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COMMISSION STAFF WORKING DOCUMENT

Analysis of the recovery and resilience plan of Malta

Accompanying the document

Proposal for a COUNCIL IMPLEMENTING DECISION

on the approval of the assessment of the recovery and resilience plan for Malta

{COM(2021) 584 final}

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1. EXECUTIVE SUMMARY

The Maltese economy was badly hit by the COVID-19 pandemic and went from an above-average EU growth rate of 5.5% in 2019 to a contraction of 7.8% in 2020. The tourism sector was affected in particular, while the general contraction was partially offset by a steady expansion in the iGaming and financial services industries. The government took significant measures to support the economy, which limited the effects of the crisis. Employment continued to increase in 2020, while unemployment increased only slightly (from 3.6% in 2019 to 4.3% in 2020). The budget, which has been in surplus since 2016, recorded a deficit of 10.1% in 2020. Public debt is still at a moderate level despite increasing from 42.0% of GDP in 2019 to 54.3% in 2020.

Malta's recovery and resilience plan (RRP) has a total value of EUR 344.9 million, which is above the non-repayable financial support of EUR 316.4 million (approximately 2.3% of 2019 GDP) available to Malta under the RRF Regulation. Malta is not asking for loans.

Despite strong growth before the pandemic, Malta still faces significant challenges. While steps have been taken to increase participation and attainment rates in education and training, there is still a high share of pupils with insufficient levels of basic skills and a high number of early school leavers. Labour and skills shortages remain an issue and have increased in recent years, while the current crisis is expected to exacerbate them in some sectors and redefine them in others. Women's participation in the labour market remains low. Despite some improvements, the gender employment gap is still one of the highest in the EU. The health system delivers good outcomes, but its resilience and sustainability can be further improved. Additional efforts are needed to strengthen the independence and effectiveness of the justice system, to improve the Maltese anti-corruption and anti-money laundering framework and to curb aggressive tax planning practices. Research and innovation (R&I) continues to play a limited role in Malta's economy, and investments are needed to accelerate the digital transition. Achieving environmentally sustainable economic growth remains one of Malta's key challenges. Further efforts are needed in particular on energy efficiency, renewable energy, sustainable transport and waste management.

Investments and reforms in the recovery and resilience plan are expected to help address a significant subset of the country-specific recommendations identified in recent years as part of the European Semester. The plan is ambitious and envisages reforms and investments to address the challenges identified in health, employment, education and skills, climate and digital transition, justice and the fight against corruption and money laundering. Good governance is one of the pillars of the government's long-term economic vision, and the plan makes significant efforts to remedy the challenges in this area. Investing in education also features prominently in the plan, with relevant measures proposed to address weaknesses in the education system. A major part of planned investments focuses on the green and digital transition, thereby addressing the country-specific recommendations on investments in these areas. The challenges identified in aggressive tax planning, R&I and the sustainability of the pension system are partly addressed. The investments and reforms included in the recovery and resilience plan also appear consistent with the challenges and priorities identified in the Council Recommendation on economic policy of the euro area.

The plan is balanced in its response to the six policy pillars referred to in Article 3 of the RRF Regulation[1]. The first three of the six components are directly related to the green and digital transition. The remaining four policy pillars are addressed in the other components through measures to: (i) strengthen and increase the resilience of the healthcare system; (ii) strengthen early school leaving prevention measures and improve the education and vocational education system; (iii) implement measures to support innovation; (iv) digitalise to increase public administration efficiency, including the health and justice systems; and (v) address institutional bottlenecks through governance reforms.

The investments and reforms included in the plan are expected to strengthen growth potential, job creation, resilience and cohesion. The strengthening of the institutional framework, education system reforms and digitalisation efforts in particular are expected to boost growth potential. Further benefits for growth and jobs are expected from the investments and reforms to boost energy efficiency, decarbonise transport, improve the health system and strengthen R&I. Institutional resilience is addressed by reforms and investments to strengthen the justice system and the anti-corruption and anti-money laundering capacity. Measures in health, education, training and the labour market are expected to help strengthen social cohesion, while also contributing to the implementation of the European Pillar of Social Rights.

The measures in Malta's recovery and resilience plan are expected to contribute to the green transition and environmental protection. The plan supports Malta's decarbonisation and energy transition objectives, as set out in its 2030 national energy and climate plan (NECP), and are a step forward in achieving climate neutrality by 2050. Two of the six components in the plan include expenditure that contributes to climate objectives, accounting for 53.8% of the plan's total allocation. These mainly reflect sustainable transport investments (ferry landing site, electric vehicles) and energy efficiency interventions in buildings. To a lesser extent, the plan also includes renewable energy investments. Waste management reforms aim to strengthen the circular economy. The plan contains no measures with biodiversity as their objective, although reductions in pollution emissions resulting from building renovations, the decarbonisation of transport as well as the planned strengthening of waste management may indirectly improve biodiversity. All measures in the plan have passed the *ex ante* assessment of the 'do no significant harm' principle. In addition, for some measures this principle has been reflected in the milestones and targets specified in the Annex to the Commission Proposal for a Council Implementing Decision.

Malta's recovery and resilience plan is expected to contribute to the digital transition. Measures supporting digital objectives represent 25.5% of the plan's total allocation. Component

[1] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

3 is fully dedicated to the digital transition and aims to invest in the further digitalisation of public administration and public services, as well as strengthening initiatives related to the digitalisation of the private sector. Components 4 and 6 also address this objective by boosting digitalisation of the health and judicial systems.

The proposed reforms and investments are expected to have a lasting, positive impact on the functioning of the institutions, public administration and policies. Institutional changes to strengthen the independence and effectiveness of the justice system as well as the anti-corruption and anti-money laundering framework are expected to have lasting benefits on how the country's institutions function. Digitalisation is expected to improve access to and the efficiency of government services to businesses and individuals. Healthcare provision is strengthened through investments and a broader and more digitalised service. Policy changes are also expected to bring about lasting benefits, including a reduction in energy consumption, improved air quality, reduced noise pollution, better work-life balance and improved access, quality and resilience of educational services, bridging the gap between education provision and labour market needs.

The implementation framework is robust, and milestones and targets are well thought-out. The Ministry responsible for the management of EU funds is the lead authority for implementing Malta's recovery and resilience plan. Within this Ministry, the Planning and Priorities Coordination Division, which is also the Managing Authority for other EU funds, has been tasked with leading the process. The plan also envisages close cooperation with the Ministry for Finance and Employment, which leads the European Semester process. The milestones and targets are suitable for monitoring the plan's implementation, representing the key elements of the proposed investments and reforms.

The plan provides sufficiently detailed information on the national set-up for the Recovery and Resilience Facility (RRF) internal control system. The outline of the control system put in place seems appropriate, and relevant actors have been identified across all levels. Management verifications at plan level have been clearly defined. The plan includes main elements on the audit work of the audit body and a commitment to prepare an audit strategy within three months of adopting the plan. The plan confirms that all investments will be financed solely by the RRF. This is further bolstered by structures put in place at national level to ensure consistency between funding and to avoid double funding.

Malta has provided estimated costs for each investment included in the recovery and resilience plan, while no costs were associated with the reforms. The cost breakdown is generally detailed and well-substantiated. The assessment of the cost estimates and supporting documents shows that a large majority of the costs are reasonable and plausible. The cost estimates are based on well-documented comprehensive calculations and sound underlying assumptions. In addition, the estimated total cost of the recovery and resilience plan is in line with the nature and type of envisaged investments. However, in some limited cases, further supporting evidence and clearer justification for the assumptions made would have been needed to reach a fully positive assessment. The estimated total cost of the plan is commensurate with its expected economic and social impact and is in line with the principle of cost efficiency.

