



# Value 2000

Focusing Resources for Superior Competition

**F**ORUM  
FOR A BETTER ECONOMY

FEBRUARY 1998

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## EXECUTIVE SUMMARY

1. Point of departure for local public policy-making: Malta's geo-demographic reality, a 312 sq.km. island in the middle of the Mediterranean Sea with a population of about 375,000.
2. The Maltese have had a long culture of "colonial domination" by foreign masters. The pattern of local socio-economic growth, has merely "extrapolated" this culture to a new type of dependence — on the Malta Government.
3. The first fundamental problem facing Maltese society is the inability of government to balance its finances. The budget deficit is not only "structural", but also "cultural" (the Maltese have come to expect everything from Government and for free; while resisting to pay anything back). The economic momentum of the country itself has become unduly reliant in a direct and indirect way, on government deficit budgeting.
4. Malta has had over the last four decades, a relatively successful economic track-record. The economy is continuously restructuring itself — moving from income derived from trade and the military services' expenditure to manufacturing and tourism, and lately to financial and other tertiary activities. Within the manufacturing sector, "structural" problems include:
  - i) over-dependence on the performance of a handful of foreign companies
  - ii) inefficient, heavily protected Maltese owned operations
  - iii) the absence of any "centres of excellence" and significant interlinkages and synergy within, and between, the various economic sectors.
5. Over the years there has been little coordination in the country's macro-economic and micro-economic policies. The absence of a coherent plan of action resulted in "diverging" initiatives within the public sector, as well as to the lack of strategic and project coordination.
6. "Public administration" itself has been caught in a vicious circle of over-manning, lack of motivation and proper training, relatively lower pay and shabby output. Excessive regulation and bureaucracy, is perhaps an expression of resentment towards other sectors of local society - and business in particular.
7. The forces of change are gathering momentum. World society is going through radical change. Focus is increasingly on the individual - as citizen, consumer and worker (producer). Social sciences are being redefined. The knowledge society, post-modernity, sustainable development, world power structures all point towards a process of profound change.

A triad of economic powers dominate international business. Military power has given way to economic power. The critical question here is will the future belong to rival regional economic blocs or to a border-less, free trade world.
8. The changing world scenario is accelerating competitive forces at all levels - between individuals, companies and countries. Malta has to work and compete to earn its living.
9. Malta's international competitiveness is being eroded. Urgent action is required. Malta needs a well-defined sense of direction. A vision, and a strategy that will put all society's

resources behind building superior competition. Malta needs to build on its strengths, its unique features, translating them into "value" to its customers. Hence, "Value 2000".

10. **The Vision.** Maximum opportunities for the self-fulfillment of the individual, now and in the future. A caring community concerned for the rights and well-being of all its members, paying due respect to environmental considerations. The vision has three integral and supporting elements: the economy, the role of the state and quality of life considerations.

11. **Focusing on human resources.** In the case of Malta, value creation and international competitiveness is all about people, and their productivity. Our education system has to follow a "holistic" approach to human development. We need to cultivate the intellectual, social and the personality of individuals, as well as their economic potential.

12. **Education is to become a lifelong process.** The input of all the social partners is required to make this qualitative improvement in our education systems. The institutional set-up has to evolve to be better able to support the necessary changes for the emergence of a modern, post-industrial society.

13. **The Strategy.** Malta can no longer afford to compete on costs and lower wages. We need to build on "added value". Value includes both "tangible" and "intangible" attributes. The latter normally are not directly related to cost-structures. They are the result of successful marketing, externalities, synergy - "centres of excellence".

14. **The successful implementation of strategies demand the right institutional framework.** A "Policy Coordination Unit" should be set up within the Forum for a Better Economy whereby key economic institutions get together to set policies, monitor progress etc. Malta needs an "Authority" for each of its key economic sectors - which serves as a "one-stop shop".

15. **The Economic Strategy is built in the belief that the emerging world scenarios, especially the post-industrial, knowledge-based society offers business opportunities that are more "congenial" to Malta's socio-economic realities.** These developments serve as background for defining an agenda for a modern economy.

16. **Malta is facing a marketing challenge.** There has to be increased focus in promoting and marketing Malta as a single "product" - that could eventually be used to generate demand (and externalities) for key economic sectors. Malta should build its image on two concepts: quality of life and intelligence. Malta's claim to quality of life are ingrained in:

- i) the Maltese lifestyle: the Maltese are renowned for their hospitality; Malta is a safe place to live in; and our Mediterranean location imparts a sense of healthy living (sun, sea, Mediterranean cuisine, etc.)
- ii) Malta's rich historical and cultural heritage: including its close connections with the Knights of St. John (hospitaliers), one of the first medical schools in Europe, etc.

Its claim to "Intelligence" also lies within its rich cultural and historical heritage, the birth place of the creator of "lateral thinking" etc. On these two concepts, Malta can build a rich network of business activities - the pillars of the "new" economy. These pillars are:

- a) Manufacturing
- b) Tourism
- c) Hub Activities
- d) IT and Telecommunications
- e) Financial Services
- f) Mediterranean Food

17. The state in Malta has, and is likely to continue to have, a pivotal role in our way of life, as well as in determining our economic destiny. This role, however, has to change so as to reflect the emerging realities, including the drive for increased value creation and the enhancement of the international competitiveness of Malta.

18. The public service needs to be reformed. This reform is only worth doing, if it is done well. Reform should not be based purely on fiscal considerations. Malta needs a public service which is customer-oriented, cost effective and which nurtures a culture of excellence and integrity.

19. The strategic plan for modernising the public sector should have three primary objectives :

- promoting a service which is accountable and acceptable to society
- insisting on controlled and well-managed public finances
- strengthening of competition policy within the public sector itself

20. Quality of life considerations emphasise the need for society to guarantee respect, opportunity and dignity to each individual. The individual should not be considered as at the end part of the social process, but should be seen as the objective, initiator and promoter of all such processes.

21. The role of the government in improving the quality of life entails four basic orientations:

- setting of standards (in all spheres of life)
- provider of a safety net
- guarantor of a safe society
- facilitator and promoter

22. Market economics assumes that individuals get a fair deal from transactions. Government is to ensure that there not only exist competition, but also, that this is a fair one. The setting up of an authority to deal with both consumer and competition issues is an important step in the right direction.

23. Sustainable development demands that due consideration is given to environmental issues. The public has to be made more conscious of the importance of respecting the environment and should be actively involved in the decision making process. This requires upgrading administrative structures and personnel working in this field. There is a dire need for a comprehensive waste management plan.

24. Local councils are still to find their proper role in our society. Their functions should be extended so as to bring them closer to the citizens. The spread of responsibility given to the councils should be linked to their performance.

25. This document is intended to stimulate discussions and hopefully find consensus as to the future socio-economic development. If accepted it should lead to the formulation of a "value 2000" programme, incorporating a number of specific plans by all those involved in this development process.

## INTRODUCTION

This document seeks to provide a basis to stimulate further discussions and consensus-building among the social partners with regards to the socio-economic development of Maltese society.

It seeks to define a vision for our country. A vision built on the acknowledgement that the individual, each one of us, occupies centre stage in the strive for development. And yet, individual fulfilment can only be complete if it is in harmony with the rest of society.

The key elements determining and enabling this vision relate to:

1. *the economy* – which helps determine the “material” well-being of one and all.
2. *the state* – whose presence in our small, young nation permeates most economic activities and impacts significantly on our way of life, and
3. *quality of life factors* – which, while not carrying any direct “pecuniary” considerations, are of value to individuals and society alike.

A good strategy is one which enables our society to move closer towards its vision at an acceptable and sustainable cost to itself. Strategic choice in itself implies trade-offs between often equally desirable objectives e.g. environment protection and investment in productive projects. Also, strategies need to be closely monitored to ensure their effectiveness in an ever-changing business environment. Strategy is more about the way we do things than about definite action programmes.

There exists wide consensus that Maltese society needs to be more proactive in shaping its economic destiny. We need to move away from easy, quick-fix solutions. We need to build on strengths, remedy our weaknesses, identify existing and potential threats, seize and tap new emerging opportunities. Malta not only needs a clear sense of direction, but also to define its priorities. The constraints relate to existing “realities”, the ripeness of implementing certain measures, and in ensuring that the necessary resources are available for successful implementation.

Internationally, the forces of change are gathering momentum. World society is going through radical change. The Cold War is no more. World power structures are being redefined. Globalisation is fast becoming the hallmark of modern business, as production and trade patterns become increasingly dependent on technological change.

Developments in information technology and telecommunications are shaping the “post-industrial” society. Social sciences are being redefined. Human behaviour is characterised by post-modern patterns.

This changing world scenario is accelerating competitive forces at all levels – between individuals, companies and countries. Malta has to work and compete to continue to earn its living. Past solutions will not necessarily work in the future. Competition is no longer a matter of choice but a pre-condition for continued economic growth. Malta needs to find a new rationale for its international competitiveness. Competing on “lower costs” is no longer sufficient. We have to learn to compete on differentiation, on those elements that make us unique, that define being Maltese. We also have to ensure that our limited resources have to be focused so as to help our country achieve a superior type of competitiveness. The operating



philosophy which has to guide our policy makers, in both the public and private sectors, in their day-to-day decisions, has to be one of "value creation". Hence, "Value 2000".

We, the Maltese people will rise to the challenges ahead.

Our achievements over these last forty years indicate that we possess the capability, the resilience to confront the challenges that lie ahead. This plan belongs to the Maltese people. It is up to us collectively to implement it and to ensure its success.

This document proposes a vision and some related strategies. If the general direction is acceptable to society at large, then it is up to government together with the social partners to define the necessary action programmes to ensure implementation. It is expected that this process will take a few months, so that the development plan programme will be completed by mid 1998.

## A. WHERE DO WE STAND?

Malta is a set of small islands, 312 sq. km in the middle of the Mediterranean Sea. It has a population of about 375,000 people – the fourth most dense in the world. Maltese society is relatively homogeneous, boasts its own language and has no racial problems.

The Maltese have a high sense of national identity ingrained in a rich cultural and historical heritage. Most Maltese are bi-lingual being fluent in English as well as their mother tongue. Natural population growth is slow and decelerating. The number of households are on the increase but the average household size is getting smaller. Malta has an ageing population.

These are the primary geographic, demographic and social conditions that define the basic parameters for current economic public policy-making in Malta. They provide our point of departure.

It has been written that understanding a society's culture is the key to understanding its economy. Culture refers to the way that a community understands, interprets and reacts to pressures or events in its day-to-day life. The Maltese culture is changing very fast. Malta's micro society is unduly vulnerable to imported norms and values.

The mass media, tourism, the Internet are all impacting on the way we live, what we consume, in what we believe (or do not believe). The Maltese person is increasingly autonomous in developing an "own" set of values and norms; choosing selectively between traditional, "inherited" and imported ones. This "glocal" culture (combining "global" with "local") is being carried to the place of work, to the economy at large.

Also, there has emerged within our community an "excessive" sense of dependency on the government. This "neo-dependency" has been presented as a cultural extension of colonial times when the Maltese looked at the British Crown for their well-being.

Employment with the British Forces Establishments was correlated with a stable job, rising wages and a pensionable retirement. Today, the public sector has replaced the UK Defence Establishments as provider of secure jobs. In general, the Maltese have come to expect everything, and for free, from the government.

In the meantime, recent economic history has accentuated the resentment of having to pay taxes. Widespread tax evasion, a general perception of a wasteful and inefficient public sector etc. are adversely affecting government revenue. The present government deficit problem is as much "cultural" as it is "structural".

### A1. THE ECONOMY AT LARGE

Malta has a "micro" island economy. Its "modern" foundations were laid over these last forty years. Malta has no raw materials, and has had to rely on the initiative and resourcefulness of its people to build its economy.

Manufacturing has been the motor driving economic growth in Malta. Presently it accounts for about 24% of GDP (down from 33% in the late '70s). The electronics industry has

become the largest sector, overtaking the clothing and textile one. Tourism is the other mainstay of the local economy.

More recently, the economic base has been further restructured through the growth of market services such as banking and financial services, transshipment etc. The public sector contributes about 22% of GDP (excluding companies with majority public shareholding).

There have been two milestones in recent Maltese economic history which have had significant impact on the present shape of the economy. These are:

- a) Malta's Association Agreement with the EU (1971) which enabled a vast array of locally-manufactured goods to enter the EU duty (and quota) free. This agreement induced a large number of foreign investors to branch their operations to Malta.
- b) The recessionary trends of the early 80's which accelerated the setting up of "import substitution" ventures, heavily protected by both tariff and non-tariff barriers.

Over the years, Malta has had a relatively large deficit in its merchandise trade, and a positive but smaller surplus in its services trade. These deficits tended to be partially offset by investment income from abroad as well as unrequited transfers (including remittances and pensions to households and foreign grants to the Maltese Government).

Since the second half of the eighties, the liberalisation of the local economy and large public sector capital expenditures have resulted in hefty chronic deficits in the Current Account of the balance of payments. This led to a fall in Maltese official external reserves – even though they are still amongst the highest (in terms of monthly imports) in the world.

Malta's economy shares the basic characteristics of other developing island economies. While certain vulnerabilities are inherent in its size, Malta's economy is still overtly dependent on imported technology, and it lacks any significant interlinkages and synergy between its various economic activities, as well as a coordinated, mutually-reinforcing institutional infrastructure.

Malta's present economic weaknesses include:

- a) excessive reliance on cost-based competitiveness,
- b) undue dependence on a small number of manufacturing companies
- c) market and seasonal limitations in the tourism industry
- d) unwarranted demands on government expenditure to motor local economic growth.
- e) a declining propensity to save – which has traditionally been among the highest in Europe.

Over this last decade, government debt has shot up to Lm613.6 million, representing a jump from 16% to 47% of GDP. Other government guaranteed debts have also increased rapidly amounting to over Lm400 million in 1997. Government debts have not only diverted funds from private sector investment, but also led to an expansion in the money supply with adverse consequences on inflation and the balance of payments.

The over-riding issue regarding public sector debt management is sustainability i.e. the ability to service debts without resorting to excessive policy shocks.

### **Fiscal and Monetary Policy**

According to the official cash-based measure, the fiscal deficit system between 1989-1995 averaged about 4% of GDP. In 1996, the deficit trebled to about Lm110.4 million (9% of GDP) and was expected to rise to 10-12% of GDP by end 1997. This dramatic rise in the fiscal deficit is due to a sharp fall in one-off receipts, which trickled down from Lm32 million in 1988 to Lm1.4 million in 1996.

Government revenue increased steadily by an average of 10.7% p.a. between 1988 to 1995. In 1996, there was a fall in revenue of about 4% from the 1995 level, primarily due to lower income tax revenue and less than budgetted revenue from VAT. There was also a drop in non-tax revenue due to lower profits by public Corporations (excluding the Central Bank). The main indications related to Government revenue are:

- i) the shift from a direct to an indirect tax base has had an adverse effect.
- ii) government revenue is procyclical, its growth rate being faster than GDP expansion in times of boom, and slower in times of economic slowdown.
- iii) the declining profitability of public sector corporations has had a negative impact on government revenue and
- iv) the sale of shares and other assets by Government while proping up revenue on a one-off basis in the short-term, may have a generally negative impact on a longer-term basis.

Government expenditure over 1988-1996 increased by 11.4% p.a. A large part of this expenditure was related to wages and other government consumption spend (accounting for some 56% of growth in recurrent expenditure). Social security accounted for some 34% of this increase in recurrent expenditure. The increase in the dependent population, and rises in average benefits paid, account for this increase.

Another worrying trend has been the continued rise in the cost of servicing the public debt, which by 1998 is estimated to increase to over Lm54 million p.a.

Monetary policy is another tool used by governments to influence the pattern of economic development. The main objective of monetary policy is price stability. Excessive price inflation is seen as potentially eroding the economy's confidence in money as a medium of exchange, with negative effects on trade, output and incomes.

