

# Propose

Reflections for  
**Malta's Budget** for **2021**

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**Seed**

# About Seed

We set up Seed wanting to do things differently. Powered by tech, our business attracts the best people, whilst creating meaningful work. Our principles and vision define us. We care about making a difference; for our employees, for our clients and the wider community. Our clients enjoy objective advice, clearly expressed. With our help, they make better decisions and get better results. No matter what sector, size of business or scope of work, we bring together rigour, knowledge and experience.

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### **Agile.** *Perspectives on the future of Malta's economy post COVID-19. (April, 2020)*

This publication aims to contribute to the national debate and to stimulate business and policy leaders to embrace the future and to start working towards a much-needed recovery plan that is anchored around a long-run vision for Malta. The research report complemented by consultations with 18 social partners, 20 business leaders, 15 expert contributions and an economic survey with 385 participants.

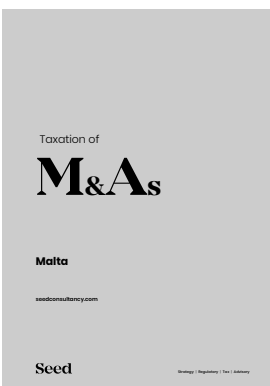
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### **(r)Evolution.** *PSD2, Open Banking and the future of payment services.*

This report sheds light on the adoption by local credit and financial institutions of Europe's Second Payment Services Directive (PSD2) which introduces the concept of Open Banking within its regulatory framework. To gauge the Directive's impact and measure the level of preparedness in the financial world, we undertook a qualitative and quantitative research study of representatives from close to 20 leading credit and financial institutions. We have used the results to inform this report.

Can be downloaded [here](#)



### *This is the first publication in the series 'Taxation of..'*

This series aims to shed light on tax matters in various transactions and industries. This particular publication provides a detailed explanation of the tax matters in M&A transactions – it looks at the tax treatment from both the buy-side and the sell-side, on both asset and share deals. The last section of the report also delves into the issues of Change Management within a M&A, which are often overlooked and are so critical to the success of the M&A itself.

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# Foreword

As we start moving slowly into Autumn, the national agenda is usually dominated by the pre-budgetary consultation process. Social partners start putting forward their proposals which they believe the country needs for economic and social development. This process culminates in the national budget that is delivered by government.

However, this year is no normal year. The COVID pandemic has brought a global recession of significant proportions with large contractions in GDP happening despite governments pumping in significant resources into the affected economies. There is no doubt that public finances will be significantly hit, and a correction will be needed in the years to come.

It is against this backdrop that this year's budget is happening. In Malta, an economy still heavily dependent on tourism, the contraction in GDP was significant although a number of forecasts project a healthy recovery given the exceptional circumstances. Over the past few months, Government has introduced several measures aimed at stimulating the short-run drop in activity. These timely, temporary and targeted measures have supported businesses, however the economy and its economic agents still need to adapt to a new reality of co-living with the pandemic and the recovery will not be an automatic process, but more of a gradual process.

This process also allows us a unique opportunity to focus much more on re-directing the economy. With international policymakers and thought-leaders described the pandemic as the great reset; many countries are directing spending and investment towards longer-term goals including research, innovation, a greener economy and a more diversified and future-ready economic base.

When we launched Seed back in April, we published our first research report; Agile. Perspectives on the future of Malta's economy post COVID-19. The publications sought to contribute to the national debate and to stimulate business and policy leaders to embrace the future and to start working towards a much-needed recovery plan that is anchored around a long-run vision for Malta. The research report was complemented by consultations with 18 social partners, 20 business leaders, 15 expert contributions and an economic survey with 385 participants.

In this publication, we put forward our recommendations for the forthcoming national budget. Our focus is two-fold. First, we propose a short-term stimulus package to continue supporting real economic activity with our main measure being the gradual reduction in corporate tax for local businesses. Second, we anchor our proposals around a long-term vision for the island as we believe that this is the right time to start thinking about Malta's society in 15 to 20 years' time.

At Seed, we remain committed and focused on contributing to elevating the national debate. We believe in Malta's potential and also in the importance of active citizenship by all, especially by the business class. Our research reports are aimed precisely at this; at informing and at triggering debate on an industry and national level. We do hope that this publication can also contribute to the budgetary process at this delicate juncture.

By coming together, all stakeholders, we can truly thrive as a country.



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# Introduction

The annual budget is not just an accounting exercise whereby government projects its revenues and expenditures. It is an economic policy tool that allows governments to allocate resources within a financial constraint. It allows the government to

- **A stabilization role** – government intervenes to ensure that the economy continues performing and generating wealth and in a time of economic crisis, like the present COVID-induced situation, government intervenes to reduce this impact;
- **An allocative role** – this is the way government allocates and gives signals on where and how to allocate resources;
- **A distributive role** – governments exist to correct market failures to ensure that the vulnerable in the society are supported;

This document serves as our contribution to the pre-budget consultation and we seek to propose some initiatives which we believe the country requires at this juncture especially as we continue to chart our collective future.

The first section gives an overview of the extraordinary economic context we are operating in. The second section looks at our recommendations for the budget. We are structuring our proposals in line

correct market failures and more importantly to direct present resources to future growth.

In an economy, government seeks to fulfil five main roles through its resources, these being:

- **A regulatory role** – this is the legal arm of government which focuses on creating the right conditions for business to thrive and creates a society that is governed by the rule of law;
- **An administrative role** – governments also play key administrative roles and this is primarily done through the civil and wider public service.

with each of the above roles in order to address the multi-dimensional side of government and more importantly to treat the budget as an economic policy tool and more than just an accounting exercise. Finally, in the third section, we briefly outline our recommendations for a long-term vision for the country.