The Maltese plan includes a set of consistent, coherent and mutually reinforcing measures that are commensurate with the overall long-term development objectives. Reforms that strengthen the regulatory framework in the buildings sector and ensure a well-prepared workforce support the planned renovation of a number of private sector and public buildings, public schools and hospitals. Policies that promote the sustainability of the transport sector strengthen the government's efforts for a modal shift to clean public transport together with the electrification of part of the bus fleet. Across components, initiatives taken to strengthen the government's digital services are complemented by digitalisation of the justice system. In addition, skilling and upskilling is envisaged through different components, which sustain and complement each other. No cases have been observed where measures proposed within or across components contradict or undermine each other's effectiveness.

(1) Balanced response	(2) CSRs	(3) Growth, jobs …	(4) DNSH	(5) Green target	(6) Digital target	(7) Lasting impact	(8) M & T	(9) Costing	(10) Control Systems	(11) Coherence
A	A	A	A	A	A	A	A	B	A	A

2. Recovery and resilience challenges: scene-setter

2.1. Macroeconomic outlook and developments since the 2020 country report

The Maltese economy went from growth of 5.3% in 2019 to a contraction of 7.8% in 2020. The COVID-19 pandemic badly affected Malta's tourism sector[2], while the general contraction of the economy was partially offset by a steady expansion in the iGaming and financial services industries. Investment fell mainly due to a large drop in construction, while private consumption was dampened by contractions in the retail, accommodation and food sectors. Inflation averaged 0.8% in 2020, mainly due to subdued energy prices and lower inflation in services.

Significant measures were taken to support the economy[3]. The Maltese stimulus package amounted to 5.2% of GDP in 2020, including wage supplements, rent and electricity bill refunds, and interest rate subsidies on bank loans. Liquidity measures (i.e. guarantees and tax deferrals), which have no immediate impact on the deficit, amounted to 3.9% of GDP. The budget, which

[2] The total Maltese tourism sector is responsible for around 20% of total national employment (JRC publication 'Behavioural changes in tourism in times of Covid-19'). In 2020, arrivals dropped by 65% (Eurostat).

[3] Partly financed by SURE and REACT-EU.

has been in surplus since 2016, recorded a deficit of 10.1% in 2020 (Commission 2021 Spring Forecast). Debt increased from 42.0% of GDP in 2019 to 54.3% in 2020. The emergency measures, together with the pre-existing tax-benefit system, cushioned around two thirds of the household market income losses in Malta, with more than half of the effect due to the short-time work schemes[4]. Employment continued to increase in 2020, and unemployment figures increased only slightly from 3.6% in 2019 to 4.3% in 2020.

The macroeconomic assumptions that underpin Malta's recovery and resilience plan are plausible and project a sizeable rebound in economic growth in 2021. According to national projections, real GDP is set to increase by 3.8% in 2021, to then speed up to 6.8% in 2022. The national forecast expects inflation to pick up to 1.3% in 2021 and 1.5% in 2022. The unemployment rate projected in the plan is set to remain at 4.3% in 2021, declining to 3.9% in 2022. According to the Commission's 2021 Summer Forecast, real GDP is forecast to grow by 5.6% in 2021 and 5.8% in 2022. The Commission expects more moderate growth in investment and a more dynamic rebound in private consumption in 2021. Similar to the national projections, the Commission Summer forecast expects inflation to be 1.1% in 2021, increasing to 1.6% in 2022. In addition, in the Commission Spring forecast, the unemployment rate is expected to be 4.4% in 2021, falling to 3.8% in 2022. Given the continued budget support, the Commission Spring forecast expects government deficit and debt to increase further in 2021, to 11.8% and 64.7% respectively. The macroeconomic and fiscal outlook continues to be affected by high uncertainty related to the COVID-19 pandemic and its economic consequences.

After a strong improvement, the risk of poverty or social exclusion has been stabilising in recent years, but some groups have been left vulnerable to the pandemic. Strong economic growth and job creation helped to reduce the risk of poverty or social exclusion in recent years to 20.1% in 2019 (compared to 20.9% in the EU). However, this risk remains high for specific population groups, such as single earner households, low-skilled adults, older people, and non-EU nationals. As these are also the groups that are more vulnerable to the negative economic impact of the pandemic, inequalities and risks of poverty could be further aggravated by the economic slowdown. The high number of early school leavers (16.7% in 2020) and poor educational outcomes, which are largely determined by the type of school a pupil attends, also limit equal opportunities. Before the COVID-19 outbreak, labour and skills shortages had increased and the labour market relied heavily on foreign workers, who represent almost a fourth of the Maltese labour force. The COVID-19 pandemic may exacerbate skills shortages in some sectors and redefine skills needs in others.

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[4] Findings based on the Euromod model: see Christl, M., De Poli, S., Figari, F., Hufkens, T., Leventi, C., Papini, A. and Tumino, A. (2021) 'The cushioning effect of fiscal policy in the EU during the COVID-19 pandemic', JRC Working Papers on Taxation and Structural Reforms, 02/2021 (forthcoming); and Almeida, V., Barrios, S., Christl, M., De Poli, S., Tumino, A., Van der Wielen, W. (2020): 'Households' income and the cushioning effect of fiscal policy measures during the Great Lockdown', JRC Working Paper on Taxation and Structural Reforms, 06/2020, available at https://ec.europa.eu/jrc/sites/jrcsh/files/jrc121598.pdf.

The fiscal position may be dented in the medium term by the composition of government revenues and rising ageing costs in the long term. For several years before the COVID-19 crisis, the Maltese economy had experienced fast growth, sustained employment growth and a declining debt-to-GDP ratio. However, Malta’s tax revenues rely largely on corporate taxes. This may prove volatile given the slowing economy and international initiatives in the area of corporate taxation (e.g. efforts to introduce a minimum corporate income tax rate under the OECD/G20 Inclusive Framework on Base Erosion and Profit Sharing), which may render Malta’s tax regime less attractive for investors. Positive fiscal outcomes in recent years have also been supported by volatile revenues from Malta’s citizenship scheme[5], whose legality is being challenged by the European Commission. It sent a second letter of formal notice to Malta in June 2021, voicing its concerns about the revised citizenship scheme established at the end of 2020. More stable and growth-friendly taxes such as recurrent property taxation and environmental taxes are underused. Sustainability risks are low in the short and medium term, but the S2 sustainability gap indicator[6] (5.6 % of GDP) suggests medium risks for fiscal sustainability. This is driven by a projected increase in ageing costs of 8 % of GDP by 2070 due to increasing public pension costs (3.8 % of GDP) and expenditure on healthcare and long-term care (4.5 % of GDP), albeit from a very low level. The macroeconomic and fiscal outlook continues to be affected by high uncertainty related to the COVID-19 pandemic and its economic consequences.

Table 1: Comparison of macroeconomic developments and forecasts

[5] On 3 July 2020, amendments to the Maltese Citizenship Act were published in the government gazette. It announced that the citizenship scheme (IIP) will cease to exist, even if the 1,800-application limit is not reached by then. The scheme was replaced by a residency plan that can lead to citizenship.
[6] The S2 indicator shows the adjustment to the current structural primary balance required to fulfil the infinite horizon inter-temporal budget constraint, including paying for additional expenditure arising from ageing.