The Central Bank of Malta is empowered to conduct monetary policy. As in most other small, open economies the Central Bank seeks to achieve price stability through an exchange rate policy whereby the external value of, the Malta Lira is kept stable by pegging it to a basket of foreign exchange rates.

The Central Bank seeks to influence local interest rates through reliance on market-based tools, consisting mainly of open market operations and the use of the Discount Window. Since March 1995, the Central Bank introduced regular weekly auctions of 7-day repurchase

transactions (repos or reverse repos) which have now become a primary tool of monetary policy implementation.

In spite of these developments, the direct impact of Central Bank activities on retail interest rates remain weak. This is probably due to:

- i) the volume of money market business remains small compared to the main profit-earning activities of the banking systems and
- ii) the oligopolistic nature of the banking system which fosters price rigidity and precludes price competition.

In view of the strength of domestic demand, over these last years the Central Bank has sought to tighten its monetary policy.

### **Main Sectoral Policies**

a) *Manufacturing:* Geared towards enhancing Malta's attractiveness to foreign direct investors. Local enterprise was neglected as policy makers sought significant, quick results. Foreign direct investment has played a critical role in the industrialisation process of our economy. Malta's attractiveness was based on (a) its pool of labour- non-rural, competitively priced, English speaking (b) access to the European market and (c) an attractive incentive package. Over these last 30 years, more than 300 foreign firms branched their operations to Malta. Half of these firms are still in operation.

b) *Tourism:* Accounts for 20% of GNP and 6.7% of employment. Over these last years Malta's international competitiveness has been eroded due to (i) higher local prices coupled with lower standards (ii) increased competition from other Mediterranean destinations and (iii) changes in the international tourist market in favour of longer-haul travel to new "exotic" destinations.

Malta has had big increases in accommodation, especially in 4/5 star developments as well as first class catering apartments. Malta's tourism has remained unduly dependent on low price, highly seasonal tourism. The British market now accounts for 38% of tourist arrivals. (1980s:80%). The government was obliged to reintroduce a foreign exchange subsidy scheme to UK tour operators. Estimated gross earnings from tourism exceed Lm250 million annually.

c) *Banking and Financial Services:* In recent years Malta has been upgrading its financial policies and structures to meet EU standards.

The Banking sector contributes approximately 11% to GDP, and serves as a critical lubricant of the real economy, serving as a financial intermediary between savers and investors, producers and consumers, between Malta and the rest of the world.

Recent years have witnessed a process of gradual financial liberalisation. The ceiling on deposits and lending interest rates has been effectively removed. More competition is being stimulated by a combination of measures including the privatisation of state-owned banks, the licensing of new institutions and the introduction of new banking products and services.

The Malta Stock Exchange, established in 1991, has an important role in facilitating the flow of savings into productive investment while encouraging a wider spread of securities ownership. In 1994, comprehensive steps were taken to strengthen Malta's role as an international financial and services centre, including eliminating the distinction between onshore and offshore financial institutions.

d) *The Construction and Building Industry:* This sector is often presented as a barometer of economic activity, and its importance goes beyond its contribution to GDP (presently at 3.6% and declining).

The construction industry is practically the only domestic source of capital formation (most machinery is imported). It goes into the expansion and upgrading of the physical infrastructure, as well as into such productive assets as industrial estates, hotels, etc.

The industry has a high value added content which results in strong multiplier effects. Local governments, at various points in time, have sought to stimulate economic activity by boosting this sector.

The industry is becoming more capital intensive; with stone in many instances being substituted by concrete and cement blocks as building material.

The Construction industry consumes land and generates a high percentage of waste (about 81% of total waste) rendering it particularly sensitive to environmental issues. A review of the Structural Plan of the Maltese Islands is being prepared by the Planning Authority.

e) *Agriculture and Fisheries:* Agriculture in Malta has faced a number of natural constraints (land availability, water supply, high calcium content in our soils etc. ) Only about 4% of Maltese land is irrigated.

Existing agricultural policies are geared towards stabilising product prices. Local prices are also supported by strict import controls.

There is an ever-increasing demand for fish and fish products related to changed consumption patterns. Fish reserves in the Mediterranean region are being fast depleted. Aquaculture has become an important business for Malta. Presently, there are seven commercial enterprises. Italy is Malta's main export market for farmed fish.

f) *Maritime Business:* Throughout the years, Malta has always had strong maritime connections – due to the island's location and the need to import most of our requirements. Malta's natural deep water port has often yielded a unique advantage.

Valetta has been Malta's only port until the recent development of Marsaxlokk. Monopolistic work practices and organisational structures within the port adversely effect not only domestic trade but also international activities.

Today, Malta has a relatively complete range of maritime activities encompassing ship repair and ship building, ship registration, grain and cargo transshipment, bunkering, cruise lining, cruise ferry, yachting, ship management, marine insurance, ship chandelling etc.

Development in this area has been led through a mix of legislative and regulatory measures, organisational changes as well as infrastructural investments. These developments often occurred in a fragmented, "ad hoc" basis.

## **A2. FIRMS AT WORK**

Although Governments shape the general business environment the critical decision-making unit is the firm, or enterprise, and not the "country".

Firms are undergoing unprecedented change due to the impact of two main forces: technological evolution and the internationalisation of competition.

### **The Labour Market**

Undoubtedly, the single most important policy area affecting the viability of local companies. Labour market policies condition work practice, the set-up of firms as well as individual attitudes to work and pay.

Properly trained, and managed, the Maltese worker can, in most instances, achieve productivity levels compared to those in Europe. This by itself, however, cannot guarantee that wages for these workers will be in line with those of their European counterparts. We need to understand better the economics of local companies.

#### *i) Sectoral Distribution*

The Private Direct Production Sector which includes manufacturing, agriculture and fisheries and quarrying, construction and oil drilling accounts for 27.9% of the gainfully occupied.

Private market services account for 33.7% while the public sector totalled 35.2% of the working force. The remaining 3.2% were in temporary employment, that is, as apprentices and pupil workers.

Over the last decade, there has been a significant shift towards the services sector. This trend could raise concern as services are perceived to carry a lower potential for productivity increases, and hence, for economic growth. It is important to clarify what "services" are involved – as this need not be the case with export-oriented activities such as tourism, transshipment, financial services etc.

#### *ii) Distribution by Gender*

Female participation in the labour force has gradually increased to around 34%. (Male activity rate has dropped marginally to 90%). Tight labour market supply has been the result of successive governments seeking to protect jobs within the public and private sectors.

Also, female participation up to now has tended to be linked to brisk economic activity. This needs no longer be so, and females could start substituting rather than complementing male workers.

Greater, more "permanent" female participation calls for a reassessment of the training facilities available, especially within the technical sector, as well as the elimination of family-related impediments to career advancement (e.g. lack of sufficient day-care facilities).

#### iii) *The Age Composition*

Although there exists a relatively even spread of age-groups within the labour force this is not so at a sectoral level. Employees under 30 years are predominant in textiles, chemicals, electrical products, hotels, banks and related financial activities.

There is a predominance of the 30 to 45 years age bracket in the fishing, furniture, construction, transport and communications industries. Whereas agriculture, tobacco manufacturing and recreational services have an elderly workforce (40 years plus).

#### iv) *Labour Costs*

Over the 1987-1996 period labour costs (inclusive of wages, social security contributions, and other benefits) increased by 92% up from Lm34.6 to Lm66.3. The rise in the minimum wage over this period was only 42%, from Lm29.88 to Lm42.38. A proper assessment of the impact of these increases on the competitiveness of Maltese firms would need to include productivity as well as exchange rate factors.

#### v) *The Skills Base*

Various local labour surveys have confirmed employers' complaints as to skill constraints, especially in lower managerial positions. Workers are weakest in life skills, as well as literacy and numeracy skills.

Employees, on their part, point out that many local companies are family-owned, often there exists continuous family-feuding and that the general environment within many of such firms is not conducive to initiative and decision-making.

Review, and discussions between the social partners of key labour legislation in Malta has been going on for some time. There is an urgent need to conclude these negotiations and to bring existing legislation in line with the present needs of the local economy.

### **Trade Policy**

Throughout the years, Malta's economic public policies have been inspired by the need to promote and support export-orientated, foreign-exchange earning, activities.

Since the early '80s, Malta's sound foreign exchange position coupled with recessionary trends in the economy shifted emphasis on to job creation. Import substitution and heavy protection became the hallmark of local trade policy.

This process started to be reversed by the late '80s, but there still exists hefty levies which are seen as critical for the survival of a significant number of local firms. Government's intention to enter into an industrial free trade area with the E.U. within the next seven years,



implies that these levies will have to be eventually, and probably gradually, eliminated. Similarly, any taxes on imports will have to be extended to locally produced goods.

### **Consumer Affairs**

Over these last two decades, the Maltese consumer has been fed a culture of "fixed prices". People still look at government to control and make all the necessary decisions. The continued liberalisation of the local economy, fast changing retail structures etc are all making havoc of such policies. Local consumers have still to understand how these new systems work. Any protection offered is reactive.

The Consumers Affairs Act of 1994 was intended to start remedying the situation. This comprehensive legislation deals with the functions of the Director of Consumer Affairs, the establishment of a Consumer Affairs Council, the setting up of consumer claiming tribunals and the role of voluntary consumer associations.

### **Competition Policy**

Within the EU, competition policy has been given a central role in forging a unified market. Malta's drive for EU membership led to the incorporation of much of this E. U. policy into the local competition legislation. A number of exemptions similar to those existing within the EU were also introduced soon after. To date, it appears that this policy has had only partial success in promoting greater economic efficiency and consumer choice.

## **B. THE FORCES OF CHANGE**

### **B1. "WORLD" DEVELOPMENTS**

#### **Society**

Humanity is going through interesting times, of fast change leading to the emergence of new levels of civilization within the dawn of the new millenium.

This radical change is affecting the way that humanity perceives itself, the way it behaves, it works, it plays. This new perception centres on the role of the Individual person.

Individuals are becoming increasingly capable of developing their own values and norms. Their tastes and choices are a determining force on the market place.

Economics is becoming less concerned with the scarcity and indivisibility of resources and more with the implications of information availability and individual choice.

Within political studies, there is a continued reassessment of existing structures and systems; redefining the way politics are being carried out, the role of the nation-state in the light of increased mobility of ideas, information, capital and people across borders.

Sociology is moving into post-modernity gear where human behaviour is not so much the outcome of rational decision-making, but of a mix of rationality with emotions, feelings and inter-personal relationships; often seeking immediate gratification and fulfillment.

The "industrial" society is fast giving way to the "knowledge (information) society".

The "knowledge" society is characterised by a capability of communicating everything to everyone anywhere by any form (voice, data, text, image), all at very high speeds.

Lifestyles and economic activities are undergoing drastic transformations as a result of the dramatic advances in the speed and efficiency of information and telecommunications. These sectors are to the knowledge society as manufacturing was to the industrial one. Their effect will permeate throughout all the structures of tomorrow's society.

Most of the developed countries are setting an agenda to be prepared for these developments. They realise that the new era will bring significant changes, which will unfold an enormous potential for new services relating to production, consumption, culture and leisure activities thereby creating a large number of new jobs.

#### **The Political Economy**

The world power structure is still being redefined, following the end of the "Cold War" era. The bipolar, military determined world order is being replaced by a triad of economic powers: The USA, Japan and EU.

All three are fast evolving into regional super structures; each having its own distinct origins, architectures and dynamics. Mutual dependence among these economies is increasing, and international competitiveness is becoming more intense.

The future of the world business system will very much depend on the adequate support to the specific needs of developing countries. If not, it will generate political instabilities at both the national and regional levels.

As many of the developing countries turn to market economies and privatise big chunks of their public sectors, they are increasing the inflows of direct investment by the developed countries.

Developing economies are increasingly being integrated in the global economy. Available large pools of cheap labour which are bound to attract labour-intensive activities. This will not be without adjustment costs in the developed countries. These will inevitably have to focus on those industries in which they have a comparative advantage, i.e. knowledge-based work and knowledge workers.

### Production Systems

Globalisation today has an intensity, speed and spread which have never been before. It has never been so easy to be in touch with the rest of the world through satellite TV, etc. This is leading to the convergence of consumer behaviour - what is known as the "global village" phenomenon. This convergence affects not just consumables but also values, norms etc.

Globalisation is leading to more intensive competition in world markets. Companies are not nation-states but multinational corporations (MNCs). These are reorganising their international activities, their operating policies in an efficient and integrated fashion capitalising on the tangible and intangible assets available to the corporate system. Any part of the value chain can be located wherever it confers an overall company performance - thereby combining ownership advantages with comparative advantages.

The market for attracting foreign direct investment is changing significantly. A new phenomenon which has emerged in these last years relates to "across-border production networks". Driven by MNCs, such production systems have a "regional" rather than "country" structure and involve linkages among economies at different levels of economic development.

Other significant developments which are impacting on the nature of production systems include:

- The process of technological change, particularly in electronics and information technology, is pervasive and accelerating.
- The move away from "mass production" to "lean production", combining flexibility with volume.
- Many product markets are no longer dominated by huge, final assemblers who control product definition, supply and distribution chains while enjoying significant economies of scale. Instead there have emerged "process" or "standard" controllers whose key products are owned as intellectual property. These are made available to others who

produce complementary or even competing products. This is known as the "Intel inside" phenomenon. It exists predominantly in electronics and related industries.

Globalisation does not mean that there is no room for small and medium-sized companies. As the MNCs reorganise themselves, focusing on "core competencies" they will seek to contract out activities or seek products/services which are no longer considered as being critical for corporate success. This process relates more to quality and flexibility considerations rather than just costs.

Also, SMEs are generally proving to be more innovative. SMEs which do not fall within the sphere of operations of MNCs will have to seek survival in "niche" activities and markets, often seeking to capitalise on "unique" consumer demands such as proximity to local markets, high levels of "customisation" etc.

Another characteristic of emerging production systems is their increased dependence on access to efficient supporting "services", in particular those providing information technology

## **B2. THE COMPETITIVENESS ISSUE**

**International competitiveness: What is it? Why does it matter so much?**

In essence, competitiveness represents an ability to sustain value added creation. For enterprise, it represents an ability to offer products (services) which are distinct from those generally available on the market.

This "uniqueness" (differentiation) can be the result of lower prices and/or higher "quality" i.e. features of a product which are of value to customers and for which they are prepared to pay relatively more.

For countries, competitiveness relates to their suitability or "attractiveness" as a place for doing business (for both existing and potential companies); and especially for those companies which can afford to pay the "right" wages. The factors that determine Malta's competitiveness are many.

The International Institute for Management Development combines 250 indicators which determine a country's competitiveness. Besides economic features such as GDP, productivity etc there are others of a political, socio-cultural, human and educational nature. Governments have to work in close partnership with enterprise and the workers' representatives; each party fulfilling complementary roles towards improved competitiveness. Good communications are essential in fostering this partnership.

The "core" of competitiveness, however, lies with companies not countries. It is companies that decide how to run their business. The more successful companies do not compete on price or cost advantages. They strive to build "strategic advantage" either through adjusting resource allocation or by developing some "unique feature" such as speed, agility, consistency or innovation.

At times, companies are able to benefit also from strengths and/or advantages which arise from the environment in which they operate: "externalities" can result from:

- a. a country's reputation as a provider of certain products (e.g. watches from Switzerland)
- b. from "clustering" i.e. a group of producers, suppliers, support-institutions etc operating within a specific product sector,
- c. from synergy and interlinkages with other sectors of the economy.

Companies have to engage in a relentless search to improve product design and quality, purchasing, marketing and sales techniques as well as distribution strategies. Companies have to look at competitiveness not as a "war of position" (finding some optional role and defending it) but one of "movement" in anticipating trends and responding fast to ever-changing consumer needs.

No country, including Malta, has a "divine right" to competitiveness or prosperity.

Only by adopting a "dynamic" stance, can we hope to safeguard, and improve, our standard of living. Developments in the world scenario all indicate that we have to radically revise our economic strategies.