Section 1

# **The economic context**

Whilst Malta's economy has been prospering, registering consistent high levels of economic growth throughout these past years, this is expected to turn negative in 2020 due to the outbreak of COVID-19. The government's aim at this juncture is to increase public spending with the main aim to mitigate the potential recessionary effects of the pandemic. However, it is inevitable that private consumption and trade are projected to take a significant hit, amidst partial or full lockdowns

imposed on countries globally. Employment is also forecasted to experience a temporary decline, with the unemployment rate set to increase. Following several years of a government balance surplus, this is also expected to slip into deficit territory amidst a rising public debt figure, as the government takes on a strong stabilising role in the economy.

## GDP

### **Prior to COVID-19, Malta had sustained several years of strong economic performance.**

Between 2013 and 2018, Malta's real GDP growth stood at an average of above 7%, stemming from increased investment and structural rebalancing towards niche sectors such as remote gaming, professional and scientific activities, financial services and tourism, which in turn led to a significant inflow of foreign workers, pushing unemployment figures to record-low levels and overall sustainably improving public finances.

### **Malta's economy will be severely affected by the COVID-19 pandemic this year.**

Following the nationally imposed partial lockdown, in the months of April and May, there have been calamitous repercussions on economic growth figures in Q2 2020. In fact, GVA fell by 13.8% in nominal terms and 15.1% in volume terms, when compared to the same quarter last year, with sectors such as wholesale and retail trade and tourism contracting the most. Forecasts on GDP in Malta for 2020 from the European Commission indicate that Malta is expected to contract by around 5.8% but should rebound by 6% in 2021. Various other reputable entities have based their predictions on the same narrative.

**Net Exports is the largest contributor to the projected decline in GDP in 2020, underpinned by decreased foreign demand, restrictions on travel-related activities, and disruptions to the global supply chain.**

On a domestic level, demand is also set to be adversely affected, amidst the complete shutdown of various activities and heightened levels of uncertainty, leading to increased consumers to preferentially opt for saving rather than consuming or investing. Having said this, expectations of domestic demand are projected to recover in 2021 and 2022, resulting also in a projected positive net export contribution.

**Malta's short term economic trajectory is still highly uncertain, with signs of recovery contingent on the duration and size of the impact brought about by the pandemic, the economic recovery of Malta's trading partners and how quickly the confidence and behaviour of domestic consumers and firms will return to normality.**

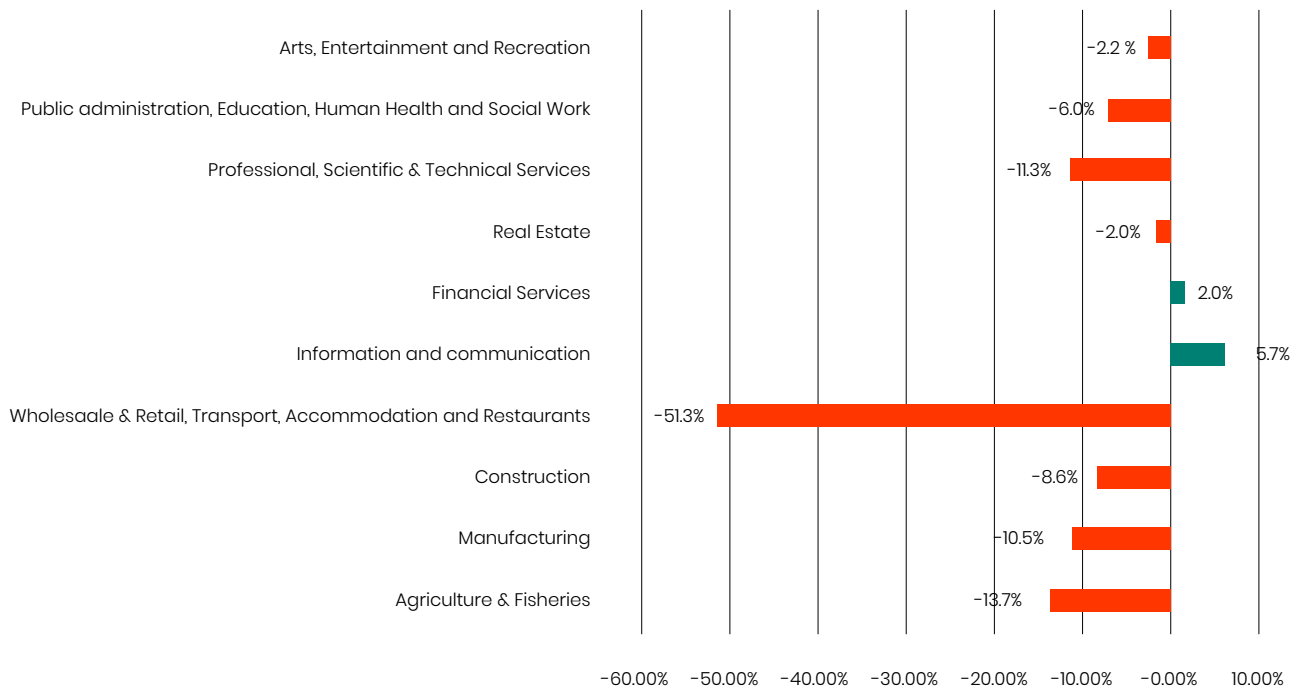
Indeed, according to the projections by the Ministry of Finance, the Maltese economy is expected to resume its positive performance and grow by 4.3% in real terms in 2021. This reflects the fact that growth rates for the main GDP components are expected to turn positive in reflection of the recovery in tourism, external demand and domestic sentiment.

## Sectoral Analysis

An overall decrease in Gross Value Added by €417.6 million in Q2 2020 vs Q2 2019 in volume terms, with all sectors of the economy registering a contraction, particularly wholesale, retail, transport, accommodation, and food services, whilst financial services and the IT sectors registering signs of growth.