	2019	2020		2021		2022		2023	2024	2025	2026
	COM	COM	RRP	COM	RRP	COM	RRP	RRP	RRP	RRP	RRP
Real GDP (% change)	5.5	-7.8	-7.0	5.6*	3.8	5.8*	6.8				
Employment (% change)	6.6	2.9	4.1	1.1	2.2	1.9	3.5				
Unemployment rate (%)	3.6	4.3	4.3	4.3	4.3	3.8	3.9				
HICP inflation (% change)	1.5	0.8	0.8	1.1*	1.3	1.6*	1.5				
General government balance (% of GDP)	0.4	-10.1		-11.8		-5.5					
Gross debt ratio (% of GDP)	42.0	54.3		64.7		65.5					

Source: Commission's Summer interim Forecast (2021) (COM), Commission's Spring Forecast (2021) (COM), Malta's Recovery and resilience plan (RRP)*

2.2. Challenges related to sustainable growth, cohesion, resilience and policies for the next generation

Smart, sustainable and inclusive growth

The Maltese business environment has improved in recent years, particularly for small and medium-sized enterprises (SMEs), but gaps in access to finance continue to limit growth prospects. While the loan guarantee scheme introduced during the COVID-19 outbreak helps alleviate immediate liquidity constraints, capital markets remain underdeveloped. More efforts are needed to increase the availability of non-bank finance and to address difficulties in access to credit.

R&I continues to play a limited role in Malta's economy[7]. The Maltese R&I system remains underfunded, with public and private R&D expenditure having experienced flat or sluggish growth rates in 2010-2019[8]. The weak institutional and administrative capacity for R&I policy partly accounts for the limited effectiveness of Malta's R&D investment and policies. The government set up the Ministry for Research, Innovation and the Coordination of Post Covid-19 Strategy in December 2020, a welcome step towards improving R&I governance. Weak academia-business cooperation, the limited availability of researchers, talent and SMEs' low R&I capabilities hamper innovation diffusion and technological catch up.

[7] However, innovation was shown to play a key role during the period of downturn. Maltese companies that kept innovating in 2020 were far less affected by the COVID-19 pandemic, almost halving the decrease in their income compared with non-innovative firms (JRC125490).

[8] Between 2010 and 2019, annual compound growth rates for public and private R&D expenditure stood at 0% and 0.7% respectively (Eurostat).

Malta has launched a number of activities to promote digital skills among the population, map needs and to train ICT specialists. Recent initiatives have also targeted connectivity issues (including 5G). The lack of digital skills is holding back the digitalisation of companies. Malta is advanced on e-government and e-health, but the uptake by the population is rather low. Training, especially for low-income families, is of particular importance here.

Social and territorial cohesion

After years of positive change, the social situation started to worsen in 2019. The share of people at risk of poverty or social exclusion (20.1%) was still slightly below the EU average (20.9%) in 2019, but started to increase after years of decline. Furthermore, the poverty-reducing impact of social transfers (other than pensions), at 26.3%, is still substantially lower than the EU average (32.4%) and also registered a decline in 2019.

Women's participation in the labour market remains low. Despite some improvements, the gender employment gap is still one of the highest in the EU (17.7 % in 2020, EU average: 11.1 %). Work-life balance is still a concern in Malta, the employment rate of women still falls after the age of 40 and the share of inactive women due to care responsibilities is high. As for the gender pension gap, while it has improved in recent years, it remains one of the highest in the EU at 39.5% in 2019.

Health and economic, social and institutional resilience

The health system delivers good outcomes, but its resilience and sustainability can be further improved. Malta's population generally enjoys good health and has one of the longest life expectancies in the EU. In 2020, as a result of COVID-19, life expectancy at birth dropped from 82.9 to 82.6 years (a drop of less than 4 months, against an average drop of over 9 months across EU Member States). The unmet need for medical care is low, but low-income households report much higher levels than the rest of the population. Obesity is a major public health challenge, with adult and childhood obesity rates the highest in the EU. In 2018, Malta spent 9.0% of its GDP on health, slightly below the EU average of 9.9%. However, a comparatively large share of healthcare costs are borne by household out-of-pocket costs. At the same time, demographic ageing puts pressure on the long-term fiscal sustainability of the health system. Malta has been investing in health promotion and prevention, the development of additional primary care capacity and the introduction of an e-health system. Further redirecting service delivery away from hospitals towards primary care could help improve efficiency and reduce public spending. Resilience will need to be further supported by tackling some long-standing issues, including the recruitment and retention of health professionals (against the background of high reliance on foreign workers, particularly among nurses) and long waiting lists for specialist outpatient services.

Efforts to improve the anti-money laundering regulatory and supervisory framework are ongoing, but certain challenges remain. The financial services authority has begun to increase staff levels to support its supervisory role, to review its structure and anti-money laundering oversight as well as its investigation and prosecution powers in that area. Several recent reforms aim to strengthen rule of law enforcement authorities in the fight against money laundering and financial crimes more generally. Addressing concerns related to money laundering will be crucial to prevent criminals from misusing the EU's economy during the recovery and will have an impact on the country's capacity to retain essential financial services, improve its international reputation and maintain investor confidence.

Further steps are needed to address aggressive tax planning practices. The issue of outbound payments of dividends, interest and royalties (i.e. payments exiting the EU to non-EU countries and jurisdictions) requires attention as these may erode the EU tax base through significant amounts of payments made to other countries where recipient taxpayers are subject to very low or no corporate taxation. The citizenship and residence schemes also continue to pose a serious risk of tax evasion and need addressing.

There is still scope for further progress in implementing reforms to strengthen the independence of the judiciary. On 29 July 2020, the Maltese Parliament adopted four laws relating to the justice reforms, namely a new act on the appointment of judges and magistrates, an act on the removal from office of judges and magistrates, an act on the judicial review of decisions not to prosecute and an act on the Permanent Commission against Corruption. The Venice Commission, in its Opinion of 8 October 2020, welcomed the reforms as an important step in the right direction, but recommended amendments to the adopted acts, to be addressed without delay[9]. These mainly reflect the need for greater transparency in the appointment of members of the judiciary while further reducing political involvement, including on the selection of the Chief Justice. Other recommendations include amendments to the judicial review not to prosecute, the transfer of summary cases to the Attorney-General, as well as increased independence of specialised tribunals.

Action is still needed to ensure a fully separate and efficient prosecution service. In 2019, Malta passed legislation to create a separate prosecution service in response to Venice Commission recommendations. As a first step, the Office of State Advocate was created to take over the non-prosecutorial functions that the Attorney-General had performed in the past. Cases will be transferred from the police to the Prosecution Service gradually. It is important to ensure that all prosecution functions, including summary offences, are transferred as soon as possible to the Attorney-General's office and that this office has appropriate resources to operate.

Policies for the next generation, children and young people, including education and skills

Steps have been taken to improve education and training participation and attainment rates, but significant challenges remain, including a high share of pupils with insufficient basic skills. The share of low-skilled people aged 15 to 64 is one of the highest in the EU (44.8% in 2020), and their participation in training is low (3.6% in 2020). Persistently high student

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[9] Venice Commission, Opinion No. 993 / 2020 - CDL-AD(2020)019, 8 October 2020, Malta – Opinion on ten acts and bills implementing legislative proposals subject of Opinion CDL-AD(2020)006: https://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD(2020)019-e.

underachievement and early school leaving make it difficult to meet the need for skilled labour using domestic workers alone. The implementation of the policy on inclusive education for public schools has been delayed by the crisis. Strengthening monitoring and developing a holistic evaluation system would ensure more effective education policies and efficient investments. The inflow of foreigners helped to mitigate skills shortages, but also created integration and sustainability challenges through rapid population growth. Public employment services and unemployment protection that were scaled for a dynamic labour market might be ill-suited to dealing with a situation where workers are likely to face longer spells out of work and to have greater re-training needs.