Malta's attractiveness as a cheap (cost-effective) production base for European manufacturers is being adversely effected by the emergence of lower-cost economies, especially those to our East and to our South.

These countries are increasingly embracing market economics, can offer a significant pool of labour at much cheaper rates, and are no longer perceived as being a high risk proposition.

Business attraction and retention is becoming a top priority in all the economies of the world. Financial liberalisation is leading to an even greater mobility of capital, and productive investment will now seek opportunities world-wide. Malta must therefore compete with the profit yielding opportunities elsewhere. Malta cannot afford to miss out.

The emerging challenges demand concerted efforts from all the social partners. Our society needs to back economic winners and not lame horses.

### **B3. CHANGES AT HOME**

#### **Society**

The impact of globalisation while promoting similar values and norms, including consumption patterns, world-wide, has also led to the re-emergence of local nationalism and the strengthening of local identities. The Maltese too have discovered that inspite of our small size, we too can effectively participate in the emerging world society.

The family still occupies a central role in Maltese life, but individualisation is leading people to reduce the qualitative time dedicated to their families.

Malta's small, open society is fast adapting to imported norms and values. The trend towards a more cosmopolitan society is unmistakable and will undoubtedly accelerate with further trade liberalisation and increased affluence.

## **Competitiveness**

A competitive Malta is the only way to deliver wealth and prosperity, as well as jobs and opportunities for our people. Malta's international competitiveness has been losing ground and it could soon reach a point of serious concern. Urgent action is needed.

Malta's competitive advantage, however defined, lies with its people. The Maltese worker (like any worker in the world) needs to be continuously trained, be fast in learning and in applying new techniques and ideas.

This implies a shift in emphasis from learning through codified knowledge (that is the product of structural, hierarchical systems of generating and disseminating information) to tacit knowledge that brings flexibility and creativity. Malta's education system needs to be brought in line to encourage such a transition. (The recent decision to introduce "lateral thinking" in the curriculum of our schools is a good start).

Globalisation, with its emphasis on increased competitiveness, will present new opportunities for Maltese companies seeking to expand their markets. However, it will also expose many others to unprecedented competition.

"Niche" marketing will become of critical importance. "Niche" marketing demands certain attributes (flexibility, customisation, export marketing knowledge etc) which are often not so readily available. Otherwise, local companies will be condemned to producing "cheapies" – lower-priced, "inferior" products, which everything else being equal, implies that they can only afford to "support" inferior wages.

## **Standards**

The World Trade Organisation (W.T.O.) has taken the lead in seeking to create greater harmonisation in product (and services) standards. The W.T.O. realises that this is an essential precondition in fostering free trade among countries and to prevent that "standards" be used to create non-tariff barriers. Malta's track record in this area leaves much to be desired.

The Malta Standardisation Authority itself was recently restructured to revamp its role so as to ensure :

- a. the proper quality of goods being exported
- b. that all products carry a proper description and
- c. that there is no negative impact on consumers' health and the environment.

Day-to-day experience in Malta has repeatedly shown that it is not sufficient to have the right legislative framework. Equally important is commitment to make that legislation work and to take the necessary action and/or enforcement measures whenever the need arises.

The role of standards will become even more critical as Malta, over the next years, will be further opening up its economy to international business.

## **Maltese Firms**

There has been very little research on the life history of firms and entrepreneurship in Malta. The great majority of Maltese firms are micro or small employing less than 10 persons. In 1995, out of a total 4115 manufacturing firms, only 18 employed more than 200 workers.

Within family run business, the enterprise as an institution often overlaps the family as an institution. This phenomenon leads to a series of consequences on the level of decision-making profiles, the filling of key posts, of business ties and opportunities for further development.

The business plans of many of these companies do not have the vision or resources to face an international strategy which demands relatively large budgets for searching markets and marketing products. In other words, it is still not clear that Maltese owned companies are prepared to move from a production based industrial culture to a marketing one.

Naturally, "intermediaries" (such as export consortia or export "leaders" which serve as a point of contact on the export market) can help foster this marketing culture, but ultimately, sustainable success would have to be measured by the ability of these firms to build an in-house export marketing capability.

## **B4. A "SWOT" ANALYSIS FOR THE ECONOMY**

This type of analysis which takes into consideration Malta's strengths, weaknesses, opportunities and threats, helps us to understand better the challenges ahead of us, and to possibly find the right solutions.

### **Strengths**

1. A cohesive social structure.
2. Human resources which are adaptive, resilient, non-rural and English-speaking.
3. Relatively a high level of education with a significant part of society being multi-lingual
4. Politically stable system
5. An acceptable European-style quality of life.
6. An Association Agreement with the EU which practically enables most locally manufactured products to be exported duty and quota free.
7. Good track record in economic growth and in dealing with foreign direct investment
8. Small size – "small" problems and "small" impact on international business.
9. Rich historical and cultural heritage.

### **Weaknesses**

1. Malta shares vulnerabilities associated with small island states – in particular land limitations and higher sensitivity to environmental considerations.
2. Malta lacks any raw material and its "micro" economy limits scope and scale of activities including Research and Development as well as "investment opportunities".

3. Malta is generally "unknown" and has limited appeal as a place to do business and work in.
4. Emerging "cultural" traits – "here and now", government dependency, "individualistic" orientation, etc.
5. Increasing preference for comfortable and secure jobs within public sector, permitting undeclared evening part-time work.
6. Mismatch in skills availability and industry's needs. Lack of manpower "co-ordination" between students, government, industry. Gaps in "vocational" education system.
7. Reactive relationship between government and social partners (unions, employers, etc)
8. A "dualistic" industrial structure. One globally-competitive, foreign owned and the other "protection-dependent" Maltese owned.
9. Undue dependency on foreign investment for the importation of technology and the growth of local know-how.
10. Limited labour supply and increases in labour costs which are outpacing productivity improvements are undermining international competitiveness of local industry.
11. Ageing population and low female participation in the labour force.
12. Maltese owned industry generally suffers from lack of finance which is limiting investment in higher technology and machinery. Other limitations are due to lack of management know-how including export-marketing expertise.
13. No "clusters", "centres of excellence" or other "externalities" linked to Malta-based economic activities.
14. Lack of inter-linkages between various local economic sectors. Also at an institutional level, no convergence of strategies, resources etc.
15. High cost of government-provided services and compliance with government regulations.
16. A public administration that does not facilitate the growth of private business and entrepreneurship.
17. An "expensive" social infrastructure which is competing with productive investments.
18. Undue dependence on government expenditure for the "well-being" of the economy.

### Threats

1. Changing world structures and systems could be real threats for Maltese society if it is unable to meet new challenges emerging. Cheap and extensive, competitive pools of labour at reduced risk.



2. Sectoral and personal interests preventing the necessary economic readjustments which are critical for future success.
3. Malta's geographical location: the Mediterranean is a relatively unstable political region.
4. Relative economic success to date, induces sense of affluence and high expectations undermining the need for change.
5. Short-term orientation in decision making that leads to too many stop-gap measures.
6. The lack of strategic and project coordination within the public sector.

### **Opportunities**

1. Changing world structures and systems offer new opportunities including those arising from free trade arrangements with EU etc.
2. The knowledge-based society is not scale-dependent (as was industrialisation) enabling a "micro" economy to participate more fully in the emerging opportunities. (telecoms, Information Technology industries etc).
3. Substantial scope for Maltese-owned companies to improve their "cost effectiveness" and become more competitive on the basis of "differentiation" (rather than just costs).
4. Malta could build a coherent image, synonymous with certain types of economic activities.
5. Geographical location – opportunities in a developing region
6. Malta could utilise its position, time-situation and English speaking capabilities to establish itself as a hub for business – from financial services to maritime industries.

### **C. A VISION FOR A BETTER TOMORROW**

The fast changing world and domestic scenarios, make it increasingly important for Maltese society, and Government, to outline a longer-term socio-economic vision – and to ensure its achievement.

Visions help to generate a sense of direction, are a great communication tool and provide a point of focus which unifies the respective groups within the community in support of a common goal.

The basic elements of the vision have to be agreed to by all concerned so as to propel a sense of belonging and common destiny.

The vision has to combine intuition with analysis – and has to be founded on a realistic assessment of competitive strengths and weaknesses. The guiding principle should be that success is a process and not a state of achievement.

The vision has to find its roots in the concept of “sustainable development” whereby economic activities are integrated with quality of life and environmental considerations. It has to acknowledge that there is balance and interdependence between economic growth and quality of life.

#### **The Vision**

***“Maltese society provides maximum opportunities for each individual, now and in the future, to achieve self-fulfillment in a caring pleasant community concerned for the rights and well-being of all members, in harmony with the environment”.***

##### *i) The Individual*

a) The Maltese citizen (he and she) is fully conscious of his rights and responsibilities. Self-dependent, he is capable, and able, to effect his choices as he thinks best. He has come to welcome diversity. Confident of his capabilities, he adapts quickly to changes in his way of life. Keenly interested in developing his creativity and other personal talents he actively, and throughout his life-time, takes the opportunities that Maltese society offers him.

b) This “personal” development has been the result of an education system which takes a “holistic” approach. The individual is seen as a “total” person – giving equal consideration to cultural as well as skill formation. Cultural preparation enables the Maltese person to widen his horizon, identifying himself with a global society, while finding unique strengths within his cultural roots. Skills formation enables him to participate fruitfully in the economic strategies of our community. In particular, the Maltese person is “information literate” and is able to cope with the demands of the “knowledge” society. Education is seen as a lifelong experience.

c) The Maltese consumer, also expresses his right of choice at the market place. Smart and vigilant for his rights, the consumer no longer seeks government assistance to ensure that

he gets a fair deal. Government's presence is confined to where market economies fail or where significant market imperfections exist.

d) The Maltese worker (producer) is highly productive, making full use of his skills and capabilities. Self-improvement facilities exist, which ensure that everyone has the opportunity throughout his working life to contribute his best at the place of work. Labour is sufficiently mobile between companies and (sectors), so as to ensure a ready supply of skills to back successful ventures.

## ii) *Society*

a) Maltese society actively encourages participation by all individuals, seeking a fair distribution of opportunities so that everyone plays a role in line with his abilities and ambitions. This irrespective of gender, age, physical or mental capability. Diverse lifestyles are equally accepted. Maltese society acknowledges that the "common good" cannot be served by going against the fundamental rights of the individual.

b) Maltese society cherishes its sense of caring and of solidarity. Solidarity founded on the principle of democratic consensus which, however, recognises that at times consensus by majority has its limitations also. Our society expresses empathy with all those who suffer want or pain: and provides a safety net to those that need it.

The welfare system has been reviewed and readjusted so that it is no longer an "easy" option, rendering individuals unduly dependent on Government. The system is built on a proper mix that fosters self-help together with mutual support (through efforts by members of society to help each other) as well as public assistance. This has rendered the system cost-effective, and hence sustainable. The Maltese have peace of mind and feel safe within the community.

c) Solidarity is just one of the values that Maltese society has nourished to meet the exigencies and challenges of modern life. This set of common values have helped to unite people in a sense of community, of sharing and partnership which goes beyond the affluence and economic well-being of Maltese society. As Maltese society became more exposed to global society, it clinked steadfastly to its deeper "core" values. The Maltese are proud of their language. They have made good use of their capability to speak English which has enhanced their interface with the rest of the world.

d) Malta's success has earned it the respect of the international community. Malta has been in the forefront of promoting peace and political stability in its region. The Euro-Med dialogue has come a long way, and Malta has seized the opportunities that were generated to consolidate its relations with both the EU as well as the Mediterranean countries. Malta has also been active in other international fora taking initiatives that are to the benefit of mankind.

e) The peace of mind of the Maltese is partly due to their having been prepared to cope with natural disasters such as earthquakes, flooding, strong winds etc. Extensive educational programmes are held to ensure that civil protection plans are known and understood by all. Volunteer groups, as well as local councils, have been assigned key roles in ensuring the effectiveness of these protection programmes.

Three key elements which have supported this individual and societal development are:

- i) The Economy
- ii) The State
- iii) Quality of Life considerations

i) ***The Economy***

The Maltese economy is competitive at home and abroad. The open market system stimulates strong and vibrant economic activities. The economy is highly integrated with the global one, on the basis of reciprocal free trade movements.

This success was the result of private sector initiative. The economic restructuring process was successful as it had the support of all the social partners. Economic activities were encouraged in line with their "value added" potential. Resources were channelled to back ventures which helped build "competitive advantage", competing not just on cost-effectiveness but also on the strength of differentiation resulting from unique resources, capabilities, qualities etc. Malta will never be able to offer the lowest total business costs among all its competitors.

What it has sought to offer is the greatest possible value for businesses operating, or wishing to operate here. Effective use was also made of advances in the knowledge industry which has helped the country to build up its potential as a production and switching centre for goods, services, capital, information and people.

Malta is now a hub for business, services and transportation. Care was also given to create synergistic inter-linkages within and between these economic sectors.

The success of this restructuring can be gauged by the improvements in the standard of living of the Maltese people, the broad opportunities available within the economy, as well as the selection of jobs available.

ii) ***The State***

Malta boasts a simple, dynamic and efficient civil service. The service is fast building a reputation for its customer-orientation and its support in helping local business to flourish. Public employees are proud of their work, and share a sound "esprit de corps" and professional ethos. Their commitment is acknowledged and rewarded. Regular training courses are held for these employees.

The Government has had to redefine its role in society. This has led to the down-sizing of the public sector. Now, what government does it seeks to do well – in the same spirit of "value added" and superior competition which characterises private sector activities.

The government acts as a coach, leading others by setting standards and by example. Relations with the social partners are built on credibility and mutual trust. Government is seen as being fair and coherent in its policies and their implementation. Regulation is kept to the necessary minimum, and is commensurate with the original purpose.

Government adopts a coordinated approach to macro-economic policies. Emphasis is given to sustaining non-inflationary growth. Fiscal discipline is exerted throughout, and the Maltese people have come to accept that taxes have to be paid if they are to continue to expect social benefits. Government has also given importance to the publication of proper and timely information on its affairs, as well as the economy at large.

This information, and its analysis by autonomous organisations, has helped in fostering the principle of self-responsibility and increased participation of the Maltese people in public matters.

### iii) *Quality of Life*

Malta is an attractive place to live in, and where to raise a family. Maltese society was wise to realise that "consumerism" for itself led nowhere. It chose qualitative fulfillment, giving full attention to culture and environmental preservation. Maltese lifestyles have also changed drastically due to the impact of information industries and telecommunications.

The Maltese have become more conscious of "personal" matters such as health care, sports, recreational as well as "cultural" activities. Having more leisure time meant that the Maltese started spending more money on these matters.

The private sector realised this opportunity and invested significantly in providing the right facilities.

The Local Councils too spent money on embellishing the living environment, and in providing adequate recreational facilities especially for the elderly and children. Volunteer organisations have been actively supported, and operate in a significant range of local social activities.

The public plays an important role in public policy relating to environmental issues. Extensive awareness campaigns have helped create a social conscience as to the vulnerability of the ecology within a small island.

The Planning Authority fulfils a useful role providing clear direction, and an effective mechanism that minimises the burden of economic growth on the environment, without stifling initiative and entrepreneurship.

Malta's waste management policies give due consideration to its specific characteristics and necessities. Efforts are made to minimise waste generation, encouraging whenever possible, recycling so as to convert wastes into a resource.

The Polluter Pay Principle has been adopted, so as to ensure that environmental costs are reflected in market prices. Government acts as a regulator, and to ensure enforcement.

#### **D. FOCUSING ON HUMAN RESOURCES**

The concept underpinning this document is that there can be no "real" development without improvement of the human individual.

The vision statement itself projects the Maltese as capable, self-managing individuals participating fruitfully in society, as well as in its economic structures. The emphasis is on the need to take a "holistic" approach to human development.