Sector	Increase/Decrease (€Millions)	% Change
Total GVA	-417.6	-15.1%
Agriculture & Fisheries	-2.9	-13.7%
Manufacturing	-24.2	-10.5%
Construction	-9.7	-8.6%
Information and communication	-303.9	-51.3%
Wholesale & Retail, Transport, Accommodation and Restaurants	12.6	5.7%
Financial Services	4.2	2.0%
Real Estate	-3.2	-2.0%
Professional, Scientific & Technical Services	-54.7	-11.3%
Public administration, Education, Human Health and Social Work	-27	-6.0%
Arts, Entertainment & Recreation	-5	-2.2%

Gross Value Added in 2020Q2



**Tourist expenditure plummeted, amidst the closures of both the airport and seaport between April and June.** As a key pillar of the Maltese economy, receiving 2.8 million tourists in 2019 which directly contributed €2.2 billion towards the local economy, the tourism and hospitality industry have seen

unprecedented drops from the very early days of this pandemic. This will undoubtedly continue to have considerable ripple effects on the overall economic performance in the short to medium term.

## Unemployment

**Employment growth (as per Labour Force Survey) stood at 5.8% in 2019, reflecting strong labour market conditions, driven by improved business prospects and inflows of foreign workers.** The unemployment rate reached a historically low level at 3.4% in 2019, which was 2.9 percentage points lower than the EU-28 average. However, expectations for unemployment going into Q4 of 2020 are bleak, across all sectors, subject to the ongoing ramifications of COVID-19.

**Despite signs of a buoyant labour market way into Q1 2020, the seasonally adjusted unemployment rate increased from 3.4% in the first 3 months to 4.1% in July.** Notwithstanding, this increase was marginal when compared to the increase recorded in the other EU Member States. Indeed, in July, Malta recorded the third lowest unemployment rate in the EU.

## Exports & Imports

**During the first 6 months of 2020, Malta's balance of trade nearly shrunk by 50% when compared to the same period in last year, explained by both a drop in export levels and a significantly higher drop in imports.** Whilst lower imports were significantly related to a fall in domestic demand, expectations in 2021 indicate a reversal of this trend, as consumer and business confidence improve and return to normality. This is undoubtedly contingent once again on the duration of the pandemic and the speed of a recovery.

## Sentiment

**Sentiment in business conditions and the economy edged up in July, although these remain well-below pre COVID-19 levels and the long-term average.** While industrial sectors (such as construction), the services sector, as well as consumers all registered renewed confidence levels in July, other heavily impacted sectors such as the retail sector suffered a new historic low in confidence levels. In July, the Economic Sentiment Indicator stood at 63.4, up from 56.5 in June, but still well below the 103.1 recorded in July 2019. Moreover, the ESI stood at 18.9 points lower than the euro area and remained well below its long-term average, reflecting weaker than usual sentiment in services and industry.

**Consumer confidence edged up in July.** It stood at -3.3, slightly above the -6.9 mark recorded in the

previous month. Despite the negative trend, consumer confidence remained higher than the average level recorded prior to the onset of the pandemic, with expectations to make major purchases once the pandemic subsides. General sentiment of a strong and resilient Maltese economy and sustainable finances continue to play a part in consumer confidence for the next coming months. However, July also marked a negative shift in price expectations for the first time since November 2017.

**Confidence within the retail sector fell to a new historical low.** July figures indicate confidence levels of -53.6 in July vs -30.1 in June. Retailers are largely expecting business activity to remain low, leading to shared sentiment of lower prices moving forward.

## Public finance

**Public Finances in 2020 are projected to swing into a large deficit of around 6.8% of GDP, against the backdrop of increased government expenditure and decreased government revenue.** COVID-19 forced the government to implement economic measures to mitigate the negative effects of the pandemic on the economy. This brought about

increased government expenditure, made worse by the decrease in government revenues, largely impacting the overall deficit of the Consolidated fund. June 2020 figures marked an increase of €133.5 million in deficit when compared to the June 2019 figure. In total, the deficit in the Consolidated Fund stood at €222.2 million.

**Government revenue declined by €17.9 million or 5.9% in annual terms vs June 2019.** Lower revenues came in direct result of lower inflows from indirect taxes. These fell by €36.4 million, mainly due to lower receipts from VAT and licences, taxes and fines.

**Government expenditure on the other hand increased by €115.6 million, or 29.3% when compared to June 2019,** driven mainly by an increase in both recurrent and capital spending, increasing €77.4 million and €38.2 million

respectively. The main drivers behind the increase in recurrent expenditure was mainly tied to contributions to entities as well as the timing of operational and maintenance expenditure. On the other hand, capital expenditure increased mainly in relation to higher contributions to Malta Enterprise due to the COVID-19 Wage Supplement Scheme.

## Uptake of COVID-19 Measures

**Moratorium of Loan Repayments increased from May to June.** As at the end of June 2020, there was an increase of 6,200 loans from the end of May, bringing the total number of loans subject to a moratorium on repayments to 14,000, with a total value of €1.7 billion. Moreover, this increase, although marginal in absolute terms, has led to wider array of businesses and households benefitting from a moratorium, with the majority of these loans taken up predominantly by the wholesale and retail sector.

**255 lending facilities were approved by the Malta Development Bank (MDB).** By the end of June 2020, 255 facilities were approved under the CGS, covering total sanctioned lending of €161.1 million. Of this total, €64.9 million were disbursed in June. The table below sheds light on the distribution of these funds.



<b>MDB COVID-19 GUARANTEE SCHEME – AS AT JUNE 2020</b>		
	<b>Total number of Facilities<sup>(1)</sup></b>	<b>Sanctioned Amount<sup>(2)</sup> (€ million)</b>
Manufacturing	<b>22</b>	<b>11.1</b>
Construction	<b>2</b>	<b>20.0</b>
Wholesale & Retail Trade; Repair of Motor Vehicles & Motor Cycles	<b>73</b>	<b>36.5</b>
Transportation & storage and Information & Communication	<b>18</b>	<b>25.7</b>
Accommodation & food service activities	<b>61</b>	<b>40.4</b>
Professional, Scientific & Technical Services	<b>18</b>	<b>2.8</b>
Administrative and Support Services	<b>19</b>	<b>5.1</b>
Real Estate	<b>9</b>	<b>1.3</b>
Other <sup>(3)</sup>	<b>28</b>	<b>18.1</b>
<b>Total</b>	<b>255</b>	<b>161.1</b>

**Source: Malta Development Bank**

(1) The number of facilities taken by various sectors.