2.3. Challenges related to the green and digital transition

An overarching objective of the RRF is to support the twin transition. Malta is among the leading Member States in digitalisation as measured by the 2020 Digital Economy and Society Index. However, the country is lagging behind in reducing greenhouse gas (GHG) emissions not covered by the EU emissions trading system, according to the Commission's assessment of Malta's 2030 national energy and climate plan. Because of its location and given that the country is densely populated, Malta is particularly vulnerable to climate risks. It will need to take additional corrective measures aimed at reducing GHG emissions in order to meet its targets, including by reducing the carbon footprint of its digital sector. This section focuses on where Malta stands in achieving targets related to the green and digital transition.

Green dimension

The recovery and resilience plan should contribute to the green transition, and at least 37% of the financial allocation needs to contribute to climate objectives. The measures in the plan are expected to help achieve the 2050 climate neutrality objective and the 2030 energy and climate targets, taking into account Member States' national energy and climate plans. They should also help meet environmental targets for waste, water, pollution control, sustainable mobility, biodiversity protection and restoration as well as marine and water resources. In addition, the measures are set to support the transition to sustainable food systems as well as to a circular economy as appropriate, ensuring that nobody is left behind.

Despite the fact that Malta's climate targets are much lower than the EU average, it is not on course to meet them. Based on Malta's projections, the Commission estimates in its assessment of Malta's 2030 national energy and climate plan[10] that existing policies will not be sufficient to achieve a 19% reduction from 2005 levels in GHG emissions not covered by the EU

[10] Economidou, M., Ringel, M., Valentova, M., Zancanella, P., Tsemekidi Tzeiranak, S., Zangheri, P., Paci, D., Ribeiro Serrenho, T., Palermo, V. and Bertoldi, P., National Energy and Climate Plans for 2021-2030 under the EU Energy Union, EUR 30487 EN, Publications Office of the European Union, Luxembourg, 2020, ISBN 978-92-76-27013-3, doi:10.2760/678371, JRC122862.

emissions trading system by 2030. Although Malta has one of the lowest GHG emissions per person in the EU, its absolute emissions are rising and are projected to increase further.

Malta's primary and final energy consumption, 0.9 and 0.7 Mtoe respectively in 2019, is not expected to reach the 2020 targets of 0.8 and 0.6 Mtoe respectively. Furthermore, in its NECP, the 2030 targets set for both primary and final energy consumption were considered very low ambition as Malta estimates that both values will have increased by then to 1.1 and 0.8 Mtoe respectively. The Commission recommends that Malta designs and invests in more ambitious policies for the energy efficiency of its expanding building stock and transport system.

Transport is one of the main targets for reducing emissions. Malta needs to make additional efforts to improve the sustainability of transport and reduce traffic congestion. Its dependence on road transport, together with an inefficient road network, moderate fuel taxes and a firm preference for private transport have resulted in significant road congestion, noise, air pollutants and increased GHG emissions. There is scope to encourage sustainable collective transport and local access restrictions in order to reach both emission and congestion objectives. The external cost of road transport, including from air pollution, noise and congestion, is estimated at EUR 400 million a year, corresponding to 3.6% of Malta's GDP, and is rising. The NECP includes specific plans to support e-mobility by increasing the number of electric vehicles and the roll-out of electric public transport. Malta intends to strengthen its electric vehicle infrastructure also through the Just Transition Fund. In 2021-2030, Malta plans to implement a biofuels substitution obligation, requiring fuel suppliers to blend biofuels with diesel. Providing ships that dock in the two main Maltese ports with an alternative power supply to the burning of heavy fuel oil will help reduce GHG emissions.

Progress is still needed to create an energy-efficient building stock and tap into the large energy savings potential. This includes renovating residential, services and public sector buildings such as public schools and hospitals. Although residential buildings account for 84% of Malta's building stock, only around 0.6% are renovated each year. Investments in energy renovations could help achieve the national energy and climate targets while keeping energy poverty low. Progress is hampered, among other things, by skills shortages, low enforcement of minimum requirements and use of efficient materials and technologies and by competences being split between ministries and public bodies with responsibility for the building sector. Additional efforts are needed to target energy efficiency renovations and promote renewable energy in residential buildings, which use the largest share of energy[11], including with measures to alleviate

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[11] For an assessment of 2014 and 2017 Maltese long-term buildings renovation strategies, see: Castellazzi L, Zangheri P and Paci D. Synthesis Report on the assessment of Member States` building renovation strategies. EUR 27722. Luxembourg (Luxembourg): Publications Office of the European Union; 2016. JRC97754; and Castellazzi L., Zangheri, P., Paci, D., Economidou, M., Labanca, N., Ribeiro Serrenho, T., Zancanella, P. and Broc, J., Assessment of second long-term renovation strategies under the Energy Efficiency Directive, EUR 29605 EN, Publications Office of the European Union, Luxembourg, 2019, ISBN 978-92-79-98727-4, doi:10.2760/973672, JRC114200.

the cost for low income households. The policies introduced in the renovation strategy[12] could lead to savings of over 60,000 GWh of primary energy in buildings by 2050, leading to emission reductions of 4.4 million tonnes CO2 (a reduction of 150,000 tonnes per year in 2030). In order to reach the targeted savings, the renovation rate will have to increase by 2.5 percentage points up to 2050. This is expected to generate between 1,200 and 4,300 jobs per year.

Malta has one of the lowest shares of renewables in energy consumption in the EU. The country could still meet its 2020 renewable energy target of 10% either via own production or through a combination of own production and statistical transfers. In its NECP, Malta provides an indicative trajectory where the share of renewable energy is expected to reach 10.3%, 11.0% and 11.6% respectively in 2022, 2025 and 2027. The NECP expands on the planned policies and measures that will enable it to achieve the contribution and sets out specific relevant sectoral measures. However, the 2030 target for renewable energy remains unambitious at 11.5% and is well below the minimum share of 21% resulting from the formula in Annex II of the Governance Regulation.

Malta still faces considerable challenges and investment needs in the areas of waste and water management, air quality, protection of habitats and species. Despite some progress in the transition towards a circular economy, waste management remains a challenge. The considerable amount of landfilled waste, especially related to the construction sector, prevents the country from meeting the EU recycling targets and making progress towards the circular economy objectives on waste prevention and the reuse of products. In this vein, sustainable construction using a life cycle analysis approach to both public buildings and private housing is critical to avoid unnecessary pressure on land use and natural resources and to prevent waste, while also managing construction demolition waste in line with the waste hierarchy. The challenge remains for water management as well, where action is needed to tackle the problem of water scarcity and over-abstraction. This includes completing the monitoring schemes for the quantitative status of groundwater, introducing appropriate pricing policies and strengthening the control and enforcement measures related to the prevention and reduction of diffuse pollution including nitrates, agri-chemicals, sediment and organic matter. In addition, air pollution and noise in the main cities would benefit from systemic solutions for reducing transport congestion, such as meaningful traffic restrictions or promoting the use of cleaner modes of transport. On the protection of habitats and species, Malta needs to complete the Natura 2000 designation process and adopt the remaining management plans for marine sites. Clearly defined conservation objectives and necessary conservation measures need to be established for all sites. The provision of appropriate resources for their implementation is crucial in order to maintain or restore species and habitats of community interest to a favourable conservation status across their natural range. Furthermore, the illegal trapping and killing of protected species remains one of the main

[12] Malta submitted the 2020 long-term renovation strategy to the Commission on 4 August 2021: https://ec.europa.eu/energy/sites/default/files/mt_2020_ltrs.pdf.

challenges in Malta, where action is needed to strengthen enforcement of EU legislation and where investment is needed in education and awareness-raising programmes to ensure compliance across the territory.