This becomes increasingly important as the world, and Malta, moves further into post-industrialism. Tomorrow's economy will be more knowledge and skills intensive; demanding greater flexibility and creativity from people. Our country, given the lack of raw materials, has always had to rely on the resourcefulness of our people, for economic survival.

International competitiveness, and advantage, for us is all about the quality and productivity of our workforce. Value enhancement in Malta's case is strongly linked to the continued improvement of our human resources.

Business performance tomorrow depends on today's investment in our education and other human resource development systems.

The need to take a "total" perspective of human development implies that our education and training systems have to be oriented so as to cultivate the intellectual or cognitive, social and affective personality, as well as the economic potential of our people.

"Basic skills" and "job skills" have to be seen as being complementary and mutually reinforcing. A certain level of educational attainment has to be seen as an integral part of the enrichment of the skills base of our economy, and vice-versa.

A skilled workforce in itself is not enough. It must be well-managed. Enterprises need to ensure that their internal organizations and the way they relate to their employees, allow changes to be made easily and with consent.

We have to feel individually, and collectively, confident to embrace change and flexibility in all its facets and to adopt them as integral characteristics of Maltese culture.

Our society has to encourage initiative and entrepreneurship, and to reward them accordingly. All this has to start from within our education system.

Also we have to move away from confrontationalist, "Taylorist" approaches to employee/ employer relationships; to ones based on shared visions and commitment so as to ensure consistent improvement and success.

Properly managed, workers are not effort-averse. If motivated, they do not need controls or additional monetary incentives to actively participate in the progress of their place of work. They need to be trusted, involved and empowered.

This challenges the structures and systems of many local enterprises. It implies moving beyond traditional concepts of worker participation, which in Malta have generally achieved disappointing results.

We need flatter organizations where worker participation is not just another means of imparting management's perspective. This will necessitate improved training programs for both management and employees.

Similarly, the labour market has to evolve to become increasingly responsive to market signals- including the viability of certain economic activities as well as the availability of changed skills.

A recent report (Human Resources in Malta – Trends and Challenges, 1997), pointed out that existing labour legislation, as well as the wage determination process are among the main constraints affecting adversely the local labour market. A review and evaluation process of existing labour legislation, started by the social partners some years ago, needs to be concluded.

Clear policies are to be set in place so as to promote an efficient labour market. Education has to be seen as a lifelong process.

In a fast changing world, some skills and competencies are bound to become obsolete. Our education system has to prepare our students to accept and be psychologically ready for such eventualities.

In particular, changes in the world economic structures imply that the demand for unskilled jobs in the more advanced economies, and in Malta, will continue to fall. The prospect of long-term unemployment for the unskilled is a real one and should be treated with urgency.

Our education, and training systems, need to be restructured so as to ensure the provision of "second-chance" education to everyone, of whatever age. This is especially so for women.

Our people have to be sensitised to the need to assume "personal" responsibility for their continued "skill" development, so as to add "value" to themselves on the labour market.

The Government, and workers' representatives, should ensure that opportunities for life-long education and training are available, so that all workers will be able to face the challenges of tomorrow.

## **DI. THE EDUCATION SYSTEM**

Pre-sixteen (primary and secondary) education has to be able to provide, first and foremost, the "basic" skills. These skills refer to the ability to read and write (literacy), to listen and speak (communication) as well as to undertake simple calculations and measurements (numeracy).

For the Maltese student, literacy has to refer to both Maltese and English. We, as a people, need both languages and our educators should develop systems of learning both languages concurrently and with shared synergy.

The Maltese language gives us national identity, and strengthens our social roots. English is our key to the global society. Proficiency in English is critical for maximisation of life-chances, and all school leavers should have obtained an adequate standard.

Recently, the concept of "basic" skills has been extended to "core" skills. The latter include also the ability to improve one's own learning and performance (learning-to-learn skills) as well as personal and social skills.

The new age demands that computer literacy and creativity become a basic goal of education; utilizing information systems as an integral part of the learning process.

The aforementioned report on Human Resources in Malta (1997) stated that according to local employers the present education system is at best providing some literacy and numeracy skills, but is failing miserably in areas of decision-making, self-organisation and managing relations.

It can be said that inspite of the evidence of considerable educational attainment, the present system of education in Malta still has deep "structural" gaps. The levels of illiteracy are unacceptable and emphasize the need to give priority to upgrading education at the primary and secondary levels.

This will require measures designed to increase the effectiveness of teaching and learning, especially in state schools. Most teaching is still done within the framework of a terminal-examination, norm-referenced oriented type of curriculum. Teaching is examination, and not pupil centered.

All too often our schools are asking students to absorb knowledge, obey, remember and repeat. There is little "critical" learning where the individual is motivated to learn and is required to "challenge" the new knowledge on the basis of the knowledge that he already has.

Learning has to convey not just knowledge but also attitudes and competencies. School curriculum should be reviewed (and extended to include IT and creativity) while changes should be made in the assessment process.

Also, there has to be a focused approach to the professional development of teachers, so as to enable them to surmount this transition successfully. Significant improvements in school management and administration systems are also necessary .

School leaders need to be provided with adequate resources and support to enable them to operate as autonomously as possible. Greater parent/student involvement in administration should also be encouraged. School plans need to be developed. As we shall see later, the Education Division should have a revised role.

Another area which requires special attention is vocational training. In Malta vocational training still enjoys a much lower status compared to academic education. In particular, at present opting for vocational education is perceived as a road to nowhere because the University makes it difficult for such students to enter University courses.



The Ramboll Report advocates that females be encouraged to participate more in technical education. This is extremely difficult to crack because it is essentially a cultural problem. The role of guidance and counselling, in this respect, is vital.

The emphasis on the upgrading of skills and life-long learning demands a thorough review of the qualifications and certification systems of the country. It is useless to encourage the individual to build-up his skills without giving him due accreditation, and which has to have value to both the learner and the potential user of that qualification (that is, the employer).

Most OECD countries are in the process of revamping and reforming their systems of qualifications, especially vocational ones. The EU, in the near future, will be establishing its own standards and accreditation systems and it is important for Malta to rationalise, and to adhere, its systems to the European ones.

All the social partners should be given an active role in the formulation of these systems. The establishment of the Malta Council for Vocational Qualifications is a good start, but much more needs to be done.

A comprehensive "skills audit" is required to complement the envisaged manpower survey, and some form of systematic evaluation and recording of "human assets" acquired through training and experience needs to be established.

This may entail the formation of a system of "Accreditation of Prior Learning" whereby any individual wanting further training and not having a formal qualification can apply to have his abilities and levels of competence certified.

The setting up of the proposed College for Further Education should not only serve to network the various "post-sixteen" educational institutions (e.g. ITS, Banking School, Fellenberg Institute etc) but should also help to actively encourage "second-chance" education.

In particular, it should offer a modular and open learning structure, whereby the individual is able to "mix and match", combining "job skills" with "core skills", and accumulating credits that will lead to certification, and if desired to higher levels of education. The system adopted could be flexible enough to give due scope and recognition to "in-house" training.

Also, the College in conjunction with the ETC, Industry and the Education Authorities, could help establish a national system of traineeships. Such a system would primarily ensure that new entrants to the labour market receive appropriate job-related training, and that they are certified for this training.

Such a scheme has to start with school leavers but should become on-going. In the UK, "Investors in People" schemes are being organised so as to encourage firms, as well as public sector organisations and departments, to invest in the training and development of their employees as an integral part of achieving their business goals.

The emphasis is on results and not procedures, and these schemes are being presented as the starting point for "total quality management". These schemes help organisations to:-

- a) build commitment to invest in people as an integral part of achieving their business goals
- b) plan how the skills of the individual and the team are to be developed to achieve these goals
- c) formulate action to develop and use the necessary skills in a well-defined and continuing programme, and evaluate progress towards achieving goals and determining future needs.

## **D2. THE INSTITUTIONAL CONTEXT**

The terms of reference of the recently established Commission for Education include making recommendations to Government as to a full strategy for the development of the education and human resources in Malta.

In our opinion, the commission should give due consideration to the merits of following the UK example and extending the responsibilities of the Ministry of Education to include employment.

The reasoning behind such a move appears quite logical, and would give a clear message that for government, education goes on even after that an individual leaves school, or takes up a job.

We also believe that the Education Division should consolidate its role as a "regulator" – setting standards, monitoring performance, and being generally responsible for certification systems and their international recognition. The Division should be divested of administering primary and secondary schools.

The institutional structures of education have to evolve so as to favour the decentralisation process, whereby each school is given as much autonomy as possible while making sure that accountability is maintained.

As the decentralisation process accelerates, "horizontal" school associations should be encouraged so as to promote "best practice" by facilitating bench-marking, sharing of experiences etc.

The role of the University should be further strengthened. In the recent past, the University has successfully extended its sphere of operations to include the Junior College, the Institute for Health Care, the University for the Third Age etc.

It is now being proposed that this responsibility be extended to cover all "post-sixteen" education, including all higher secondary education, the setting up of the above-mentioned College for Further Education, as well as "lifelong education" in general.

This would essentially imply that the local University evolves into a network of faculties, colleges and specialised schools covering all facets of "adult" education. The broad range of subjects covered should encourage "inter-disciplinary" study and interaction; and would contribute towards promoting a "total" approach to education and human development.

To ensure the success of such an extended role for the University, the government should appoint key people from the private sector, the trade unions, the ETC, the Foundation for Human Resources etc to represent it on the University Council.

## **E. A STRATEGY FOR THE ECONOMY**

### **E1. GENERAL STRATEGIC CONSIDERATIONS**

In an increasingly competitive world, Malta has to constantly strive to increase value added and productivity. Some people still tend to react sourly to suggestions that productivity needs to be increased.

Productivity is not a matter of working harder and longer hours. Often, it just means better management and organisation.

Having no raw materials: limited scope for vertical/horizontal linkages, as well as the fact that Malta is an island with limited land availability adds pressure on the cost competitiveness of local ventures compared to other international operators. Malta has to seek to differentiate itself positively from its competitors, using its relative strengths to better satisfy the needs of its "customers".

#### **The Value Concept**

Regrettably in Maltese culture (and language) the concept of "value" is often equated to price. And yet from a marketing perspective price is only one element in determining the "value" of a product (or service).

Value includes a set of "tangible" attributes (such as performance, durability, running costs, comfort, and residual value) as well as "intangible" attributes (e.g. brand image, luxury, ego satisfaction etc).

"Tangible" attributes are often directly related to the cost structures of providing a product (or service). "Intangible" attributes are not. This is why Malta needs to enhance the "intangible" attributes of its products and services.

This is no easy task. "Intangible" attributes do not appeal to all clients in the same way - implying that Malta, and local companies, need to know better which client base, market segment, they choose to cater for.

The solution offered is that local companies should go for "niche marketing". Niche activities usually entail "higher value added", are not so cost-sensitive and do not compete directly with "global" products (services) which are increasingly dominating world markets. The logic goes that there will always be a market segment (however small) that opts and needs a different, "customised" product.

Although such advice makes sense, it tends to underestimate the capabilities (including technology and know-how) which are required to successfully exploit these opportunities.

At a national level, Malta has to build competitive advantage by making full use of resources which are either not available to competitors or which are available to them but at a higher cost.

Once the critical factors for success have been identified, Malta needs to ensure that all

the necessary resources are made available to turn opportunities into strategic advantage. Allocating resources to minimise the "social" cost of restructuring by itself can be wasteful, and would postpone the chances of success.

Malta needs to back ventures with the best chances of success, which fit into the strategy leading to superior competition. It also has to plan for institutional improvements so as to ensure that the strategy can be successfully implemented and the progress achieved "structuralised".

Malta cannot condemn itself to being a low-cost economic player competing on lower wages. Also, Malta's economic growth should be directed so as to maintain high employment "intensity", so that higher productivity will not lead to increased unemployment as has been the experience of many, more developed countries.

The emphasis is not on being able to produce specific products (services), but rather on building capabilities, developing key processes that help provide superior value to a distinctive group of customers.

It is this orientation that will ultimately create synergy and gel together the diverse economic activities going on in our country. This is the basic challenge of the "Value 2000" programme.

### **Leadership**

Malta's politicians have to provide the "visionary" leadership, which is necessary for the successful implementation of this strategy.

The Ramboll Report put vulnerability at the very center of concern to local policy-makers. Malta had to opt for a balanced economy. Defining the degree of "balance" between the various sectors was seen as an essential "precursor" to any long-term economic development programme.

Balance between direct production (manufacturing, agriculture, etc), market services (banking, tourism, etc) and non-market services (public administration) was necessary so that "vulnerability to external forces outside the control of the national authorities be minimised" (pg. 2).

And yet, for a "micro" society like Malta, vulnerability (asymmetric dependence) on external forces has to be a fact of life; a state of mind. The most critical issue is not one of control but rather of building and sustaining a competitive economy. Defining specific, quantitative targets for each sector could develop into a dangerous game.

Rather, we should seek to identify the critical factors within each sector, (and possibly sub-sector) and ensure that these are successfully implemented. All three sectors are here to stay – their relative importance will be determined primarily by market forces and political leadership.

The discussion relating to Malta's full membership in the EU is probably the hottest "cross-cutting" issue confronting Maltese society. EU membership should not be seen as an end in itself; it does not challenge our vision. Rather it is a strategic choice which may facilitate, or hinder, moving towards our defined vision.

It appears that the choice, from an economic perspective, is essentially between total integration within a huge system, hoping to identify "niche" activities bearing the shared costs of membership while benefiting from the resources which the system would inevitably make available to prospective members as against operating at the periphery of such a system, or indeed, similar systems, maintaining a high degree of adaptability and flexibility to tap opportunities arising from being "outside" such systems.

A critical consideration in making a choice has to relate to the "micro" size of the Maltese economy and to its being prepared to compete on a free trade basis. In the local context, such a choice, is "de facto" politically laden. Ultimately, what matters for Malta's future is its ability to be internationally competitive, to do well whatever strategy it opts for.

### **Malta's Specific Realities**

New creative solutions have to be sought. Existing "academic" thinking can offer insights but not solutions or "blueprints" for Malta's case. Tapping into huge markets will not by itself result in superior "capabilities". Indeed, for most intents and purposes, Maltese-made products already enjoy adequate and free access conditions to the EU market. (In some instances, this access is further enhanced through an ability to purchase duty-free raw materials, components, etc. from the world markets).

Nor will it automatically make Malta more attractive to foreign direct investment, unless other critical factors are also in place. The local economy needs to be opened up to international competition; but this has to be a gradual process so as not to wipe out a significant part of the economy.

The fact that the EU remains the main market for Malta's exports is primarily the result of the pattern of Malta's industrialisation process, coupled with the existence of a fairly favourable Association Agreement with the EU, rather than the outcome of strategic market considerations by Maltese firms.

The Mediterranean basin offers significant marketing opportunities that are within the reach of local companies, but which, up to now, have escaped them.

The reasons for this are not only internal to local companies but also structural i.e. lack of adequate transport facilities, no structured trade agreements, etc. Until such time that these bottlenecks are removed, Malta's economic future will inevitably lie with Europe, and in particular, the EU.

Malta will also remain heavily dependent on the EU in sourcing its technological requirements. Even if Malta were to become a full member of the EU it would still appeal, primarily, to firms seeking low production costs as part of a price penetration strategy. Malta has practically little appeal to higher value added, technology-based projects; as these prefer to locate nearer to their clientele, and can afford to pay more in terms of production costs.

This is why Malta needs to build up its technological and skills-base; to seek higher value added operations. It is unfortunate that local policy-makers have often associated higher value operations with certain specific sectors e.g. electronics. At the operator level an electronics operator could, require a skill factor which is less than that found, say, in a clothing operation. Value added is not directly related to specific sectors, but rather to the level of operation within a sector.

Also, Malta's attractiveness to multi-national companies has practically disappeared.

The main source for foreign direct investment in Malta will continue to be small, family-owned businesses which are looking for their first overseas operation. These types of projects need to be backed up by a coherent industrial policy.