(2) The total number of loans sanctioned under the scheme as at end month, in EUR millions.

(3) Included loans to education, health and social work, financial and insurance activities, professional, scientific and technical activities, administrative and support service activities, arts, entertainment and recreation, other services and activities and extra-territorial bodies & organisations, and the electricity, gas & water supply sector.

Section 2

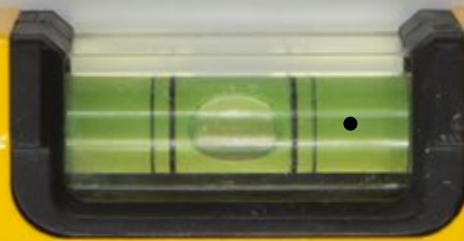
# **Our recommendations**

## The **stabilising** **role**

There is no doubt that the current economic environment is highly volatile, uncertain, challenging and ambiguous. This unprecedented situation calls for Government to play an active role in supporting the economy navigate this phase and more importantly to kick-start the economy.

The Government has already issued a number of

measures and going forward we believe that there needs to be a mix of measures including taxation changes and also discretionary measures which are rolled out in a timely, targeted and temporary approach.



## Fiscal and other support measures

- **Additional taxation measures** – apart from public expenditure, taxation is another instrument that Government can leverage as a tool to stimulate the economy and to support businesses. Government has already launched a number of tax initiatives. In a focused Box, we are recommending some additional taxation measures that not only have the potential of supporting businesses in this time but will also help re-direct the economy in the longer-term.
- **Increase eligibility of aid** – it is becoming apparent that there is an increasing number of firms that are being impacted and need support. It is therefore being recommended that the aid measures being currently given out by government are extended to the firms that suffer a significant drop in revenues due to COVID.
- **Government licenses & rent** – there are a number of tourism-related licenses that businesses pay to government and we are recommending a waiver of MTA licenses for the duration of the pandemic, waiver of Lands Department charges for chairs in public areas such as on pavements and a waiver of ground rent also payable to Lands Department.
- **Start-up assistance** – the government was actively pushing for start-ups to open in Malta and it has been pretty successful on this front. Start-ups who were still ramping up and had already attracted employees to their fold, need specific measures to support their wages and overheads.
- **Support on rents** – Government needs to ensure that as much as possible, income chains across different economic sectors and actors are maintained. Rents have become a key overhead for companies and although these are private arrangements, the government may wish to consider supporting companies in the payments of rents due.
- **Conditionality** – it is being recommended that Government attaches conditions to the aid that it is giving companies. To this effect, government makes sure that such support is structured in ways that transform companies in preparation for the new economy whilst also investing in workers and making sure they can adapt to new technologies and learn new skills.

## Taxation measures to support economic revival

### Income Tax – Company specific

#### An eventual reduction in the corporate tax rate

Following our proposal earlier this year, we believe it is an appropriate time for Government to reconsider reducing the standard income tax rate for companies especially in view of the fact that Malta's tax rate is significantly higher than that chargeable in other countries, with the EU's average corporate tax rate being 21.3%. Furthermore, whilst the effective rate

in Malta, for the shareholder could be reduced by virtue of the full imputation system and the tax refund system, where applicable, this would only apply when a company distributes profits – in the coming months and years, we would expect companies to re-invest such profits in the company and not distribute them, also due to the current economic situation. Our proposal is for the corporate tax rate to be reduced to 25% over a period of 5 years with the first reduction as follows

<b>2020</b>	<b>35%</b>
<b>2021</b>	<b>33%</b>
<b>2022</b>	<b>31%</b>
<b>2023</b>	<b>29%</b>
<b>2024</b>	<b>27%</b>
<b>2025</b>	<b>25%</b>

#### Reduction in the VAT rate on accommodation

As a measure to support one of the industries which has been negatively impacted by COVID-19, our proposal is to reduce the VAT Rate on accommoda-

tion from 7% to 2% for the 12-month period starting from 1 January 2021.

### **Extension of reduced rate of Duty on Donations of Marketable Securities and Immovable Property Used for Business**

The reduced rate of duty of €1.50 for every €100 will only apply to donations made prior to 1st January 2021. Our proposal is to extend this by another 12 months to continue to assist family businesses in restructuring and planning for the next generation. Whilst one of the COVID-19 measures announced in June, reduces the rate of duty to €1.50, this only applies to the first €400,000 and to transfers which are made prior to 1st April 2021.

### **Extension of the reduced rate of Duty to *causa mortis* transfers**

The above-mentioned reduced rate of duty, of €1.50 for every €100 or part thereof, should be extended to transfers *causa mortis* and not only apply to donations.

### **Extension of MicroInvest tax credit term**

Our proposal is to extend the term in which a MicroInvest tax credit can be used to 5 years instead of 3 years. This would apply to all companies which have been granted a MicroInvest tax credit over the past 2 years and which have not fully utilised the tax credit.

### **Other proposals**

We believe the Government should start to focus on shifting a portion of its tax revenues to taxes aimed at protecting the environment or at other social measures, such as to tackle the obesity problem, particularly amongst youths. The introduction of the following taxes may be considered:

- **Tax on plastic packaging** - This would be a tax payable by businesses that produce or import plastic packaging that uses insufficient recycled content. This could be in the form of broadening the existing eco-tax on plastic bags to all single-use plastic.
- **Landfill tax** - A landfill tax would be chargeable on material disposed of at a landfill site or an authorised waste site. This would encourage efforts to minimise the amount of material produced and the use of non-landfill waste management options, which may include recycling, composting and recovery. One would need to ensure that there are restrictive measures on dumping in alternative sites which are not authorised waste sites.

## Propose

- **Excise tax on sweetened products** – This tax would put a fixed charge on products containing a certain amount of sugar and would be directly payable by manufacturers.

