is the result of Malta's entry into the EU which has compelled Malta to 'up' its commitment in these areas and in part to a strong and very vocal Non-Governmental Organisation environment oriented caucus which seeks to check Governments on decisions taken which can negatively impact the environment.

This increasing recognition of sustainable development, climate change and the environment has also been complemented by significant investments – whether these relate to waste management, rehabilitation of landfills or municipal infrastructure to allow waste sorting at source.

Be that as it may, the private sector economic activity in Malta in relation to the Green economy has remained limited – restricted to the collection of waste, importation and installation of Renewable Energy Sources and energy / resource efficiency technologies, and limited manufacturing of energy efficiency technologies such as windows and apertures, etc.

The Malta Chamber underlines that the limited economic private sector activity in areas of the Green economy is directly the result of the fact that the Government, through Wasteserv Ltd, acts as both the regulator and the economic operator in this sector. The

Chamber states that private sector economic activity in the relevant sectors can only truly take off once the Government stops acting as the economic operator and assumes the proper role that it should hold: that of the regulatory authority. To this end, in January 2014, the Malta Chamber made formal recommendations to the Minister for Sustainable Development, the Environment and Climate Change about which activities currently undertaken by WasteServ could potentially be divested to the private sector.

The positive results in economic growth, greater choice, and lower prices have been amongst the resulting outcomes every time the Government deliberately withdrew from acting as an economic operator and assumed the role of the regulator: telecommunications, financial institutions, etc. The Malta Chamber is convinced that Government's withdrawal as economic operator in the waste management sector will truly trigger the emergence of a vibrant Green economic sector in the country.

RECOMMENDATIONS

47. It is imperative that as decisions are made today the welfare of future generations is taken into account.

48. A vibrant green economic sector will only emerge once the Government stops acting as the economic operator and assumes the proper role that it should hold: that of the regulatory authority in waste management, etc. with the private sector becoming the economic operator.

3.6/ Government partnering with business and enterprise

Malta's private sector is the primary driver of economic growth. The challenge for the Government and the public service is to help create the best possible environment for businesses, entrepreneurship and innovation to flourish.

The Government has a key role to play in catalysing the economic restructuring required to attain the Economic Vision. Raising productivity, and shifting to more efficient use of labour and investing in energy and other enabling infrastructure will require changes in Malta's economic structure. Whilst the Government cannot prescribe which companies and sectors should grow it can influence market forces to reallocate scarce resources to where they can be most productively used.

Aligning investments towards the economic growth markets, therefore, is essential if Malta is to take advantage of growth in regional and international demand. Helping to

build up the growth sectors of the Maltese economy will maximise value added and create high quality and sustainable jobs.

The Government must adopt a culture of evidence-based policy-making that is backed by information and thus ensure that informed decisions are reached at the outset and that a continuous monitoring framework to guarantee performance output and, over time, measure impact is in place.

An effective and efficient public service plays a key economic and social role in Malta's successful future. Additionally, as a major employer, investor and producer of public services, the public service makes an important contribution to overall levels of productivity in the Maltese economy. For example, through the training and development of its own workforce the public service exerts a major influence on whole-economy skill levels and therefore productivity.

Moreover, opportunities for efficiency gains proliferate within the public service and the public sector. By attacking inefficiency in human capital, physical infrastructure, public organisations and processes, the Government can make a lasting contribution to improve the use of resources over time. A drive by Government for efficiency is central to creating and capturing value, preserving and expanding the productive base and in releasing resources which would enable the private sector to develop in order to expand the economy.

Although successive administrations have undertaken a series of incremental reforms to improve the quality of the public service the fact remains that the public service fails to meet the expectations of enterprise (as well as individual citizens). The fact is that incremental improvements to the public service have proven to be inadequate. Fundamental reform is now unavoidable.

A restructuring programme of the public service should be directed towards streamlining government processes, through modernisation of the administration and the refocusing of its activities to eliminate unnecessary bureaucracy. It is, also, imperative that government introduces an outcomes-focused approach to performance and that Malta ensures that a public service is fit for purpose, and that public services are affordable, into the future.

This must be complemented by the inculcation of a new mind set in the way public administration behaves with business and enterprise. Rather than acting as a partner with business and enterprise to create a successful tandem that would result in continued economic and social growth, too often public administration assumes an 'us' and 'them' position when interacting with business and enterprise.