There is a risk that Malta ends up with a myriad of small, unrelated fragile enterprises. Malta's attractiveness to foreign investors (especially in selected sectors) needs to be enhanced through improved skills availability, greater ease to do business, more "customised" incentives in the context of the changed conditions affecting international competition for such investments.

## **Management**

The ability of Malta to implement successfully its economic policies depends heavily on its ability to upgrade its management resources, both in the private and public sectors. The concept of management itself in Western Societies is undergoing profound change.

Management is more about leadership and less about control. Companies are fast-moving from military-style, mechanistic and bureaucratic organisations to organic and entrepreneurial ones. Business leaders must win loyalty, help achieve commitment and earn respect.

Business leaders have to continuously strive to encourage all those around them to become more enterprising, take initiatives, self-manage and generally become oriented toward life-long improvement.

Workers need to be exposed to these less hierarchical structures, to working in teams which are responsive, adaptable, require less supervision and control. Companies have to understand better their specific capabilities.

By international standards, practically all Maltese-owned ventures would be classified as SMEs. International studies have repeatedly shown the positive contribution, which SMEs can give, in generating jobs and exports. In the more advanced economies, larger companies are increasingly resorting to "out-sourcing" and/or strategic alliances with smaller companies due to quality considerations rather than costs.

Outsourcing allows these companies not only higher "organizational flexibility" along various parts of the value chain, but also more consistent quality products. Regrettably, such "satellite" operations catering for larger enterprise in Malta itself are practically non-existent. Nor are local SMEs organised in such a way that they are of mutual assistance to each other e.g. through export consortia.

The setting up of IPSE should be the first step in the restructuring and consolidation of this sector. In particular, these companies require proper financial support. They dread government bureaucracy and uncertainty.

Developments in communications and computerization will continue to create new opportunities making it possible for these companies to link to inexpensive networks containing information on technological and marketing possibilities. Economic initiatives by local entrepreneurs should ideally have the following characteristics:

- (i) Relatively low capital costs for entry.
- (ii) Economies of scale are not crucial for success.
- (iii) Scalable (exploitable at different levels of size and sophistication).
- (iv) The possible existence of externalities, etc.
- (v) Operational flexibility is a valued feature.

Business theory indicates that "innovation" in production, marketing, product design is what creates differentiation, and thereby commands better prices or "entrepreneurial rents". This applies also to Maltese companies - with a difference. Maltese companies should learn how to increasingly use the inherent advantages arising out of small size (and flexibility in particular) in building up "innovation" and "strategic advantage". This reinforces the need for the Maltese to develop a culture of "flexibility", adopting it as an intrinsic quality in our way of life.

Malta needs healthy, locally-owned enterprise. Many existing ventures need to reposition, innovate and to become competitive on the international market. In this process, strategic partnerships and alliances may play an increasingly important role. Such alliances may help companies to secure products, processes, technology, access to market, sub-contract opportunities.

Assessing opportunities for partnership arrangements is very difficult for individual firms and can be highly time and resource consuming. Government, conscious of the benefits that can be derived from such partnerships, should actively promote and incentivise such cooperation.

This partnership programme should be an integral part of the restructuring process of local protection-dependent enterprises.

### **Centres of Excellence**

Malta needs to build up centres of excellence. In particular, it needs to build up an international image/s whereby Malta means very definite things to as many people as possible. Malta cannot afford to be everything to everybody. Much larger countries are identified with well-defined areas of excellence (e.g. Switzerland - pharmaceuticals, banking, chocolate and watches). Irrespective of its price range, a Swiss watch carries an inherent guarantee of quality. A critical externality that relegates cost-competitiveness to a secondary consideration.

Centres of excellence lead to the build-up of "milieus" which encourage common behavioral practices and promote a "technological" culture. Learning is crucial. Ways of developing, storing and disseminating knowledge, technical know-how, norms and values are developed. Firms in the right "milieu" learn faster, thereby becoming more competitive.

Agglomeration leads to knowledge creation. The MDC, together with such institutions as the Council for Science and Technology, the University, etc. and the private sector, should take the lead in encouraging the setting up of "technology consortia" within the clearly identified areas. Malta generally cannot afford the cost of basic Research and Development.

The emphasis should, at least initially, be on "near market" or applied research. International alliances should be sought so as to ensure that the consortia be effective in helping participating firms to compete effectively in the global market place.

At the end of the day, such initiatives demand resources – financial, human, etc. The Forum needs to help in an assessment as to the cost-effectiveness of existing "business support" schemes. This will enable resources to be channeled back into such initiatives. Malta should avoid to continue subsidising losers or marginal operations.

Specifically, government needs to ensure that the necessary financial backing for projects in the selected areas is available and at the right terms. Financial availability crucially affects the speed and pattern of firm development. Banks and other financial institutions will need to be sensitised to develop close working relationships with these enterprises.

### **The Institutional Framework**

Another strategic requirement relates to the need for a proper "institutional" architecture which stimulates a new level of coordination and direction within government.

Strategic coordination relates to the capacity of government to pursue a consistent agenda for economic competitiveness across its diverse agencies and departments. There has to be a clearer distinction between the Authority (or Agency) responsible for policy-making and regulation and the actual players involved in the implementation of those policies.

The Forum for a Better Economy has been given the task to help implement this strategic coordination. Given that issues, priorities and opportunities change, the Forum will need to update the strategy periodically, to report on progress towards achieving the established goals.

There is also a desperate need for project coordination. The main obstacle to new project development is fragmentation, that is the scattering of relating functions among multiple independent staffs.

Fragmentation is also of extreme frustration to management within the public sector, who feels unable to carry out a coherent agenda. There has to be convergence, not only at a high level but also down the line.

"One-stop" institutions could help combat this "fragmentation", offering prompt and coordinated decisions within a short time. It is not being recommended that government should give birth to a number of additional agencies, as this will only lead to greater fragmentation and make additional demands for very scarce resources. Rather government should select a "leading" agency from existing ones within each key economic sector, and make that agency responsible for the "overall" development of that sector.

To facilitate this process, it is being recommended that a "Policy Coordination Unit" be set up within the Forum for a Better Economy.

The Unit will help in monitoring progress giving feedback, recommending changes. This Unit will give new strengths to the Forum, and will give it "operational empowerment". (See Figure 1)



**THE PROPOSED INSTITUTIONAL FRAMEWORK (Figure 1)**

	MANUFACTURING	TOURISM	IT & TELCOMS	ECB SERVICES	FINANCIAL	MEDITERRANEAN
Authority/ Agency	MEX <sup>1</sup>	MTA (being established)	DEJEMAITA <sup>2</sup>	?	MISC	?
Key Players (not exclusive)	METCO	NCOM	Mallcom	Freeport	Insurance	Abattoir
	IPSE	MIRA	MCST	Customs	Investments	Pakab
	Credit Guarantor etc	COX	University	Drydocks etc.	Trading	Agriculture
	Dept. of Industry	ITS		Cargo Handling	Offshore Banking	Agriculture Export Marketing Board
	POURCO <sup>3</sup>			MMA		
RESPECTIVE CHAIRMEN + CHIEF EXECUTIVES = POLICY CO-ORDINATION UNIT						
OTHER "ECONOMIC" SECTORS						

For the strategy to succeed there has to be a new level of understanding and effective partnership between the public and private sectors.

The government also needs to educate the general public of the need and importance of building a healthy economy, and to ensure its sustainability.

## **E2. THE ECONOMIC STRATEGY**

In this section we outline an economic strategy that could help Malta achieve superior competition. This strategy seeks to tap opportunities arising from the changing world scenarios, building on unique "internal" strengths of Malta.

In its report submitted to the MDC, Ramboll argued that in building "competitive advantage" Malta had to identify "anchors" as technology by itself was too mobile. These "anchors" were to be found in:

- a. location and size considerations,
- b. opportunities emerging from the Barcelona Declaration.

Ramboll also pointed out that in the short-term, economic growth will need to rely on the inflow of foreign direct investment into manufacturing activities as well as through the promotion of linkages between foreign-owned and locally-owned manufacturing enterprises.

Our longer-term strategy seeks to build on "excellence" and is based on the argument that the "Knowledge-society" offers unique opportunities to Maltese society, as it is much more "congenial" to the realities of a small, island economy than industrialisation.

In the "Dawn of a New Era" (figure 1) we argue that having started so late in its "industrialisation" drive, Malta has been essentially playing a "catch-up" game relative to the more advanced economies.

Industrialisation was built on the availability of abundant factors of production (raw materials, labour etc) and the heavy use of energy resources. Economies of scale were often critical for success.

In the new, "Knowledge Society" the key factors are "value creation" (through innovation, flexibility etc) as well as technological development. Provided that Malta acts fast, and decisively, it is still in time to move towards the "Knowledge Society" in line with many of the more advanced countries.

In figure 2, we outline an agenda for Malta in response to basic trends in the global economy.

Malta is facing a marketing challenge. Limited by its size and resources, Malta needs to focus on a few initiatives that can create inter-linkages, clustering or "centres of excellence". Diversification, to the extent that it is a desirable policy feature, should be sought within these clusters themselves.

In particular, Malta needs to create coherent images of itself to the world at large. These images should be mutually-reinforcing, adding an “externality” effect on to local economic activities.

The two images we propose are related to a “quality of life” and “intelligent” island. All national advertising, promotions, PR exercises should seek to reinforce these images. Malta could also seek to stage international special events, sports activities, conferences etc which are related to these key concepts.

Malta’s claims to these attributes are not unfounded. Malta may presently lack the skills and sophistication of a futuristic “intelligent island” (such as Singapore).

However, Malta’s claims to intelligence are deep-rooted in our history. Our forefathers were intelligent enough over 6,000 years ago to build architecturally perfect temples. Malta’s culture and history is living proof of Malta’s intelligence throughout the ages. A Maltese scholar has found international acclaim as the founder of “lateral thinking”.

The “quality of life” concept arises from Malta’s intrinsic qualities – a hospitable society, rich cultural heritage, an island in the Mediterranean Sea. “Quality of Life” considerations are an integral driving force of this plan. They benefit, and appeal, to locals and visitors alike.

In particular, Malta has to actively pursue and promote internationally, connotations of a “healthy” society. Sun, sea, the Mediterranean diet are all associated with healthy living. Of course, the knights of St John’s relations with Malta add a further dimension to the concept. The Knights were hospitaliers, and founded one of the first European Medical Schools in Malta over 300 years ago.

On the basis of these two concepts, Malta can build a whole network of economic activities. Figure 3 indicates some of the type of initiatives (and inter-linkages) that can be created.

The economic sectors that offer the most scope in terms of foreign exchange earnings, well-paid job opportunities, inter-linkages with other local economic sectors, have strategic value (especially agriculture and fisheries) etc are being projected as the pillars of Malta’s new economy.

- 1 Tourism
- 2 “Hub” Activities (Maritime)
- 3 Mediterranean Food
- 4 Information Technology and Telecommunications
- 5 Manufacturing
- 6 Banking and Financial Services

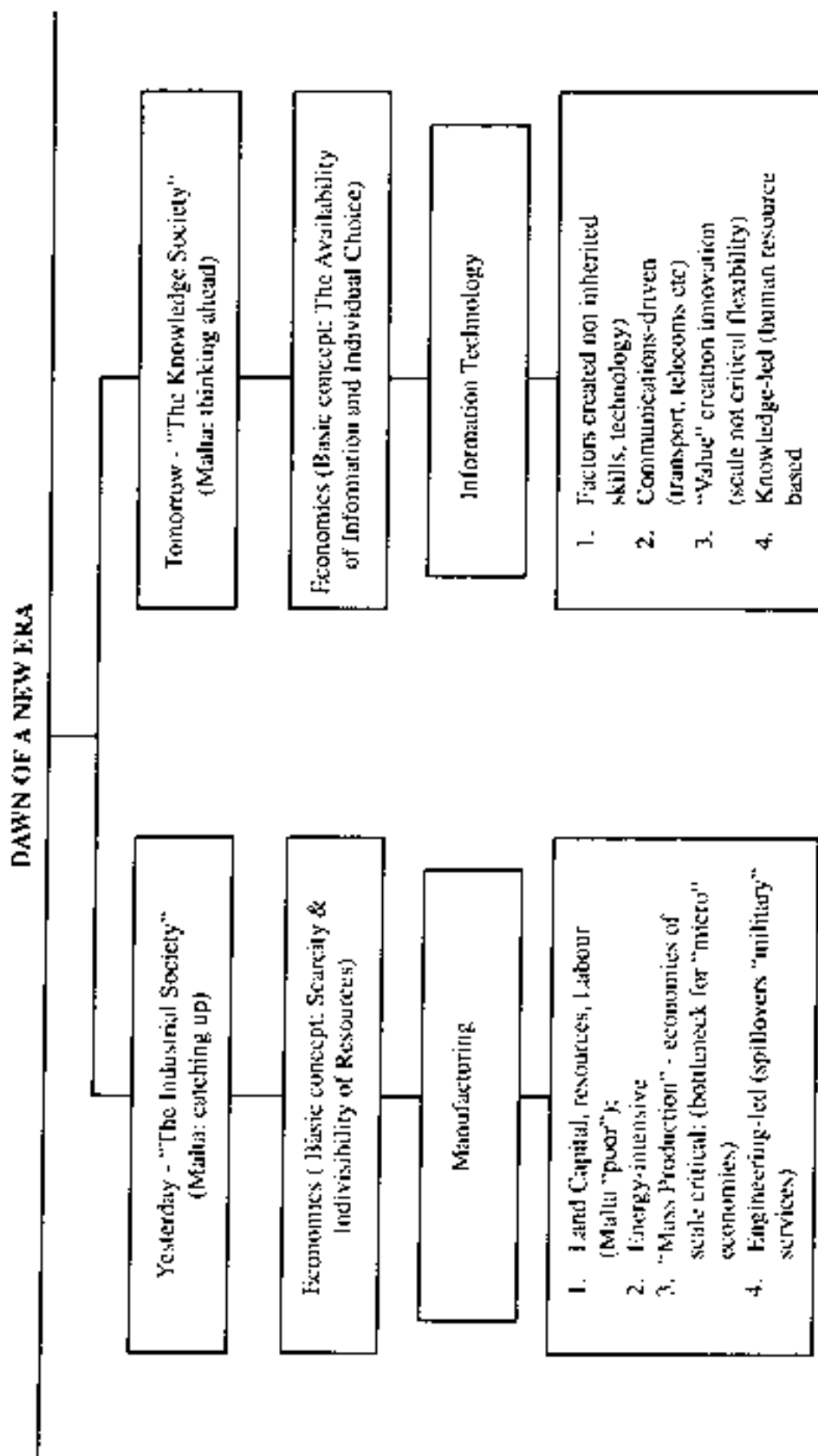
Although the present analysis indicates that the strategy should focus on these areas, it is not excluded that new data, market developments etc, may support a reconsideration of these chosen sectors.

Malta is at a turning point in its economic evolution. Given the right strategic direction, Malta can achieve a major leap forward to a higher standard of living and a better quality of life for its people. Failure to do so will threaten to undermine what has been achieved to date.