The table below gives an overview of Malta's objectives, targets and contributions under Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action.

Table 2: Overview of Malta's energy and climate objectives, targets and contributions

	National targets and contributions	Latest available data	2020	2030	Assessment of 2030 ambition level
	Binding target for GHG emissions compared to 2005 under the Effort Sharing Regulation (ESR) (%)	32	5	-19	As in ESR
	National target/contribution for renewable energy: share of energy from renewable sources in gross final consumption of energy (%)	8.5 (2019)	10	11.5	Unambitious (21% result of RES formula)
	National contribution for energy efficiency:				
	Primary energy consumption (Mtoe)	0.9 (2019)	0.8	1.1	Very low ambition
	Final energy consumption (Mtoe)	0.7 (2019)	0.6	0.8	Very low ambition
	Level of electricity interconnectivity (%)	24	24	24	N/A

Source: Assessment of the final 2030 national energy and climate plan of Malta, SWD (2020) 917 final and Eurostat Energy Statistics for 2019

Digital dimension

The recovery and resilience plan should contribute to the digital transition, and at least 20% of the financial allocation needs to contribute to digital objectives. The measures in the plan should, among other things, contribute to the digital transformation of the economic and social sectors (including public administration, public services and the justice and health systems). The objective of the measures should be to improve not only the competitiveness, but also the resilience, agility and security of companies and public actors, all while ensuring inclusiveness.

Malta has made significant progress on digitalisation. According to the Commission's Digital Economy and Society Index (DESI) 2020, the country ranked fifth in the EU (out of 28 countries). The National Digital Strategy 2014-2020 – currently being updated – set the vision of

Malta as a 'digitally enabled nation' in all society dimensions. To achieve this ambition, existing gaps need to be closed and efforts are needed to further boost the digital transition.

Maltese businesses have high levels of digitalisation, but there are differences between large companies and SMEs. In DESI 2020, Malta ranked seventh in the EU on integration of digital technology by businesses. Latest data broadly confirm this positive performance; in 2020, 71% of businesses in Malta had at least a basic level of digital intensity,[13] well above the EU average of 60%. However, there are differences between large companies and SMEs. In addition, despite recent initiatives, the difficulty in finding people with the right technical skills is a barrier to further progress on digitalisation. In 2020, more than 66% of businesses reported difficulties in filling vacancies requiring ICT specialist skills[14]. Malta has several programmes in place to support business digitalisation (e.g. MITA Innovation Hub, MITA Emerging Technologies Lab), and in 2019 announced the setting up of a digital innovation hub dedicated to artificial intelligence.

Malta has made some progress in equipping its people with suitable skills to further progress on digitalisation, although skill shortages remain and the involvement of women is still limited. In DESI 2020, Malta ranked sixth in the EU on human capital. The country is one of the EU leaders in training ICT specialists (6% of all graduates, against the EU average of 3.9%), while it is in line with the EU average when it comes to basic digital skills (56% of people have at least basic digital skills in Malta, which equals the EU average)[15]. As mentioned above, skills mismatches and related skill shortages represent a challenge. Moreover, Malta has a high share of low-qualified adults, with around 33% of the workforce lacking the basic digital skills needed in the majority of jobs today[16]. The participation of women in the digital sector remains rather limited (in Malta, 11% of ICT specialists are women, against the EU average of 19%)[17]. Malta launched the comprehensive National eSkills Strategy (2019-2021), covering several key areas such as basic digital literacy, quality of ICT teaching, advanced skills and reskilling and upskilling of the workforce. Additional efforts and targeted investments are essential to match the increasing demand for skilled labour, boost reskilling and upskilling and boost the economy's digital transformation. In parallel, continued efforts are needed to ensure that the population acquires basic digital skills, in particular low income families, and to close the existing gaps.

[13] The digital intensity score is based on counting how many out of 12 selected technologies are used by businesses. A basic level requires usage of at least 4 technologies (Eurostat, Community Survey on ICT usage and eCommerce in Enterprises, 2020).
[14] Eurostat, Community Survey on ICT usage and eCommerce in Enterprises, 2020.
[15] European Commission, Digital Economy and Society Index 2020. Data is for 2019.
[16] European Commission, Digital Economy and Society Index 2020 (Indicator: Individuals with at least basic digital skills by employment status, data referred to is for 2019).
[17] Eurostat, Labour Force Survey, 2020.

Malta scores very well in domestic broadband connectivity. In DESI 2020, Malta ranked 10th in the EU on connectivity. 100% of households are covered by very high capacity networks[18]. The country boosted nationwide connectivity with speeds of 1 Gbps, but as of 2020 only 1.1% of households subscribe to internet services with this speed[19]. Malta has recently published a decision paving the way for the assignment of 5G spectrum[20], and claims to have started assigning spectrum in 5G pioneer bands. Malta also enjoys a strategic position as an international hub for north-south and east-west connectivity in the Mediterranean. Works are ongoing to connect Malta to Marseille and Egypt, which will expand the island's international connectivity beyond the existing submarine cables that terminate in Italy.

The country is well advanced in the offer of digital public services and has made efforts to increase their take-up by individuals and businesses. In DESI 2020, Malta ranked 11th in the EU on digital public services. It is very advanced in supplying digital public services to individuals and businesses, including in the re-use of information across administrations to reduce compliance costs (by making available pre-filled forms). The share of e-government users has improved from 58% in 2019 to 63% in 2020, although it remains slightly below the EU average (64%).[21] Further efforts are required to increase user take-up by simplifying services, targeting the sharing and reuse of information already acquired by the government and further developing personalised, user-friendly and timely services, including the deployment of emerging technologies. On digitisation of the justice system, the digital strategy needs to be implemented to address current gaps, in particular on the limited possibility to file and follow a procedure by electronic means.

Maltese R&D spending is well below the EU average, and the R&D performance of the ICT sector is weak. With 0.61% of GDP allocated to R&D in 2019, the country has much lower R&D expenditure than the EU average of 2.20%. Malta's National R&I Strategy (2014-2020) identified the need for continued investment in ICT infrastructure and innovation using digital technologies. However, R&D investments also remained limited in the ICT sector. The proportion of the government R&D budget allocated to the ICT sector is around 1%, well below the EU average of 7%. R&D expenditure by businesses in the ICT sector is also low and accounts for less than 3% of the value added in the sector[22].