There is no doubt that a supportive business environment is central to increasing Malta's economic growth rate. Appropriate use of regulation helps improve Malta's economic performance – which in turn has a positive cascading impact on social development. Malta's regulatory framework has become more complex due to the institutional reforms undertaken leading Malta's entry and subsequent membership in the EU.

The cumulative burden of Malta's of the manner of how the regulatory framework is designed too often, however, restricts growth. For example, in transposing the Acquis and other EU Directives into local legislation many a time Government, on the advice of public administration, adopted a transposition approach that went beyond the minimum criteria set in the respective Directives. The end result of this single minded approach is an increase in the costs of operating a business in place as a result of financial and time demands that the new overly complex regulatory structures. The indirect impacts of regulation are also important as these have also added additional burdens that are having a direct bearing on Malta's competitiveness.

It is important that the Government ensures that the Maltese economy is underpinned by the right regulatory framework that supports business creation and growth, and avoids imposing unnecessary burdens which adversely impact Malta's competitiveness. In introducing new regulations the Government should adopt the EU's SME test to analyse ex ante the impact of the new or amended regulations on SMEs and business. Government should also address market failures and new regulations that are clear about the objectives they intend to deliver. As important as their content is the fact that they are applied universally and across all market operators and in doing so create an economic level playing field.

It is equally imperative to periodically review the stock of regulation, to ensure it remains fit for purpose given changing market circumstances and responsive to business needs.

Organisations such as the Malta Chamber have a critical role to play in providing two-way communication between Government and the private sector. Such organisations typically pool resources to be able to provide meaningful and co-ordinated opinions on existing issues or consultation on proposed legislation.

The primary focus of e-services introduced as a result of the e-Government programme was directed to Government-to-Citizen services. The Government should design and implement a strategy that leverages Government-to-Business services directed to reduce the cost of administration as well as the leveraging of e-Commerce as a platform to benefit Malta-based enterprise to overcome the disadvantage of the small domestic market and to tap the potential of the North Africa 'hinterland'.

One major concern of the business and enterprise is the current judicial process has now actually become a liability to Malta's continued economic growth. One of the key deciding parameters for any enterprise – whether it is a local or a foreign start-up – is the ability to seek redress and to see justice delivered without delay.

The Chamber, with the fullest sense of responsibility, can no longer accept the poor performance of the Maltese judiciary. It is not acceptable that a commercial dispute or a dispute between business and enterprise with Government goes on for ever – sometimes for many years.

Malta deserves a judicial system that is swift, and therefore effective; and one that provides fair judgement and thereby building confidence in it.

The Chamber will support reforms in the judicial system directed to ensure a judicial process that is swift and fair subject that it is accountable and transparent.

RECOMMENDATIONS

49. The Government must adopt a culture of evidence-based policy-making that is backed by information and thus ensure that informed decisions are reached at the outset. Moreover, a continuous monitoring framework is required to guarantee performance output and, over time, measure impact. Greater discipline and accountability must be instilled in those departments which are found to perform inefficiently.

The Malta Chamber suggests the carrying out of a manpower survey and a gap analysis so as to take stock of the exact manpower skills available in the public service. This will enable Government to deploy its present and future resources more efficiently into productive activities.

50. Incremental improvements to the public service have proven to be inadequate: fundamental reform is now unavoidable. Aggressive action is required to (i) address inefficiency in human capital, physical infrastructure, public organisations and processes; (ii) create and capture value, preserve and expand the productive base and release resources which would enable the private sector to develop in order to expand the economy; (iii) introduce an outcomes-focused approach to performance so that Malta ensures that it has a public service that is fit for purpose, and that public services are affordable.

51. The Public Service must become a partner to business and enterprise: a relationship that is underpinned by the right regulatory framework that supports business creation and growth, and avoids unnecessary burdens which adversely impact Malta's competitiveness; where new regulation is introduced to address market failures; that regulation is applied universally and across all market operators and in doing so create an economic level playing field.

52. The current judicial process is now a liability to Malta's continued economic growth. Business and enterprise flourish in an environment where the judicial system is swift, and therefore effective; and one that provides fair judgement thereby building confidence in it.