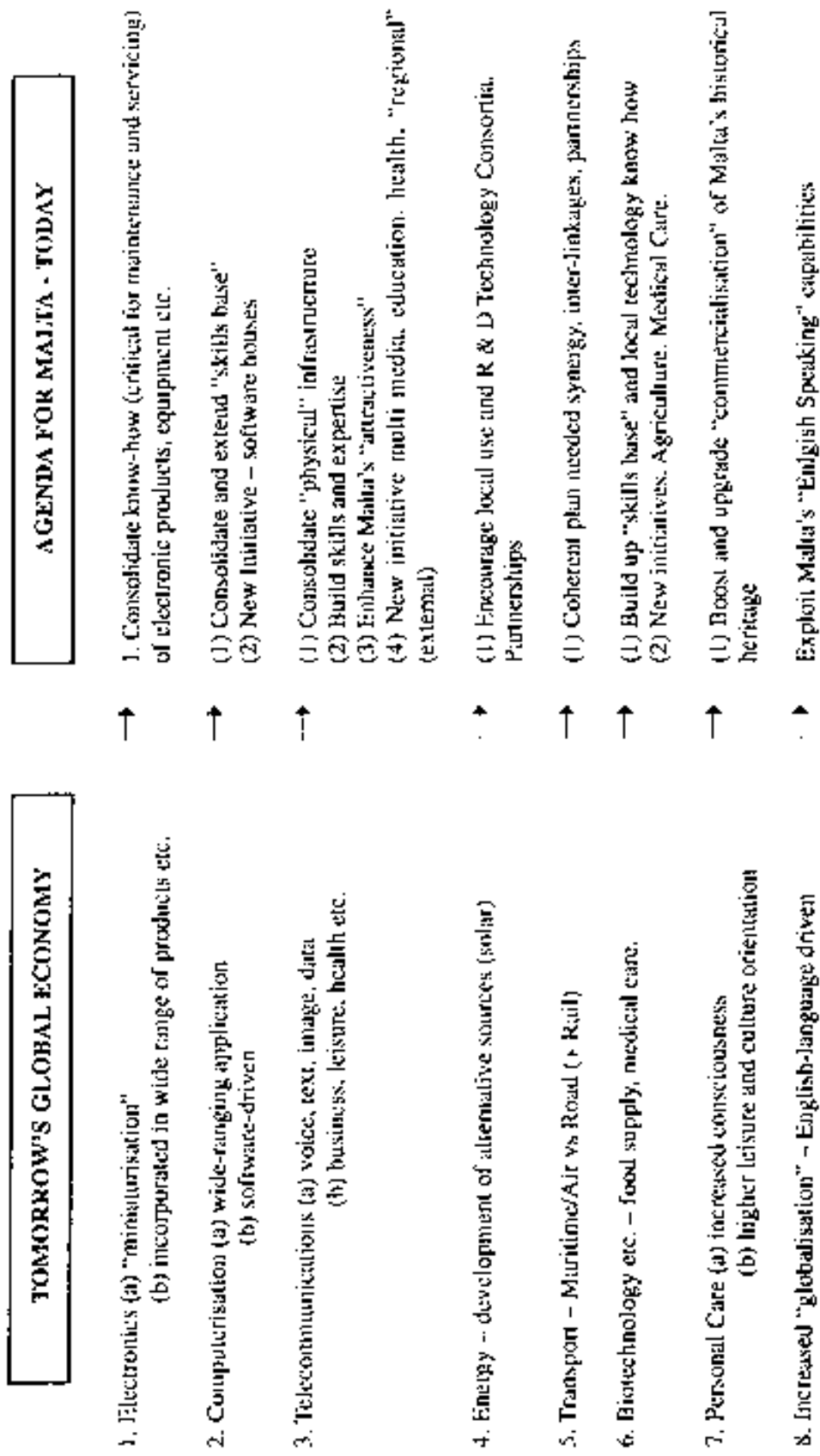
In essence, the strategic orientation includes:

- a) an economy built on "value-based" operations
- b) an "open" economy competing on international markets
- c) the continued restructuring of the economy, including at a sectoral level.
- d) A crucial role for foreign direct investment
- e) significant improvements in Maltese owned enterprise (including the active support of strategic alliances with foreign partners).
- f) the further growth and consolidation of the services sector
- g) the reform of Malta's institutional set-up promoting wherever possible "one stop" shops
- h) increased policy orientation towards the development of "centres of excellence", as well as interlinkages between and within economic sectors.

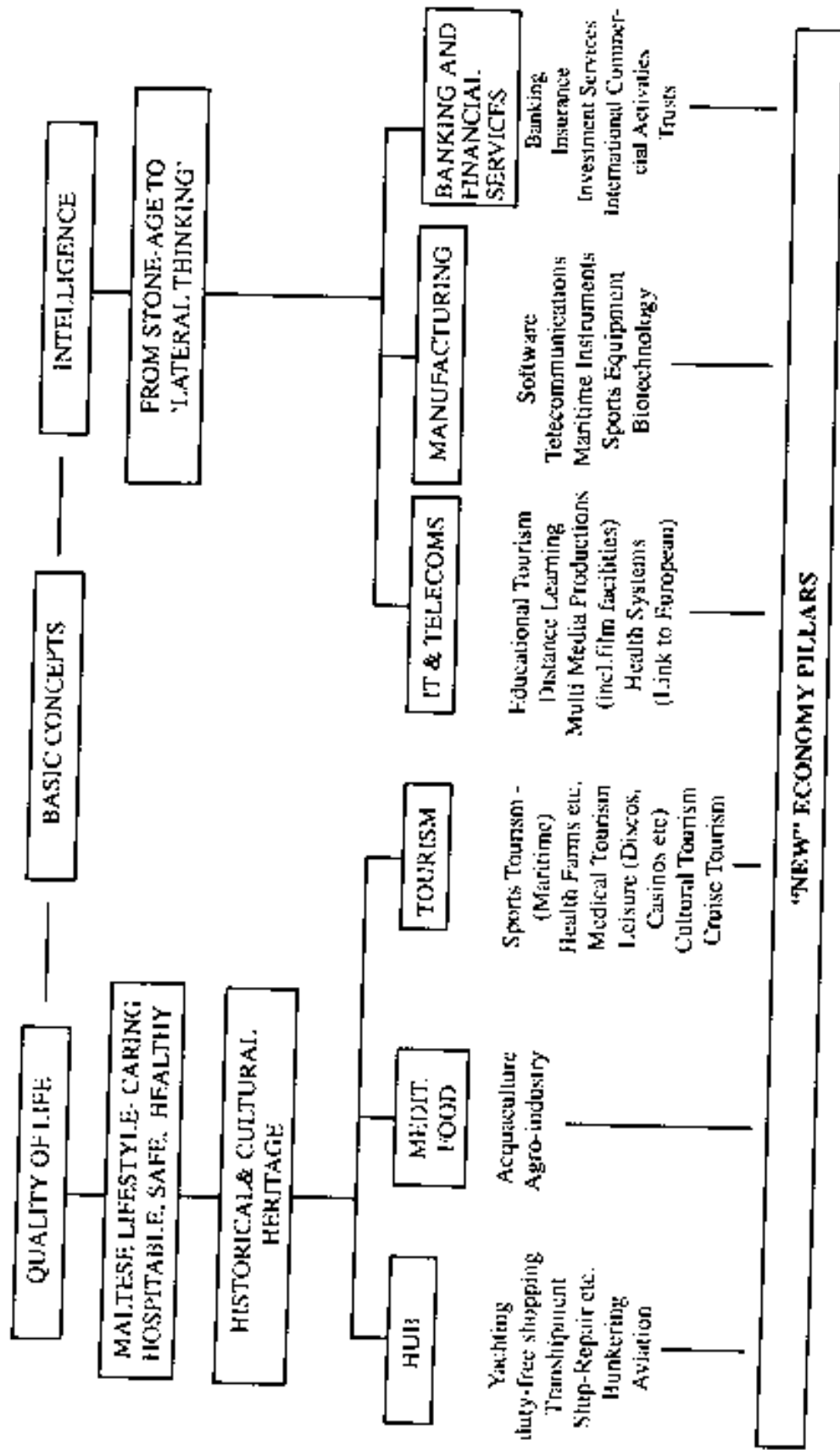
THE ECONOMIC STRATEGY (Figure 1)



**THE ECONOMIC STRATEGY (Figure 2)**



THE ECONOMIC STRATEGY : THE WAY AHEAD (Figure 3)



### **E3. ECONOMIC ACTION PROGRAMMES**

Once the strategic direction is accepted by all the social partners, it should lead to the definition of sectional sub-plans and/or of specific action programmes.

These programmes will need to identify key measures that need to be implemented within the short-term (up to three years) and longer-term (three years plus).

Specific programmes need to be built with regards to:

- a) Fostering greater coordination in economic public policy making especially of fiscal and monetary policies, as well as trade, consumer and competition policies.
- b) A manpower and skills survey, its application to the respective "sectoral" plans arising from the economic strategy and leading to clear, coherent labour policies within an updated legislative framework.
- c) Promoting local economic excellence. Implementing institutional reform, preparing sectoral "Master Plans", securing the participation and commitment of all concerned etc.
- d) For the manufacturing sector, in particular, government is to work towards the continued restructuring of Maltese-owned industry. This especially in the light of government's declared objective to establish a free trade area with the EU within the next seven years.
- e) A Marketing Plan for the Maltese Island built on a focused, coherent approach at promoting our country overseas – and in Malta itself. Malta has to be seen as a unique, easily identifiable "product".



## **F. MOVING TOWARDS MODERN GOVERNMENT**

The state occupies a key role in enabling the fulfilment of our vision. The public service has to be true to its name, a service to the individual and society.

Competitiveness and value added considerations should equally permeate all public sector activities.

The fast emerging global scenarios demand that governments too review their role in the economy. More space has to be given to private sector initiatives; with government actively seeking a close partnership through the market mechanism.

There have been three main developments which have led governments all over the world, but especially in developing economies to review their roles:

- *increased socio-political maturity and economic development:* society today looks upon government not as a captain but as a coach. Society envisages a government endowed with leadership which sets standards and leads by example, a government which is open, transparent and accountable.

A government which must facilitate change and avoid unexpected change and shocks that disrupt the normal lives of individuals and businesses,

- *greater reliance on the market mechanism:* increased awareness of consumer rights and the high socio-economic cost of import substitution and trade protection policies are exerting increased pressures on governments to move towards trade liberalisation.

Government's new role is as guardian of the market mechanism, setting and enforcing standards. Government is now being seen as the markets' partner, facilitator and catalyst.

Government's business itself has become a competitive business. With increased opportunities businesses need not come or stay in Malta, they can go elsewhere.

- *greater appreciation of the limitations facing Public Service initiatives:* The private sector is seen as the appropriate driver and creator of wealth. Society expects a reappraisal of where and how public/private sectors can make their strongest contributions to local development.

The public and private sectors are seen as partners with reciprocal trust and credibility. The private sector expects Government to provide it with appropriate legal and institutional environment in which to operate and expand. This does not translate into a weaker state but a more rational and efficient combination of forces.

Maltese society now expects its government to play the appropriate role to enable it develop at a rate and in a direction acceptable to society at large.

Government needs however, to determine those activity areas which are considered as the Government's domain, those appertaining to the private sector and others where co-operation

between the public and private sector is highly desirable. There does not appear to be a ready formula as to the ratio of the private-public mix, and each case will have to be treated in its own merits.

Government's agencies and departments need to nurture a 'can do' spirit so as to support business initiatives and work closely with private enterprise.

As has already been emphasised before, government agencies and departments have to learn to work closer together in a synergistic manner so that dealing with government becomes as much as possible a 'one-stop' concern.

The public service must not block off business opportunities due to excessive regulations and bureaucracy.

The general set of responsibilities facing Government can be listed as follows:

- a sound macro economic policy (framework for development)
- law, order and security
- a sound legal framework (appropriate judiciary system)
- a healthy society
- an educated society
- a sound infrastructure and supply of critical goods
- a kind society (basic needs - welfare)
- rural and urban environmental protection
- international recognition (and acceptance)
- information to service the above (information)

## The Public Service

These responsibilities, translated into services, are delivered through government's operating system, the public service. The public service is the critical factor determining whether Government's responsibilities are efficiently met, whether society is satisfied with the output from Government's operations and whether its output is large enough when related to input.

It is often argued that the slide of many of today's failed states began, in part, with the degradation of their public service. When failure looms, the pressure for public service reform increases.

However, public service reform is worth doing only if it is done well, and when circumstances are ripe. Even when there are no major reforms going on within the public service, governments should ensure that the right operating conditions exist to drive it towards greater efficiency.

All governments require a public service of the right size and skill-mix, proud of its professional ethos, incentivised and accountable so as to provide public goods, help formulate and enforce the rules and intervene to remedy market failures.

There is a general distrust in the operations of the Public Service as an ongoing institution. It is felt that the Public Service has not developed into a body fit to meet the emerging needs of our changing society.

This at a time when the cost of running and supporting the public service is becoming a tremendous burden on society at large.

One cannot say with certainty whether the reform in the public service of the late 80's and early 90's carried out by The Public Service Reform Commission has succeeded or not; primarily because it lacked adequate performance indicators for comparative purposes.

The Public Service is seen as a costly and inefficient system which lacks transparency (of results) and is driven by short term needs, thus failing to plan for long term sustainable development in a fast changing environment. It also lacks expertise in many areas and above all tends to resist change.

The Ramboll Report made a heavy accusation against the public service: 'Although society is calling out for a deep reform of the public service, many public servants are too comfortable and do not want the system to change.'

The public service in 1997 accounted for some 23% of the gainfully occupied. It is seen as being an over-manned, bottom heavy institution. Its current administrative direction emerges from the operations of the Malta Information Technology and Training Services and from the Management Efficiency Unit.

The level of management know-how and leadership in the public service is limited. Employees lack motivation and consider their employment with the service as a secure and cosy job, while leaving space for doing something on the side.

Quality of work life is reflected in the quality of service meted out.

In 1997, public corporations and public enterprises accounted for another 6.6% and 5.3% respectively, of the gainfully occupied. Many of these organisations have developed into bureaucratic and risk averting institutions many of which lack entrepreneurial sense and motivation.

Before embarking on new initiatives government must first put its house in order so as to be able to meet the emerging challenges. Government needs to modernise the public service.

The outcome of public service reform (whether ongoing or "ad hoc") should be improved performance, guided by the concept of value creation. Government needs clearly defined performance criteria so as to enable it to assess the efficiency of its operations.

Any decision on reforming the public service should not be based on fiscal considerations. The objectives of reform too should be clearly spelled out. These should include rendering a public service which is:

- *customer oriented*: that is meeting customers needs and offer a co-ordinated approach to customer service.

- *cost effective*: that is having an ability to identify the various user groups, defining the desired output and an ability to assess various alternatives of supplying that output.

- *open to creativity and a culture of excellence and integrity*: that is stimulating the professional ethos, 'esprit de corps'. It needs retraining to acquire the right skills-mix, motivation and reward comparative to that found in the private sector. It has to be responsible and accountable.

In its approach to the public service, government needs to send the right signals to all of society.

There is a dire need to upgrade the people's perception of the public service; to build a simple, dynamic and efficient service. Government has to build a reputation that what it does, it does well.

### **Modernising the Public Service and Public Administration**

A well managed, innovative and efficient public administration that can facilitate initiating, developing and implementing policies that promote enterprise, social stability and equity is critical to the realisation of social and economic objectives of the Plan.

The Strategic Plan for modernising the public service and administration should be centred round three key overall objectives, namely:

1. promoting a public service which is accountable and acceptable to society so as to enable government to honour its socio-economic responsibilities efficiently,
2. insisting on controlled and well managed public finances (fiscal policy), and
3. strengthening competition policy within the public sector itself.

(The last two objectives relate to the revised role for government in the new economy).

### **F1. Promoting a Public Service which is accountable and acceptable to society**

#### **Guiding Principles**

- The public service should be professionally managed and given advice by competent personnel.

- Orientation must be shifted from following procedures to managing resources with increased emphasis being given to performance rather than mere compliance.

- Departments should carry out their own research and generate their own plans using modern tools.

- Professionally drawn up Strategic Management Reports should form the basis for Policy Development.

- Departments should be managed by the best and the brightest personnel following comprehensive and well managed staff development programmes.
- Rewards should be based on quantifiable and tangible results.
- The culture of competitiveness and value added should dominate the operating environment.
- The rights and obligations of the civil servant and the citizen should be institutionally determined.
- Authority and responsibilities to local councils should be increased - where and when results have been achieved.

The action programme to realise this objective should include:

***i) Determining the role of the Management Efficiency Unit as catalyst of the change process***

The public service must be given professional advice. The Management Efficiency Unit is the most appropriate "internal" set up that can deliver this service.