## Our recommendations

- **Increased registration tax on the importation of vehicles which run on fossil fuels** – We believe that the measures already introduced by Government in relation to the vehicles should be enhanced through an increase in the registration tax applicable on cars with a traditional internal combustion engine, coupled up with a timeline within which in the long-run all vehicle importations would need to be electric.

## Discretionary package

Timely, targeted and temporary support packages need to be carved out. These should be focused on particular sectors to counteract the fall in demand seen due to the pandemic.

- **Voucher mechanism** – the vouchers have supported local businesses, and should the situation persist, a second round of vouchers should be considered especially around the Festive period.
- **Scheme for culture and the arts** – the sector can be an important niche for tourism; a scheme should be launched to support private sector investments in product and service offering.

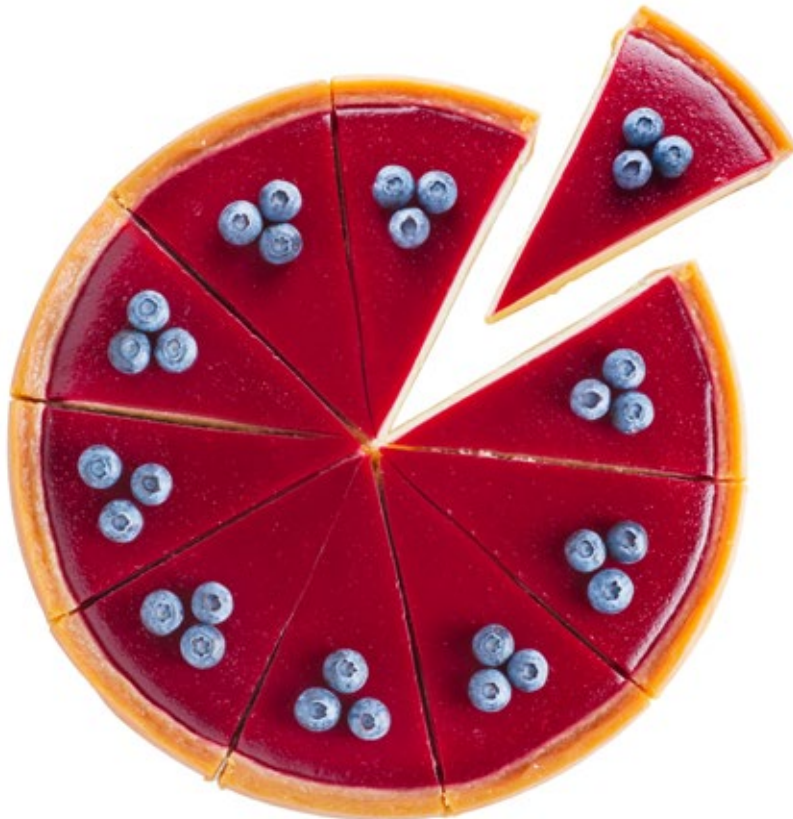
- **Industry 4.0** – this slowdown, also due to supply chain interruptions, should be used for companies to start upgrading their systems and manufacturing lines to embrace industry 4.0. investment grants should be directed towards this area.
- **EU Funds** – the Government has managed to negotiate a substantial aid package both for COVID support and the Multi-Annual Financial Framework. To this end, Government should utilize these funds to support local companies invest and upgrade their business.

## Seed

## The **allocative role**

A key role for Government is to allocate and signal resources accordingly. At this juncture, allocating resources is going to be critical both for survival and

success in the long run. It is going to be essential that Government sends the right signals through a mix of policies, investments and incentives.





## Good governance

- **Sustain reforms** – Government has already set in motion a number of key reforms. It is important that this process is sustained and continued with other needed reforms.

- **The role of digitalization** – a key element in ensuring good governance is the transition to a digital society. Good governance can be enhanced through digital tools especially where the use of Robotic Process Automation, AI and digitalization can reduce the need for human intervention. Digital efforts should also be seen as being important contributors to good governance.

## Industry & start-ups

- **Support investment in industry** – past schemes have supported Maltese businesses invest in enhancing their product and service offering. Government needs to launch additional schemes to give grants for such investments through European Funds however care must be given to the implementation and application processes. In order to be effective, the application process needs to be overhauled to ensure that replies are given in a 2-week timeframe. These incentives can be an important catalyst.
- **Support industry transformation** – it is very important that Government supports present industries to continuously reinvent themselves. The Digital Economy Think-Tank should be replicated across other industries to ensure that we can diversify both vertically and horizontally.

- **Commit to a start-up ecosystem** – although as a country we have been trying to establish ourselves as a start-hub, we are far behind. The ecosystem is fragmented and broken and therefore more consolidation and collaboration is needed between different stakeholders.
- **Access to finance** – Government should ensure that there is ease of access to capital and finance. Here the role of the Malta Development Bank is critical to ensure that it makes available new finance schemes. Once again, the critical factor is not just the launch but more importantly the application process and procedures.
- **PPP initiatives** – properly governed and structured Public Private Partnerships can be a key economic stimulus and also help regenerate areas by giving them an economic life.

## Digital society

- **Commit to digital society** – unfortunately although there is a lot of talk of a digital economy, we really need to focus as a country on a digital society to ensure that it is a citizen and business-centric digital society. Therefore, we need to ensure that all government systems and processes are truly digital not only through their provision but in their processes and procedures. Government needs to commit that all government websites and services will be revamped.
- **Digital ID & signature** – ensure that everyone has access to a secure digital ID which can be used across all government services and the digital ID needs to be complemented by digital signatures.
- **Start from digitization** – any transition needs to start from digitization. Apart from government projects, schemes should be launched for the private sector to digitize its records.

## Greening the economy & tackling climate change

- **Green infrastructure** – there seems to be a move towards including green infrastructure. Government should consider funding schemes and tax credits for households, companies and local councils to embrace green infrastructure such as green roofs and walls which contribute to smarter and greener buildings.
- **Renewable energy** – more schemes and feed-in tariffs should be launched to incentivize the investment in such technologies especially in private solar farms.
- **Regeneration** – it is very important that regeneration efforts and projects are favoured especially in view of the amount of new buildings that were built. Here, abandoned buildings or government-sites should be released for PPP projects however focus needs to be on achievable projects.
- **Green business** – support companies that want to invest in recycling and circular economy initiatives especially those related to waste management and reutilization such as the use of construction waste.