Malta has paid significant attention to advanced digital technologies in recent years. The adoption of a strategy and regulatory framework dedicated to blockchain technology in 2018 is

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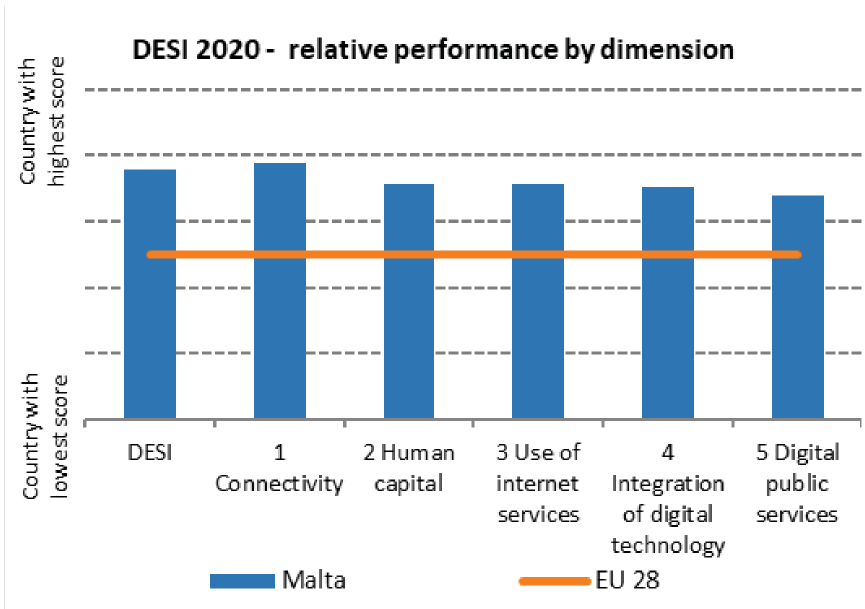
[18] Broadband coverage in Europe studies for the European Commission by IHS Markit, Omdia and Point Topic, 2020.
[19] European Commission, through the Communications Committee (COCOM), and Eurostat-Community survey on ICT usage in households and by individuals.
[20] Decision MCA/D/21-4177 of 7 April 2021 (available here: https://www.mca.org.mt/sites/default/files/Assignment%20process%20for%20additional%20spectrum%20for%20wireless%20broadband%20electronic%20communications%20service.pdf).
[21] Eurostat-Community survey on ICT usage in households and by individuals, 2020.
[22] Digital Economy and Society Index 2020, The EU ICT sector and its R&D performance.

one example of the country's ambition. Malta is also a signatory country of the Blockchain Partnership Declaration (signed in April 2018), and of other relevant declarations, such as that on 'Building the next generation cloud for businesses and the public sector in the EU' (October 2020). In 2019, the country also launched a national strategy on artificial intelligence (AI), based on three strategic pillars: investment, start-ups and innovation, and speeding up the adoption of AI by the public and private sectors. Malta may benefit from translating these policy strategies into concrete measures that aim to deploy advanced technologies across the public administration and economic sectors in order to help boost the country's innovation capacity and increase productivity.

Figure 1: Digital Economy and Society Index (DESI) 2020 composite index summary



Note: EU aggregate corresponds to the EU-28 based on the 2020 DESI report.

Box 1: Progress towards the Sustainable Development Goals

Overview table of the overlap between the Sustainable Development Goals and the four dimensions underpinning the recovery and resilience plans

The objectives of the Sustainable Development Goals (SDGs) have been integrated into the European Semester since the 2020 cycle. This provides a strong commitment towards sustainability in 19 EU economic and employment policies. This section outlines Malta's performance on the SDGs, in particular relevance on the four dimensions underpinning the Commission's 2021 Annual Sustainable Growth Strategy. It is also of relevance to the recovery and resilience plans (green transition, fairness, digital transition and productivity, and macroeconomic stability), indicating possible areas where investments and reforms in line with the objectives of the RFF could further accelerate progress on the SDGs.

Green transition

Malta does not perform well on many SDGs related to the green transition. Although it has one of the lowest GHG emissions per person in the EU, its absolute emissions are rising and are projected to increase further. The country has not been able to combine high economic growth with lower GHG emissions.

The share of renewable energy in Malta's gross final energy consumption (8.5% in 2019) is well below the EU average (19.7%). Further reducing the carbon intensity of the Maltese economy would lead to progress on SDG 7 (Affordable and clean energy) and SDG 13 (Climate action).

Fairness

Malta performs relatively well on indicators assessing the fairness of society and the economy. It performs relatively well in particular on SDG 1 (No poverty). The rate of people at risk of poverty or social exclusion (20.1% in 2019) is slightly below the EU average (20.9%). Malta also performs well on SDG 3 (Good health and well-being). It still has a way to go in improving its standing on SDG 4 (Quality education), on high shares of early school leavers and low tertiary education attainment. The gender employment gap related to SDG 5 (Gender equality) is particularly high in Malta.

Digital transition and productivity

Malta has a higher percentage of employment in high and medium technology manufacturing and knowledge-intensive sectors than the EU average. However, with 0.61% of GDP allocated to R&D in 2019, it has substantially lower R&D spending than the EU average. By stepping up policy efforts, Malta could make further progress on the SDGs related to the digital transition and productivity.

Macroeconomic stability

In recent years, Malta has showed good progress overall on SDG 8 (Decent work and economic growth), with fast economic growth and rapid growth in employment. There is still room for improvement in progressing towards the objectives of SDG 16 (Peace, justice, and strong institutions), in particular in contributing to a strong business environment.

3. OBJECTIVES, STRUCTURE AND GOVERNANCE OF THE PLAN

3.1. Overall strategy of the plan

The Maltese recovery and resilience plan aims to address Malta's long-term challenges and help the country overcome the socio-economic impact of the pandemic while seizing opportunities for the green and digital transition. The plan presents six components that broadly address the challenges identified as part of the European Semester and contributes to five of the seven EU flagship initiatives. The plan's total allocation is EUR 316,403,496. This corresponds to the financial allocation after deduction of Malta's proportional share of the expenses under Article 6(2) of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation. The estimated total costs of the plan, at EUR 344,900,000, is higher than the plan's total allocation. The plan contributes significantly to the green and digital transition, with 53.8% and 25.5% of the plan's total allocation respectively (see table in the Annex).

Component 1: Addressing climate neutrality through enhanced energy efficiency, clean energy and a circular economy

This component helps address challenges related to the sharp increase in energy consumption and waste generation resulting from rapid growth in the population, employment and GDP in recent years. Specific characteristics of Malta, including its small size, high population density, limited land space, lack of economies of scale, its dependence on single distributors and suppliers as well as the scarcity of natural resources, all exacerbate these challenges. Investments in the renovation of private and public buildings are complemented by reforms to support the long-term renovation strategy and to improve circularity. These investments involve renovating a number of private sector and public buildings, public schools and hospitals to make them more energy efficient and reduce carbon emissions. The component also aims to build a near carbon-neutral school that will include the use of renewable energy systems as well as renewable energy investments in roads and public spaces. The reform to develop a long-term building renovation strategy complements these investments by creating a framework that promotes the renovation of Malta's building stock by 2050. It also envisages designing an enhanced waste policy, including the appropriate management of construction and demolition waste to improve circularity.

This component has two reforms and five investments with a total cost of EUR 77.9 million. It contributes to the EU flagship initiative 'Renovate' by promoting energy efficiency in private sector and public buildings, including public hospitals and public schools, while devising a strategy to promote the benefits of green buildings among the general public. It also contributes to the EU flagship initiative 'Power-up' by investing in renewable energy in buildings, roads and public spaces.

Component 2: Addressing carbon neutrality by decarbonising transport

This component of the Maltese recovery and resilience plan helps address the challenge of traffic congestion, GHG and pollutant emissions, and the need to make the transport sector more sustainable. The objective is to shift traffic from road to more sustainable modes and decarbonise road transport through electrification, in line with Malta's national energy and climate plan for 2030, the 2050 Low Carbon Development Strategy, the National Reform Programme (2020) and National Transport Strategy. Such reforms improve transport planning, increase the use of public transport and implement measures in the Sustainable Urban Mobility Plan for the Valletta region. They also designate regeneration areas, promote remote working in the public sector and increase the efficiency of the public sector vehicle fleet. Investments include the construction of a ferry landing site, a scrappage scheme supporting the purchase of zero-emission electric vehicles in the private sector, renewal of the public sector vehicle fleet with zero-emission electric vehicles and the purchase of zero-emission electric buses for public transport.