The MEU has learned valuable lessons in its efforts to reform the public sector when it formed part of the MSU in the first half of the 90's. The Unit's experience as an agent of reform is an asset in itself which cannot be discarded.

The MEU should structure and staff itself according to the strategy it intends to apply in implementing reform and changes in the public service. The MEU should be made responsible to supervise all action programmes indicated in this plan.

The MEU has learned that it is futile to try to reform all departments at one go. Differences in objectives, structures and culture of departments require "ad hoc" analysis and reform.

The operating systems of the various departments should be analysed and addressed independently but in conjunction with the Unit responsible for staff development.

The overall organisation structure of the public service itself has rarely been challenged. The MEU will eventually have to address this issue as well.

***ii) Draw up and implement a plan for personnel development so as to develop a culture of output evaluation, competitiveness and flexibility***

Development of public service senior personnel should centre on leadership, staff development and management of the change process.

Competitiveness, customer orientation, performance measurement as well as the need for flexibility should all be essential elements in the development programme for this group.

Know-how on bench-marking and advanced use of information and information technology (two topics discussed further on) should be made available both to management and other employees through well planned programmes.

Staff development plans should emphasise an appreciation of the emerging cultural orientation. These plans would, however, prove futile unless they are accompanied by a fair, fast and equitable rewarding and disciplinary system. Rewards should be based on objective criteria or results.

Seniority "per se" has no meaning within the new culture.

*iii) Introduce management by results (objectives) – bench-marking operations*

Bench-marking should become a vital tool for good management. Foreign governments have found that they can significantly improve their performance by bench-marking against 'best practices' in their home country and overseas.

An essential condition for the success of a *reform* of the public sector should be the introduction of a reliable system of bench-marking or performance measurement to the operations of Government departments, Corporations and Authorities.

Bench-marking could be designed to be a reform process in itself rather than an element of a reform system. Bench-marking will enable the Public Sector to improve and reform itself (policies, structures, manpower and efficiency levels) under its own steam, with none or very little external intervention.

There must be a shift away from detailed regulation and 'control' of inputs towards performance management based on targets and results. It is acknowledged that this approach is easier to apply in routine type operations and as such should be first introduced in such environments.

Bench-marking and performance measurement should be essential tools for the MEU work.

*iv) Upgrade the use of information technology from data collection and front line use to IT enabled Citizen interface with Government services and the utilisation of Decision Support Systems.*

The use of information technology in departments and other public units should be promoted beyond basic data collection and front line use to the generation of advanced and strategic management reporting.

This means using data available to develop and evaluate alternative actions in solving problems.

Management must be made aware of available decision support systems and must be supported by in house qualified staff who can work with such systems or else out source such know-how.

Advanced strategic management reporting is essential for rational policy development in areas such as social security, law and order, health and education.

The facility for citizens to interface with government services should also be explored.

These are areas where MITTS, in competition with the private sector and in conjunction with the staff development Unit of the public service, can expand its scope.

**v) *Draw up a Charter for the Public Service determining the rights and duties of the Civil Servant and the Citizen***

To increase the probability of success for the changes being recommended and to render better service to society at large, government should draw up a Charter for the Civil Service/ Code of Administrative Procedure which should govern relations between the citizen and the public service and which should focus on the citizen as the final user of government resources.

**vi) *Increase the responsibility of effective local councils in selected areas***

Government should take note of those local councils which have successfully managed their affairs and where there is proof that the majority of their citizens acknowledge their worth. Government should delegate more functions to such councils. This will stimulate other councils to perform better.

The reward for efficiency of councils should be more autonomy, authority and responsibilities.

The concept of Regional Councils, similar to that for Gozo, should be further explored for Malta in order to ensure better co-ordination and utilisation of resources.

Councils should be encouraged to initiate local development in conjunction with the private sector and in line with determined national policies and plans.

## **F2. INSISTING ON CONTROLLED AND WELL-MANAGED PUBLIC FINANCES**

### **Guiding Principles**

- The magnitude and the structural dimension of the fiscal deficit and public debt beg for a reassessment of the fiscal policy.
- The fiscal stance over recent years whereby increases in public expenditure and the reductions in taxation contributed to a growth rate which was not sustainable in the longer term.
- Government was running a deficit during a period of relative high growth which should have clearly indicated that any slowdown in the rate of growth was likely to result in a significant deterioration in the Government's fiscal balance.

- Increases in indirect taxation, higher charges for energy and water and sale of assets included in the budgets for 1997 and 1998 are intended to raise revenue from 37 % of GDP in 1996 to some 42 % of GDP in 1998.
- Controls on recruitment, professional debt management and measures to address wastage and inefficiency in the coming years are bound to bring current expenditure under control without undermining core services including health care, education and social security benefits.
- Reducing the deficit from about 12 % of GDP in 1997 to 5 % of GDP by the year 2000 would be a major achievement, especially if expenditure in priority areas is to remain untouched, if not marginally increased.
- Future direction for fiscal policy cannot be divorced from the other major policies shaping our economic environment. Fiscal policy must be determined in accordance with monetary, labour and investment policies in order to create consistent economic management and avoid confusing signals to economic players.
- Budgets must be professionally drawn up and consistently monitored. Variances, on a monthly basis, should be explained and immediately followed by corrective action.
- Public capital investment should include the participation of the private sector wherever, and whenever possible.

**The action programme to realise this objective should include:**

**i) *Controlled Public Finances***

Controlled public finances in this case means fiscal policy or public finances following specific and planned directions. Current circumstances call for short term and longer term control of public finances.

**Short term fiscal policy**

Given the current unacceptable magnitude of the fiscal deficit, Government intends to adopt short term (3 year) measures to redirect fiscal policy and bring it in line with Government's economic objectives.

Present policy is to sustain the levels of growth in the economy, protect disposable income, reduce the budget deficit while leaving untouched major infrastructure projects and expenditure in health, education and social welfare.

Government has already determined as a target a deficit not greater than 5 % of GDP by end of year 2000.

Options within Government's competence to meet short term targets include:

- ◊ cost cutting by improving the efficiency of public sector operations, introducing a qualified freeze in public sector recruitment and freeing idle resources for productive private use.



- ◊ improved efficiency in collecting revenue.
- ◊ higher taxation that would discriminate against consumption and in favour of saving; (taxation that does not reduce the incentive to work and produce or place additional burdens on production costs).
- ◊ the privatisation of public assets wherever deemed feasible and appropriate
- ◊ financing debt through the issue of shorter-dated instruments at lower coupon rates to the wholesale market rather than through long-term stock to the retail end
- ◊ improved public debt management

By the time of finalising the Development Plan the Forum, in conjunction with the relevant Government authorities will have completed a three year budget projection that will seek to embody some of the outlined options herein.

### **Long term fiscal policy**

Over the longer term the main objectives are to:

- determine a fiscal policy to carry public finances over a period of time (e.g. New Zealand's Fiscal Responsibility Act of 1994 for long term balanced budgets)
- determine the desirable level of Government expenditure. (currently around 45% of GDP)

Options within Government's competence to meet the long term objectives include:

- ◊ a review of the tax regime
- ◊ new and sustainable approaches to the Welfare system
- ◊ planned privatisation schemes of public assets

Economic growth would normally help improve public finances both in the short and long term but government cannot rely solely on such growth to help solve the deficit problems.

### **ii) *Introducing modern management to budgeting***

It is essential that public finances are professionally managed and continuously monitored and controlled.

*On the revenue side:* Government must strengthen the tax collection mechanism. Comprehensive and timely collection of tax is not an impossible task. This responsibility lies at the doorstep of Government through the function, or malfunction, of its tax department. Procedures, attitude to work and results of tax collectors must be thoroughly investigated.

*On the expenditure side:* The setting up of the Public Accounts Committee and the recent establishment of the National Audit Office should help check and control expenditure. However, since both institutions generally work on historical results, their effectiveness to date has been very limited.

*Budgeting:* The best and most effective control on expenditure can be achieved at the budgeting stage. Advances to Ministries and Departments should be based on comprehensive cost-benefit analysis reports drawn up by professional staff. These reports are much more critical in the Public Sector where the constraint/challenge of competitiveness is lacking.

Government accounting system needs revisiting both in terms of definition of items shown in Government management accounts (Estimates and Financial Statements) as well as in their presentation.

It is essential that the actual operating results of Government for a particular year be known, i.e. the resulting actual Income and Expenditure for a calendar year should be established. This approach will eliminate the effects of revenue and expenditure realised and sustained in previous periods on the results of the year being considered – moving towards the accruals based system of accounting.

### ***(iii) Take up sustainable public capital investment***

The ideal situation will exist where both public and private sectors cooperate in the planning process of public investment, at least in those areas in which the private sector is directly interested.

The objective of social and infrastructure investment is to create or enhance a comfortable and pleasant living environment. Pleasant living environment refer to facilities relevant to peoples' daily life. These include waterworks, energy, roadwork and transportation systems, recreation facilities, waste disposal system, housing, care for the aged and handicapped, the rural and coastal environment protection, prevention from natural disasters and traffic safety facilities. The other two major areas for social and infrastructure investment are the education and health sectors.

Investment of a social and infrastructure nature must, as in all other cases of investment, be rational and based on knowledge of the market, demand and supply facilities. The ultimate objective of planning (and cooperation with the private sector) is to achieve a comprehensive investment plan wherein various projects are integrated in a consistent way.

Productive investment should be limited only to projects which a priori are perceived to yield, over a reasonable pay-back period and by way of direct revenue to Government, at least the expenditure to be incurred, but preferably also to include a modest return. Government should invite the private sector to participate in productive investment but it should never compete with the private sector for such investment opportunities.

### **F3. Strengthening competition policy**

#### **Guiding Principles**

- This section considers further concrete steps that can be taken by Government in its drive to strengthen the competition policy within the public sector.
- The Ramboll Report recommended that government increases the pace of privatisation of publicly-owned companies and the establishment of independent regulatory bodies to control the efficiency of continued parastatal monopolies.
- The provision of services considered to be socially or politically important does not necessarily require complete exclusion of competition or the complete exclusion of private service suppliers.
- The least preferred instrument of providing these services is that of statutory monopoly accompanied by State ownership where competition is completely stifled.
- Today it is hard to find a country without a privatisation programme, or a sector of activity not susceptible to private management if not ownership. Recognition that state owned enterprises reforms are limited and unsustainable, coupled with the fiscal burden of subsidising loss-makers, has led financially hard-pressed governments to opt for privatisation. Privatisation, when done right, works well.
- As said earlier, the Public Service should concentrate on its core role and leave services which can best be provided by private enterprises to the market sector.
- A clear distinction should be established between the roles of Government as provider of services and as regulator. This condition should be established in all cases.
- Comprehensive, reliable, clear and coherent information is an essential tool for good management and will be increasingly required by the 'information society' in a competitive environment.
- Government can help businesses of all sizes if excessive burden of regulations is reduced. Regulations need to be fewer, simpler and effective. Regulations (and licences) which inhibit competition should be eliminated.

**The action programme to realise the objective of strengthening competition policy should include:**

#### ***i) Unbundling and/or Auctioning State Monopolies or parts thereof***

In natural monopolies and more so in the public provision of services of general interest (energy, transport, telecommunications and posts) competition can be introduced in two ways:

(a) The unbundling of ownership of networks or part of the services provided by monopolies: examples already in existence include the distribution of EnxMalta fuel products by private retail outlets.

A substantial number of activities earmarked for unbundling can be identified. Priority should be given to vertically integrated state monopolies i.e. the production and distribution of services and products.

(b) Auction of the monopoly rights to the most efficient bidder: If competition is not possible on the market for the provision of a service at least competition for entry into the market should be allowed.

It should be considered that in most cases liberalising the state provision of services of economic interest might lead to the creation of private monopolies which might not improve the situation as much as desired unless the appropriate regulations are drawn up and upheld.

The state should function as the regulator wherever potential abuse of dominant position, whether public, private or mixed exists. Regulatory system should rely more on price and quality based instruments (e.g. mark up on costs) rather than statutory and administrative measures (e.g. number of trips per day in case of transport).

***ii) Formulation of an action plan aimed to rectify high cost structures and promote dynamism through competitive norms***

Ways and means must be found to invigorate the operations of the public sector which, in the absence of market discipline, may have dragged itself into an unacceptable level of slack. A plan of action must be drawn up to rectify this situation.

Action should be directed towards cost centres within the public sector where the operating costs could be reduced without impinging on the level of service supplied.

Moreover centres which give service direct to the public against payment should be analysed to determine whether the rates charged for services are rational and/or equitable.

Public-private partnerships in new initiatives in highly expensive fields such as health, education and welfare (pensions and the elderly needs) can be further promoted.

The experience of other countries indicates that the cost effectiveness of services under these arrangements would improve significantly.

***iii) Improve and upgrade information management; comprehensive, reliable, clear and coherent information is an essential element of the 'information society' in a competitive environment***

Criticism has been levelled at established public sector information systems. Data collection, analysis and availability need to be improved. Government information and statistical agents should adopt modern methods of recording and evaluating knowledge assets acquired.

Improving information systems will contribute to a more rational public policy planning and control and will also enable the private sector to make better investment decisions.

Government is the major data bank for society and as such is responsible to supply an information service that is compatible with international standards in quality and time.

The set up of an autonomous Institute of Statistics should not be considered as the final solution to all statistical related problems, but only as the first step in the right direction.

*iv) Improve on the quality of laws and regulations controlling economic and socio-economic aspects of society. Eliminate those which inhibit competition.*

Government can help businesses of all sizes if the excessive burden of regulations is reduced, regulations focus on their objectives and are made simpler for businesses and the public to understand and comply with.

The quality of Government regulations concern all those working for global economic growth. OECD countries noted that regulatory quality is crucial for economic performance and competitiveness and Government effectiveness on improving the quality of life.

This is more so today as rules become increasingly internationalised and impact on the flow of business. Fast emerging economic conditions demand a consistent review of regulations so as to ensure their continued relevance to the scope for which they were originally established.

Recommendations of the Council of the OECD published in March 1995 on improving the quality of Government regulations can be considered as the first international standard on regulatory quality. The recommendations unite member countries to take steps to ensure the quality and transparency of Government regulations and help member countries by offering guidelines through its *Reference Checklist for Regulatory Decision-Making*.

Regulations need to be fewer, simpler and effective. The social partners are ready to identify those laws and regulations which need revisiting.

Finally it can be said that, the best results will be achieved if changes are made in the values and culture of the public sector rather than merely changing working systems and methods.

Given the dimension of the challenges involved, a selective approach zeroing-in on priorities is probably warranted.

The degree of success of any reform depends on the degree of consensus reached among the interested parties, on agreement about the administrative deficiencies that have to be addressed, and on the objectives which the reform must achieve.

This once again calls for a co-ordinated approach involving the social partners - which together have to take responsibility for the success of the necessary reforms. They all have a lot at stake, and this should provide the vital "push factor".

Public sector user groups, involving consumers as well as business, should be established and regularly consulted as to help determine the efficiency and effectiveness of the various departments and agencies within the public sector.

## **G. GOING FOR QUALITY OF LIFE**

### **G1. The individual as a member of the civil society**

A good quality of life goes beyond the quantitative improvement of society. It goes beyond the "consumerist" ideology where the only value is mass consumption. It means a qualitative improvement in all aspects of life - cultural, social, political and economical.

It ensures a holistic approach towards improving the quality of life of all in a way which guarantees respect, opportunity, and dignity to each individual. The individual is not to be seen as a unit of consumption only, but as a self-fulfilled cell in a well-balanced society which lives a prosperous, thriving life in a pleasant safe environment.

We live in a society which is dominated by large structures where the individual has very little space in which to pursue an effective role as a member of society, leading to a fuller life. In such an environment, the individual has found himself left behind - a bystander.