- **Green construction** – Government should look at incentivising the use of plastic in concrete building to not only reduce the volume of concrete used and hence lowering emissions but also to contribute to the circular economy.
- **Green finance** – this is an emerging global sector and Malta should leverage its positioning to launch a green and blue bond financial sector. Although this was mentioned in last year's Budget speech, nothing has yet materialized.

- **Agriculture-focused** – Government needs to implement Malta's Agricultural Policy and ensure that this sector is supported through schemes to set-up producers organisations, raise the standards, increase the value-chain and also promote local produce.

## Research & innovation

- **Additional schemes** – numerous schemes have been launched successfully over the years. More effort needs to be made to support innovative projects through grants and also early-stage and high-risk research.
- **Develop an ecosystem** – research thrives on ecosystems and therefore Government needs to look at building a native local ecosystem. This requires the streamlining of processes, procedures and also access to finance.

- **Accelerator programme** – we need to have a local accelerator programme with international linkages to ensure that Malta is a platform that can attract research.

## Education

- **Focus on STEAM education** – Malta has been performing badly in terms of Science, Technology, Engineering, Arts and Mathematics student numbers and therefore a targeting strategy to tackle this needs to be looked into.
- **Early School Leavers** – Malta's rate is still high compared to European averages and this should be a priority for the Government.
- **Investment** – further investment in educational institutions and infrastructure needs to be sustained primarily across the educational value-stream and through the building of new schools.
- **Review of the national educational system** – it is important that a review of the curriculum is undertaken to ensure that our students are being prepared for tomorrow's world with the required skill set.

## Health

- **Focus on health and not just health care** – it is time that Government focuses much more on prevention, health and well-being to ensure that the population is truly healthy and will resort less to health care.
- **Health infrastructure** – further investment is needed in primary and community care through new centres which can also reduce the load from Mater Dei especially with respect to outpatients. Also, a new mental health hospital has become urgent.
- **Mental health** – COVID has placed a lot of stress on people and brought to the fore the importance of mental health. This needs to be a key focus of Government to ensure that it is focused on supporting companies that wish to provide support to their employees.
- **Nutrition & sports** – Malta continues to top the charts for obese people. A national strategy needs to be launched to focus on nutrition programmes and sports for our population as these are the strongest preventive measures.

## The **distributive role**

Recent statistics have shown that poverty in Malta has been on the increase. Government needs to ensure that growth is inclusive and that the economy is people-centric above all.

To this end, the following proposals are being put forward.



- **Pension reform** – the affordability of pension remains a key concern. The reform of the pension system needs to be continued with the second pillar being central whilst work needs to commence on the third pillar to continue assuring an affordable pension in the years to come.
- **Study aid effectiveness** – it is important to analyse whether Government aid is reaching its aims through a detailed study.
- **Enhance aid to NGOs** – a number of local NGOs and Church-run organisations contribute significantly to the distributive element and therefore schemes, support and service-level agreements need to reflect the level of service and impact.

- **Social housing models** – over the past few years, a fresh impetus has been given to social housing. New models of delivery including PPPs should be considered to meet future requirements.
- **Integration** – focus needs to be given on integrating marginalized groups including prisoners, migrants and other groups. Lack of inclusion and integration can be a key determinant of poverty.

## The regulatory role

Laws and regulations together with the rule of law are key elements of any society and even more so for investment attractiveness. Government needs to focus on enhancing Malta's regulatory framework

and ensure that there is harmonization and that our laws remain not only relevant but future-ready.

To this end, Government should:



- **Constitute a review taskforce** – an ad-hoc taskforce should be constituted within the Ministry for Justice, Equality and Governance with the participation of The Chamber of Advocates to propose changes to Malta's commercial and civil code that ensures that the law supports companies facing difficulties due to the COVID crisis and not creates additional hurdles.
- **Reputation remediation taskforce** – due to various factors, Malta's reputation has suffered over the past few years. Government should set-up an independent taskforce tasked with realigning Malta's international reputation especially in key economic sectors such as financial services.
- **Financial crime review** – it is important that the work that was started to ensure compliance with MoneyVal's recommendations is continued to ensure that Malta's financial services remain intact and not threatened by another setback.
- **Take a systems approach** – laws are not just about the Acts of Law but very much in their implementation, enforcement and general ways in which these are adhered to on a daily basis. Therefore, any law or regulation needs to take a systems approach to ensure that its implementation or effectiveness is not hindered.
- **Regulatory innovation needs to be supported by ecosystems** – Malta has been successful in setting up regulatory-based sectors such as

remote gaming, financial services, asset registration and pharmaceutical. The latest experience in relation to blockchain needs to remain a key reminder that regulatory-based sectors do not happen solely on the basis of legislative frameworks but are nested within functional ecosystems.

- **New regulatory-based sectors** – Government needs to start working on new regulatory-based sectors which can become important contributors in the future. Although a vision for the space sector was discussed, this never materialized and it should be continued in earnest as other countries are occupying the space already. Also, drones and UAVs will offer new economic opportunities for the country.
- **Intra-sectoral diversification** – Malta is already home to a number of clusters. A review needs to be undertaken to see how regulation can further diversify existing sector and introduce new ancillary services.
- **Start-up VISA** – Malta already has a well-regulating VISA and residency schemes. The concept of attracting start-ups, especially non-European ones, can be an attractive economic opportunity also in view of the increasing number of digital nomads. Seed will be launching a specific proposal tied to start-up VISAs which we believe can contribute to Malta's economic potential.



## Propose



## The administrative role

Government remains the largest and most critical administrative power on the island. However, it remains bogged down in administrative procedures that are outdated and result in massive inefficiencies.