This component has six reforms and four investments with a total cost of EUR 110.4 million. It contributes to the EU flagship initiative 'Recharge and Refuel' by promoting the use of cleaner vehicles as well as creating incentives to encourage a modal shift.

Component 3: Fostering a digital, smart and resilient economy

This component helps address the challenges related to further digitalisation in the public and private sectors. It helps improve the resilience, capacity and security of the government's digital backbone, access to digital technology, the range and quality of e-government services, uptake of those services by individuals and businesses, and digitalisation of the private sector. It also helps address the challenge of improving Malta's performance in R&I, where Malta is ranked as a 'moderate innovator' according to the European Innovation Scoreboard 2021[23]. The objective is to fast-track the digital transition by strengthening the national policy framework, investing in the further digitalisation of public administration and public services (to increase their range, quality and uptake), as well as supporting the digitalisation of businesses, in particular SMEs. The component also aims to improve Malta's R&I performance by promoting business R&I and improving public-private cooperation.

This component has two reforms and four investments with a total cost of EUR 55.3 million. It targets the EU flagship initiative 'Modernise' by promoting up-to-date and secure digital services.

Component 4: Strengthening the resilience of the health system

This component helps address the challenges experienced by Malta's healthcare sector, which faces greater demands due to an ageing population. The objective is to strengthen the resilience of the health sector by improving digitalisation of the health system. This will focus on further facilitating the uptake of telemedicine, improved diagnostic and curative capacities in cancer care, improving staff management and reducing Malta's dependency on other countries for blood, tissue and cell therapies needed in medical interventions and treatments. The component contains a reform aimed at improving staff management and addressing obstacles to hiring and retaining foreign healthcare workers, also by improving their well-being. The reform also includes prevention measures related to child health. The second reform addresses regulatory barriers that may hamper the full exploitation of the investment in the Blood, Tissue and Cell Centre. In addition, the component includes an investment in establishing a Blood, Tissue and Cell Centre within close proximity of the main hospital in Malta. The second investment consists of three projects to improve the resilience of the health system through digitalisation and new technologies.

This component has two reforms and two investments with a total cost of EUR 49.9 million. Its second investment addresses the EU flagship initiative 'Modernise' by digitalising the health system.

Component 5: Enhancing quality education and fostering socio-economic sustainability

This component addresses the challenges of high shares of early school leavers and low-skilled adults, widespread skills shortages and the need to improve the quality and inclusiveness of the education and training system. It further assesses the current pension and unemployment benefits system to continue pursuing policy reforms that ensure they are adequate and sustainable. Its objective is to make Malta's workforce and society more resilient, also in light of the green and digital transition.

[23] European Commission, 'European Innovation Scoreboard 2021', 21 June 2021.

This component has six reforms and one investment with a total cost of EUR 41.4 million. It takes the EU flagship initiative 'Reskill and upskill' into account by strengthening the quality and inclusiveness of Malta's education and training system in general and improving initial and continuous vocational education and training in particular. This should help equip Maltese society with the skills needed in the current and future labour market.

Component 6: Strengthening the institutional framework

This component addresses a number of institutional and governance challenges in the area of justice, the fight against corruption and money laundering, and taxation. On the justice system, these challenges relate to the independence of the judiciary, the lack of a separate prosecution service from the investigative branch, as well as inefficiencies that could be partly addressed through further digitalisation. Challenges in the governance framework relate to effective detection and prosecution of corruption and money laundering cases. On taxation, some features of the tax system may have made aggressive tax planning practices easier for both companies and individuals. Reforms to improve the justice system include changes to how the judiciary are appointed and dismissed. An independent review will also be undertaken to assess the independence of the specialised tribunals and implement necessary remedial action to ensure their independence. The institutional framework capacity to fight corruption is expected to be strengthened by implementing the capacity building elements of the national anti-fraud and corruption strategy, reforming the asset recovery bureau and through reforms targeting a key anti-corruption body, namely the Permanent Commission Against Corruption. To strengthen criminal investigations, including corruption and money laundering, reforms include a new appointment procedure for the Commissioner of Police. On the prosecution front, the component proposes the creation of a separate prosecution service, while also implementing a judicial review of decisions not to prosecute by the Attorney-General. Measures to strengthen the system to counter money laundering and the financing of terrorism are also put forward. In addition, four reforms target aggressive tax planning by (i) limiting the tax exemption for dividends coming from countries placed on the 'Code of Conduct Group' list of non-cooperative jurisdictions; (ii) introducing transfer pricing legislation; (iii) carrying out a study followed up by legal amendments on measures relating to inbound and outbound dividends, interest and royalty payments; and (iv) spontaneously exchanging information on applicants receiving Maltese citizenship under the citizenship scheme with their original tax jurisdictions. This component also includes one investment that aims to improve the quality and efficiency of the judiciary system through digitalisation.

This component has 12 reforms and one investment with a total cost of EUR 10 million. Several elements of this component are retroactive, having already, been implemented in part in 2020 and early 2021. It also addresses the EU flagship initiative 'Modernise' through efforts to digitalise the justice system.

Table 3: Components and associated costs

Component	Costs (EUR million)

C1: Addressing climate neutrality through enhanced energy efficiency, clean energy and a circular economy	77.9
C2: Addressing carbon neutrality by decarbonising transport	110.4
C3: Fostering a digital, smart and resilient economy	55.3
C4: Strengthening the resilience of the health system	49.9
C5: Enhancing quality education and fostering socio-economic sustainability	41.4
C6: Strengthening the institutional framework	10
Total	**344.9**

3.2. Implementation aspects of the plan

Consistency with other programmes

The plan is consistent with the other main EU and national programmes. Malta's Sustainable Development Vision for 2050 sets out the overarching framework of its long-term development. It is based on three thematic priorities:

- enhancing economic growth;
- safeguarding our environment; and
- social cohesion and well-being.

Malta intends to use this strategy as a framework for the instruments supporting development over the next decades. Financial support from the RRF, the Partnership Agreement for 2021-2027 (and subsequent operational programmes) and other EU funds (both under shared and direct management), as well as national funding, is expected to complement each other to ensure integrated planning and coordinated implementation of the long-term development strategy.

The recovery and resilience plan appears to be coherent with cohesion policy funds, which will remain the main EU financing instrument for economic development. EU structural and investment funds are expected to remain the main EU instrument for financing socio-economic development in Malta. The country will gain access to EUR 1.923 billion from the EU's core 2021-2027 multi-annual financial framework budget as well as EUR 329 million in non-repayable support from the NextGenerationEU instrument, totalling EUR 2.25 billion over the next 7 years.

The recovery and resilience plan is expected to be a key instrument for the climate transition. It includes measures that directly or indirectly contribute to the national objectives of Malta's 2030 national energy and climate plan and Sustainable Development Vision for 2050, which are used as key input in the strategic framework for the whole plan. Consistent investments are included under Component 1. These aim to promote the decarbonisation of buildings and the use of renewable energy solutions, while introducing reforms to develop a long-term building renovation strategy and improving waste management. Under Component 2, reform measures to improve transport planning, increase the use of public transport and implement actions of the sustainable urban mobility plan for the Valletta region are complemented by investments. These include the construction of a ferry landing site, a scrappage scheme to get more people to buy zero-emission electric vehicles, renewal of the public sector vehicle fleet with zero-emission electric vehicles, and the purchase of zero-emission electric buses for public transport.