On a national level, the majority of citizens are characterised by a sense of powerlessness and non-involvement. As a means of compensation, they expect that the government or "big brother" should provide an adequate living to all. On the other hand, at the micro-level, the individual is highly active trying to secure something above the adequate living supplied by the "big brother". Unfortunately, most of the energy is directed at "rent seeking" rather than productive projects.

The space that the individual citizen must be given must encompass both vertical and horizontal dimensions. On the horizontal plane, the individual must be encouraged to participate in all aspects of social life - cultural, political and economical. On the vertical plane, all individuals must be given space to participate on their own or as part of groups including family, the local community and national society.

The reduced role of these large structures must be accompanied by the encouragement of the civil society where the individual through voluntary organisations, non-government organisations (NGO's) and other non-profit organisations will play a complementary role to the major structures.

Malta's long history of voluntary organisations already provides us with a basis for such a structure. Recent history has also seen the evolution of non-profit organisations where major needs emerged. It should be the role of the government to encourage this sector to play a more widespread role.

On the other hand, the evolution of government at the local level must be encouraged and more precisely defined. It brings government closer to the citizen thus enabling greater participation and efficiency.

The government's role in the development of society should not be that of provider but as a promoter and/or facilitator of change, creating the necessary space for the civil society to develop in a healthy way.

Moreover, the government should act as a regulator who apart from guaranteeing that the citizen is faced with free and just options, must ensure that each citizen is valued and has a stake; in which no-one is excluded from life-chances and the opportunity to develop their potential.

### **A Sustainable Civil Society**

A sustainable civil society should be one in which all citizens, individually and in groups, are able to take an active part in sustaining and moulding of society.

Citizens should not be considered as the end result of any social process but the initiators and promoters of social destiny. There are two factors which lead to a sustainable civil society:

- the opportunity of participation to all, irrespective of their gender, age and health. Three particular groups that are known to face lack of opportunity are females, the elderly and citizens with special needs. Today the resistance of society at large to accept greater participation is indirect and informal but still effective.

This problem needs to be tackled frontally as it is not acceptable that, on the eve of a new millennium, such sections of the population are "excluded" and pushed to the periphery of society.

The government surely must have a pivotal role to play. It must continue and intensify its efforts to spearhead this movement for full emancipation. However, other structures such as the private sector must be committed to fulfil this goal.

- the qualitative improvement in the use of free/leisure time. There are three aspects which need to be emphasised:

- lifelong learning; (already dealt with elsewhere)
- recreation and family;
- voluntary organisations.

Again, a joint and widespread effort should be made to tackle this issue. The main problem is the lack of awareness as to the importance of free/leisure time to our quality of life. In the emerging society, leisure time will increase. The main factors contributing to this are:

- shorter working hours
- better remuneration;
- redefined values which would lessen the need for a second job and unduly stretched overtime work.

A national discussion involving all the players especially the private sector, should be a first step in creating such an awareness as to the proper use of free/leisure time.

### **Promoting equity (gender and special needs)**

All individuals irrespective of gender, should have equal opportunities to contribute towards economic development according to their individual capabilities. This can only be realised if adequate laws and equal opportunities for self development are available.

Social groups which will benefit from greater social equity and acceptance include:

- single parents;
- unemployed persons between the ages of 45 and 55;
- persons with special needs.

The uniqueness of each individual should be respected and fair opportunities for all ensured. Each individual may play a role in society according to his or her abilities and conditions.

This, in particular, implies providing support for women who wish to develop their abilities, and actively encourage the elderly and people with special needs to participate in social activities. This entails providing appropriate educational facilities.

## **G2 . IMPROVING THE QUALITY OF LIFE**

The small size of our Islands and the lack of resources of any nature make it necessary that the government plays a major role. However, this role should be qualified as described in the previous paragraph.

Strategies to realise policy regarding the quality of life can be classified under four titles:

1. Setting Standards
2. Provider of a Safety Net;
3. Guarantor of a Safe Society;
4. Facilitator and Promoter.

### **Setting standards**

One characteristic of our society is the lack of standards in all spheres. It is affecting our quality of life. Two aspects that need to be identified are the health and safety aspect. These aspects are not restricted to the work dimension only. They affect us even during our free/leisure time. This role can be divided into three - setting of standards, ensuring the standards, and providing an alternative.

As already mentioned earlier in this document, a step forward has been made through the setting up of the Malta Standardisation Authority. However, its role should be extended to incorporate a wider area of activities. It should become a clearing house between the different sectors and authorities that exist in this area.

Enforcement of these standards is essential. However, even in this area we need a quantum leap. Enforcement does not necessarily entail a regiment of enforcement officers ensuring that every one is abiding by the standards. It should be investigative and educational in nature. Many a time, public pressure is more effective as an enforcement tool than court proceedings.



There are certain areas where setting and enforcement of standards is not enough. In the areas of education and health, a more proactive role is needed. Apart from guaranteeing standards for both the private and public sector, the government should ensure that all members of society are capable of fully participating in those areas which are deemed to be socially desirable, such as education and health.

Education should be life long leading to personal development. On the other hand, government should provide a reliable health service which is both preventive and curative. This should include support to the elderly to satisfy their basic needs together with making them feel wanted and cared for.

### **Provider of a Safety Net**

The aim is to have a social security system which fosters independence. This will entail:

- adequate incomes to special groups that include pensioners, people with special needs, widows and orphans:
  - maintain and improve health
  - prevent and assist in recovery from illness
  - provide appropriate child and nursing care;
  - a safety net for the vulnerable.

The characteristics of the system should include:

- long term financial sustainability by ensuring that society is capable of carrying the burden involved over the longer period;
- a system which brings about social cohesion but does not endanger our competitiveness;
- mechanisms which enable people escape from the poverty trap.

For such a system to be viable it is also necessary that the envisaged reform in the government will also impact within this social area . In particular,

- government should avoid the trap of short-term orientation. Money is being spent to deal with today's problems but very little is done to prevent the problems;
- government structures will have to work more coherently. There should be more communications between government and non-government structures. Problems should be tackled holistically;
  - continuous assessment of the impact of our social security system;
  - continuous assessment of the changes taking place in society. New problems like social exclusion and poor are being created and old types of poverty eradicated;
  - harmonisation and simplification of our social security system. The present system is a maze which empowers the civil servant rather than the poor.

A public sector which is accountable and acceptable by society is bound to be successful in delivering the transformation needed.

But the biggest challenge is the transformation of provision to foster independence. The system should adopt a flexible approach which includes self-help (efforts to meet challenge on one's own), mutual help (efforts by members of society to help each other) and public help (public service).

People should be encouraged and not penalised for opting to self-help and mutual help rather than public help.

### **Guarantor of a Safe Society**

Government's responsibility extends also to ensuring a safe society with the objective of providing 'peace of mind' to enable society to thrive. There are two aspects – one preventive and one curative.

The latter basically depends on a fair, just and efficient judiciary system. Making the system more efficient is the easier part since it entails administrative measures which deliver tangible and quantitative results.

A fair and just system entails that the system is seen as such. This requires an attitudinal change which can only be brought about through an intensive educational programme which explains how the whole system works and how the system is safeguarded.

The preventive role is also difficult to achieve as it requires an attitudinal change of the people running the structures. It goes against the existing national grain of crisis management as we tend to let things lie until the problem arises and try to deal with it. The preventive role entails a more proactive role of constantly examining the systems and dealing with the causes of the problems.

The preventive role in this area involves attaining a safe environment

- at home
- in public areas and
- on the roads.

The first is the main preoccupation of the elderly. Programmes which provide security should be developed in each locality. We are still lucky to have security in public areas at most times but this is something which must be safeguarded. Safety on the roads is a contemporary issue. Unless we identify the causes of this problem and these are dealt with, this problem will increase.

The main institution which is responsible for guaranteeing this safety is the Police force. We need a highly motivated, disciplined, skilled and mobile police force. The primary aim of the force should be as educators and its role as an enforcement agency should be of secondary consideration.

Nipping problems at the bud would prevent large accidents and give a sense of security. The Police force should educate and encourage citizens to create safe environments. One such project which needs to be encouraged are neighbourhood watches.

The Armed Forces are responsible for national security and they too should have the same characteristics of the Police force. Their role extends to cover our national waters. They should be more proactive in identifying the current and future potential national security threats.

A small, highly trained and mobile force should be effective especially regarding illegal fishing, illegal immigrants and drug trafficking.

Another area which we have very little experience in dealing with is Civil Protection. Contingency plans for a number of natural and man-made disasters should be prepared. Once ready these plans should be communicated to all the parties concerned. This should involve government agencies, local councils, volunteer organisations and residents' associations, among others.

Even the public should be informed through educational programmes. This area should be given high priority since any local disaster would have extreme consequences due to the smallness of the Island.

### **Facilitator and Promoter**

Although the general orientation of the plan envisages that the government's role should be kept to a minimum, this is not to imply that we favour a weak government. Government is expected to ensure that in those areas considered vital for a decent way of life, all individuals are given a fair opportunity to participate. One such area relates to housing.

Basically we need a housing policy which deals not only with today's problems but takes a holistic stance. Our past housing policies have ranged from a policy where nearly all housing has been the government responsibility to policies of near non-government intervention.

The new housing policy to be promoted should take into consideration the following:

- the needs of special categories which find it difficult to obtain an independent dwelling (one such category is young couples);
- the needs of less privileged categories ( such as families with members with special needs );
- the provision of a safety social net which must have an in-built mechanism which expects tenants to opt out of the system once their financial situation improves:
  - efficient land utilisation;
  - the life cycle needs of the local family;
  - the creation of a fair private property market.

Apart from this, new innovative methods which take care of our cultural and natural environment should be promoted.

### **G3. CONSUMER PROTECTION AND FAIR COMPETITION**

A better quality of life demands the proper functioning of markets so that the individual as a consumer gets a fair deal in all transactions. One of the factors which have been recognised and accepted as a factor leading to his is fair competition amongst the economic players.

Government's role is not only to promote competition but also to ensure that the competition is fair. Still there will be cases where competition will not be effective.

In such a case, the system should provide consumer protection and redress which is effective and not expensive. This is the basis for the setting up of a structure which not only supports this but also promotes consumer education and market surveillance.

Also, Malta's size prohibits competing agencies in the provision of certain basic services such as electricity and water. The move towards more market pricing can only be sustained if it acknowledges the social aspect of such services in our country. Consumer protection also requires that pricing in these areas is not monopolistic, and should ensure that inefficiencies are not passed on to the consumer.

This strategy can be implemented by bringing about the following changes:

- **TRADE** The consumer is still paying up for the subsidies that presently protect the local industry which produces for the local market. Malta's drive towards a free trade area with the EU and the dismantling of the levy system will help remedy this situation. However, this is not the case with agricultural produce, where importation restrictions are envisaged to continue. It is important that any measures agreed to, will be implemented. This assumes that the consumer will be involved at all levels of decision-making.

- **STRUCTURES** It has been recognised that in spite of policy changes intended to promote fair competition, the consumer would still need protection.

The 1998 Budget plans for the setting up of an autonomous Authority to deal with both consumer and competition issues. Autonomy is essential since, at present, the consumer still receives a substantial number of basic services from the public utilities.

The Authority which shall assume the functions of the Department of Consumer Affairs, the Consumer Affairs Council and the Office of Fair Competition, should have three sections – consumer protection, fair competition and another section which will focus on education, research and administration.

The Education Department should work on a programme to integrate consumer education in the curriculum.

Regulators should be set up to regulate certain industries which remain a monopoly, whether in the public or private sector. The move towards pricing which reflects the true cost of such commodities encourages "sustainable" consumption.

Such utilities should be bound by effective code of practices and citizen charters.

#### **G4. CARING FOR THE ENVIRONMENT**

A sustainable development programme needs to give full consideration to environmental objectives.

The lack of scientifically collected data relating to environmental and social issues is a major factor in the development of appropriate policies.

There are no sustainability indicators in measuring the country's performance. There is a need for greater strategic impact assessments (integrating economic, social and environmental impact), improving and extending social cost-benefit analysis, etc.

The public needs to be involved in the evaluation of these studies, in line with an increased participation in national decision-making. Another weakness lies in the lack of inter-department coordination and the weakness of strategic planning in general.

There exists a need to introduce incentive based instruments (taxes, subsidies etc) as regulatory mechanisms supplementing the current standard and fines regime. This could have applicability in encouraging recycling, renewable energy sources, use of public transport, rehabilitation of vacant properties, etc.

In equating private with social costs, government needs to design taxes to cover environmental costs. This could be based on the application of the Polluter Pays Principle.

The present administrative structures and the skills of personnel need to be upgraded so as to ensure a more effective enforcement of environmental legislation. The Department for the Environment needs to give more active attention to preventing pollution due to a growing population, higher imports of polluting and hazardous substances and limited land areas and resources for safe disposal.

The traditional solution of restricting usage, by itself, will only enhance resistance to the emergence of an environmental consciousness. The policy should be such as to actively promote sustainable development. Such a policy should not hinder enterprise and economic initiatives but should encourage them in a way that protects, maintains and improves the environment around us.

A waste management master plan needs to be drawn up. Such a plan needs to take into consideration the small size of the island and the fact that any waste recycling plants will necessarily have to be located near to populated, or natural habitats. The saga of the San Antnin Composting Plant should not be repeated as it too affected adversely the emergence of pro-environmental attitudes.

Waste management should be developed into a comprehensive project which co-ordinates the work of the Environment Department, the Water Services Corporation, and the Works Department (responsible for drainage and conservation of rainwater).

Such a master plan will need to be accompanied by active policies promoting sustainable consumption and "zero" waste management. In this area, the main thrust should be:-

- educational campaigns;
- development of alternative ways of consumption which are economical and still satisfy the aspirations of the population.

Land utilisation is a major factor which affects the environment. The structure plan was a first step in the right direction. Pragmatic policies should be developed and directed at:

- economic use (housing, agricultural, industrial, tourism, infrastructure etc.)

- recreational use (parks, sports etc.)
- natural preservation

Such policies would only be successful if active participation of the population takes place. It should be emphasised that active participation can only be achieved after people are educated in the subject matter.

## **G5. DEVELOPING OUR COMMUNITIES**

One factor that is striking in our society is the fact that our community spirit is lacking. There may be several factors which contributed to this amongst which surely is the "powerlessness" attitude which grew out of colonialism.

The antidote to this is participation at the local level. The setting up of the Local Councils have been a positive step but there is a dire need to develop them.

One of the main problems is that both the Local Councils, the voluntary organisations and the citizens in the localities and still have not found their role. Perceptions of the role of the local councils vary from one in which the Local Councils are seen as the sole owner of the locality to one in which the Local Council is just an expression of the local opinion.

The process of role identification is a long social process but one which needs direction. A long term educational programme directed at all the players involved in the process, including both public and private agencies, should be initiated.

One of the basic premises of the establishment of the Local Councils was the decentralisation of administration. This should be continued but should be given directed towards achieving two objectives:

- their functions should be extended to others which bring them closer to the citizens and to the other voluntary organisations working in the locality;
- the spread of responsibility should be one linked to performance. Such a measure will lead to higher efficiency and effectiveness.

It is being proposed, in line with the rest of this document, that once the various policy changes relating to quality of life considerations are discussed and agreed to, then the next step would be to formulate a comprehensive and coherent policy framework embodying these changes.

Promoting quality of life is critical not only for the well-being of each one of us members of the Maitese society, but also as a way of enhancing the international attractiveness and competitiveness of our country.

## **H. CONCLUSION**

At the very introduction of this document it was stated that its primary purpose is to stimulate discussions, and hopefully find sufficient consensus as to the future socio-economic development of our country.

If accepted, it should lead to the formulation of specific action plans by all the parties involved. Any strategic plan finds its fulfilment in its action programme. This will help put our country back on the road to improved international competitiveness, and economic development.

We look forward to a continuing debate, and to receive feedback from whoever has the development of our country at heart. All comments or suggestions as to the contents of this document should be addressed to:

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