To this end, we recommend Government to:

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- **Facilitate applications** – Government needs to ensure that applications for support packages are kept simple so that businesses can apply swiftly. Wherever possible, entities should ensure that they can get the Government information themselves, reducing the burden on the applicant.
- **Redeployment of resources** – Government needs to ensure that there are adequate resources in the departments that will be processing assistance to firms. A redeployment of human resources within the public sector is thus encouraged. It is therefore being recommended that employees are redeployed to entities such as Malta Enterprise and JobsPlus to support the back-office processing and also enable such entities to be proactive and reach out to affected enterprises.

- **Remove bottlenecks** – the swift processing of applications and the actual disbursement of funds will be critical. It is therefore important that Government reduces any bottlenecks or inefficiencies. A business reengineering process should be constituted across government to ensure that this process is as swift as possible and redeploy any resources accordingly.
- **Introduce Robotic Process Automation** – such processes and platforms allow companies to reduce inefficiencies and also the time needed to get back to clients. Government should start piloting such processes in key areas.

Section 3

# **A long-term national vision for Malta**

Although the budget is an annual exercise, we believe that it needs to be grounded within a longer-term vision.

Our main recommendation remains for the Government to develop a future-focused vision for the

country, one which seeks to rebuild post-COVID-19 and to prepare ourselves for the economy of tomorrow and what is expected to be a new normal.

## Building the vision

- 1. Convene think-tank on the future of the economy** – we recommend the setting-up of a high-level think-tank which would be tasked with drawing up and charting a national vision for the country that looks beyond economic well-being and focuses more on the holistic vision of growth, development and societal well-being. The think-tank should report directly to the Prime Minister and be composed of a number of specialised working-groups and subcommittees. Its members should be drawn from diverse backgrounds, including the public sector, private sector, educational institutions and social partners that goes beyond MCESD representation.
- 2. Instill a quality of life approach** – as a country we need to start focusing on elements that go beyond GDP. We recommend that the Government sets up a commission or working group to start looking at ways of taking a broader

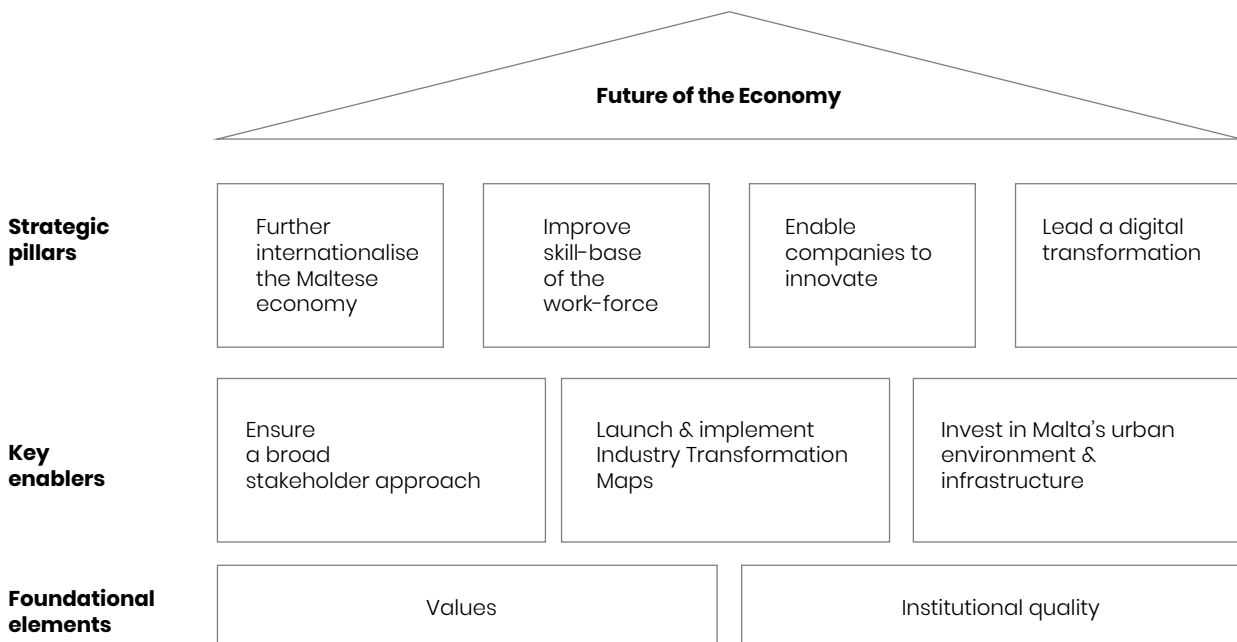
approach to measuring economic success and progress that also includes well-being, quality of life, environmental and other elements. This has already started in a number of countries.

- 3. Clustered working groups** – for too many years, Malta has taken a siloed approach to policy making. It is critical that a clustered approach is taken so as to explore as many synergies as possible and to deliver holistic policies going forward. To this end, we recommend that the following sub-committees are set up as part of the think-tank. It is important that apart from broad inclusion, the sub-committees are also inter-ministerial in nature to ensure consistency and integration. We also believe that Gozo should not be seen as a separate element but as an integral part of the national vision and therefore Gozo will be represented in each of the identified clusters

Cluster	Sectors
<b>Manufacturing</b>	<ul style="list-style-type: none"> <li>• Pharmaceuticals</li> <li>• Precision engineering</li> <li>• Aerospace</li> <li>• Medical &amp; life sciences</li> <li>• Electronics</li> </ul>
<b>Built Environment</b>	<ul style="list-style-type: none"> <li>• Construction</li> <li>• Real estate</li> <li>• Waste management</li> <li>• Environment &amp; planning</li> </ul>
<b>Trade &amp; Logistics</b>	<ul style="list-style-type: none"> <li>• Air transport</li> <li>• Sea transport</li> <li>• Land transport</li> <li>• Wholesale trade</li> <li>• Distribution &amp; logistics</li> </ul>
<b>Fundamental services</b>	<ul style="list-style-type: none"> <li>• Education &amp; research</li> <li>• Healthcare</li> </ul>
<b>Professional services</b>	<ul style="list-style-type: none"> <li>• Financial services</li> <li>• ICT &amp; media</li> <li>• Remote gaming</li> <li>• Blockchain, AI &amp; IoT</li> </ul>
<b>Lifestyle</b>	<ul style="list-style-type: none"> <li>• Retail</li> <li>• Hotels &amp; accommodation</li> <li>• Food services</li> <li>• Agriculture &amp; fisheries</li> <li>• Media &amp; Culture</li> </ul>

# Framing the vision

We recommend that a long-term vision should be based on a number of foundational elements, key enablers and strategic pillars which we are illustrating below.



## The **foundational elements**

- 1. Values** – This vision must be rooted to our national identity which draws strength from values that have been passed to us from generation to generation; a nation of proud people who hold dear hard work, enterprise, a love for life and a strong sense of community that cares for the most vulnerable of society. Therefore, this vision needs to be anchored around the values of solidarity, sustainability, integrity, accountability and subsidiarity amongst others. This stage definitely calls for a debate on our contemporary national identity and our vision for Malta.
- 2. Institutional quality** – A debate on the broader sense of governance needs to be held in parallel to the Constitutional Convention being spearheaded by the President of Malta. This discussion should also look into reforming the political system and main governance institutions in Malta.

## The **key enablers**

- 1. Ensure a broad stakeholder approach** – the vision is ambitious. It is therefore being recommended that a social pact is drawn up to ensure that all stakeholders come together to implement the agreed vision.
- 2. Launch & implement Industry Transformation Maps** – we recommend Government to launch a new Industrial Policy based on Industry Transformation Maps which should be used as a roadmap to take-stock and further diversify our present economic sectors. Each transformation map needs to focus on how to support the following:
  - Productivity
  - Jobs and skills
  - Innovation, technology & digital transformation
  - Trade & internationalization
- 3. Invest in Malta's urban & natural environment and infrastructure** – we recommend that the green economy and also greening the economy are a central part of any long-term vision for the island. In addition to ● ● ●



better planning through demand & supply modelling, an improved focus on regeneration efforts needs to be made. Critical to this is a holistic waste management strategy that will support Malta's efforts in achieving a circular economy. A holistic mobility plan including

mass transit systems need to be considered and pursued. It is also being recommended that a special focus on agriculture through innovative methods is actively pursued.

## The strategic pillars

Although we have identified four distinct pillars, these are not mutually exclusive. On the other hand, each pillar is mutually reinforcing.

**1. Further internationalize the Maltese economy** –Malta needs to continue focusing on niche markets for its goods and services. The use of direct EU funds to internationalize markets is strongly recommended together with building the capacity to tap into new emerging markets. In attracting companies to export goods it becomes critical to have a well-functioning ecosystem including an inclusive banking sector. Therefore, there needs to be a key policy focus of having banks that are able to process and open corporate accounts in an efficient manner and have enough correspondent banking facilities to give comfort to investors. Also, the establish-

ment of an export credit agency should be considered to address a market failure that Maltese firms have faced. In terms of services, tourism continues to remain a key export. Therefore, a strong national carrier is needed post-pandemic but also a concerted effort to have a coordinated approach to attract quality tourists between all stakeholders. Finally, in terms of services, a constant review and streamlining of current legislative structures and regulatory frameworks needs to be conducted. In terms of financial services, it is crucial for Malta to regain its reputation by strengthening its AML/CFT institutional framework.



**2. Improve the skill-base of the workforce –**

notwithstanding the advances Malta made in the educational sector, much more needs to be achieved. A closer link between acquisition and utilization of skills in industry needs to be achieved, however focus must be made on the basics too. The early school leaving rate remains high when compared to European averages and Government needs to drive this through a broad-ranging reform in the educational sector. In addition, building on the success of past schemes, Government needs to further incentivize training and skill acquisition. In this process of saving companies through direct aid, Government should use the concept of conditionality to retrain workers who are receiving direct financial support.

**3. Enable companies to innovate –**A review of the innovation ecosystem is required, and it is the Malta Development Bank that should take a key role to provide the financing such firms require. Also, the benefit of direct EU funds needs to be further entrenched and Government needs to create an agency with the sole purpose of supporting companies apply for such funds. It is critical that research institutions foster greater collaboration with industry, and we believe that Gozo can position itself as a live-lab for companies to test products and services especially related to the move of smart technologies. A lot of research technologies are being developed in the area of smart technologies such as smart buildings, smart

health, smart transport mobility and more.

Gozo should position itself as a right location for these technologies or concepts to be tested. Incentives around this can be designed.

**4. Lead a digital transformation –**Although

Government launched an ambitious transformation programme, more progress needs to be made to ensure that the whole country is part of this digital transformation. More services need to be available online, not just from a front-end perspective but even more so from a processing capacity. To this end, the use of blockchain technology should be promoted. Following the success of numerous schemes, the Government needs to ensure that digital transformation is entrenched in our society including the relevant infrastructure. In line with this, it is critical for the country to enhance its cybersecurity awareness and implementation across industries and firms.

## **Conclusion**

There is no doubt that this year is extraordinary. The economic challenges that the world and Malta are facing are significant and are here to stay for the foreseeable future.

The budget exercise that the Government will present this year needs to therefore be a response to such circumstances. It needs to build on the previous stimulus packages Government launched earlier this year, whilst addressing newer and more specific challenges. Government needs to fulfil various economic roles in the economy and the annual budget needs to balance these different roles within the realms of sustainability. In view of these circumstances, there is no doubt that Government will have to resort to running a deficit and debt. Given the health of the public finances Government achieved over the previous years, it is critical that any spending is directed towards long-term priorities.

It is specifically for this reason that we believe that any short-run stimulus packages, including the annual budget, needs to be grounded in a long-term vision for the island.

We believe that our proposals are able to stimulate discussion, debate and more importantly can serve as recommendations to Government.

The future is ours to define. By coming together at this present juncture, we will all be contributing to our collective future. It is our responsibility to do so.



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