Malta intends to ensure complementarity between the recovery and resilience plan and its National Youth Policy Plan. Various measures are included under Component 5 (Education and socio-economic sustainability) to prevent early school leaving and to increase guidance and opportunities for upskilling and reskilling of all adults, in particular low-skilled adults. Additional measures are envisaged to boost inclusiveness and the quality of education for pupils with special needs and to improve the education policy monitoring system. Furthermore, the proposed investment to set up a centre for vocational education excellence (by building a new campus for the Institute for Tourism Studies) will include a new faculty, practice facilities, an incubation centre to support entrepreneurship, an R&D centre to encourage innovative ideas and early childhood education and care facilities to enable people with unpaid care responsibilities, especially women, to attend courses.

The recovery and resilience plan is expected to support the digital transition. The plan includes measures that directly or indirectly contribute to the national objectives of Malta's draft digital strategy. Although not funded under the recovery and resilience plan, Component 3 includes a number of reforms to reduce the digital divide, promote digital skills, improve digital public services and boost innovation. Investments are targeted at strengthening the government's digital backbone and digital solutions, digitalising the Merchant Shipping Directorate and improving the delivery of digital public services for individuals and businesses. The component also supports the uptake of digital technologies by businesses, including SMEs, through a dedicated grant scheme. These efforts are complemented by other investments included under Component 6 to strengthen the digitalisation of the justice system in line with the Digital Justice Strategy and under Component 4 to digitalise certain operational processes and workflows in the healthcare sector.

Consistency with the challenges and priorities identified in the most recent euro area recommendation

The recovery and resilience plan is broadly consistent with the challenges and priorities identified in the most recent Council Recommendation on economic policy in the euro area (EAR). The plan ensures a supportive policy stance to recovery by promoting key investments, strengthening growth potential and creating jobs. It directly addresses EAR 1 as it implements measures that help make the health system more resilient. The plan includes reforms and investments that aim to reduce dependency on other countries for blood, tissue and cell therapies and that make it easier to hire and retain health professionals (Component 4). In the area of social policy, the plan includes reforms and investments to assess and review unemployment benefits and the pension system to ensure they are adequate and sustainable (Component 5).

The plan also contributes to EAR 2 by further improving convergence, resilience, and sustainable and inclusive growth. Components 1, 2 and 3 include investments and reforms to sustain the climate transition, circular economy and the digital transformation of the country. Component 5 aims to strengthen early school leaving prevention and intervention, expand guidance and opportunities for upskilling and reskilling of all adults, especially low-skilled adults, and improve access to mainstream education for pupils with special needs. It also includes measures to strengthen labour market policies and build a vocational training centre that will incorporate an incubation centre, an R&D centre to encourage innovative ideas and early childhood and care facilities to facilitate training. Component 6 includes reforms to curb aggressive tax planning.

The plan addresses EAR 3 on strengthening national institutional frameworks. Component 6 includes measures to improve the governance of the justice system, including by changing the appointment and dismissal procedures of the judiciary and ensuring the independence of specialised tribunals. The institutional framework to tackle corruption will be strengthened by establishing an independent prosecutor, implementing the administrative capacity building measures envisaged in the national anti-fraud and corruption strategy and additional reforms to strengthen the national anti-corruption body. On anti-money laundering, Component 6 commits Malta to complete implementation of the action plan on national anti-money laundering/combating terrorist financing/targeted financial sanctions and to implement any action required by the Financial Action Task Force, the inter-governmental body setting out international standards on anti-money laundering and combatting terrorist financing. Components 3, 4 and 6 include investments to fast-track digitalisation of the public administration, health and justice systems.

Administrative organisation

The plan establishes a coherent and consistent administrative framework for its implementation. The Ministry responsible for the management of EU funds, which is the Office of the Prime Minister, acts as a coordinating authority for the recovery and resilience plan, the Partnership Agreement and other EU funds for 2021-2027. This is expected to ensure a coherent and consistent approach to programming and implementation. The aim is to maximise EU fund absorption, complementarity between various funding streams and enable a smooth transition between different programming periods.

The coordinating authority is empowered to fulfil the relevant tasks related to management and control and to ensure that the EU's financial interests are protected. This includes (i) verifying that the milestones and targets are fulfilled in accordance with strategic and operational objectives; (ii) implementing an internal management and control system to prevent and detect irregularities and take appropriate corrective actions; (iii) putting in place effective and proportionate anti-fraud measures according to the risks identified; (iv) ensuring the efficient and timely collection of monitoring data; (v) establishing a computerised system to record operational data; (vi) ensuring that the beneficiaries maintain a separate accounting system or an appropriate transaction code; (vii) and carrying out ex post assessments to evaluate the results of the recovery and resilience plan.

The plan sets out a clear administrative structure for its implementation. This includes several key governance layers:

- An RRP Task Force, including representative departments from the Ministry responsible for the management of EU funds and the Ministry for Finance and Employment, tasked with providing coordinated leadership and focused monitoring.
- The Planning and Priorities Coordination Division within the Ministry responsible for the management of EU funds, entrusted to fulfil all the relevant tasks related to the management and control of the plan’s implementation.
- The recovery and resilience plan beneficiaries responsible for implementing the interventions required by the plan’s components, including the achievement of milestones and targets.
- The Line Ministry responsible for ensuring inter-agency coordination for more complex plan-related measures, overseeing and providing support to beneficiaries.
- The Audit Authority, the designated audit authority for the recovery and resilience plan.

The recovery and resilience plan benefits from the experience acquired with cohesion policy funds within a common coordination and governance framework. This should allow for a consistent approach to planning, programming, management, implementation, and control and audit. Within the Ministry responsible for the management of EU funds, the Planning and Priorities Coordination Division has been designated to provide leadership, coordination and oversight while extending the EU cohesion policy funds governance framework to the recovery and resilience plan. In addition, an institutional framework that mainstreams sustainable development across the government layers, coordinated by the Ministry for the Environment, Sustainable Development and Climate Change, supports the implementation of Malta’s Sustainable Development Vision. Technical support can be requested under the Technical Support Instrument to assist Member States in the implementation of the plan. This instrument provides expertise in building capacities to implement the plans in a number of areas such as health, justice, reform of the tax courts, green and digital transitions, public administration reforms, as well as for the overall implementation of the plan. Sectorial support to policy reforms could also be provided by the Horizon Policy Support Facility, which gives Member States and countries associated to Horizon Europe practical support to design, implement and evaluate reforms that enhance the quality of their research and innovation investments, policies and systems.

Gender equality and equal opportunities for all

The plan contains a series of measures that are expected to help address the challenges in the area of gender equality and equal opportunities for all. Particularly relevant measures include those that aim to (i) improve the provision of childcare services as part of the new Centre for Vocational Education Excellence (ITS Campus), encouraging people with unpaid care responsibilities, especially women, to attend courses; (ii) promote remote working solutions for the public administration, enabling a better work-life balance; and (iii) implement measures included in the forthcoming Employment Strategy on older workers (aged 55-64), low-skilled adults and the gender employment gap. The construction of the near-carbon-neutral school will also feature early childhood education and care infrastructure for around 120 pupils contributing to equal opportunities for all children.

The plan also includes measures to improve the integration and well-being of foreign workers in the health sector as well as an e-Learning Centre focusing on the requirements of the Human Rights Directorate, providing among other things language training, cultural orientation and one-stop shop integration facilities to thousands of foreign workers. Granting access to free public transport to around 100,000 people, in addition to the current groups already enjoying free public transport, will particularly benefit those dependent on and frequently using public transport. It is noteworthy that Malta includes the adoption and implementation of measures from its updated National Inclusion Policy together with a dedicated reform measure to improve quality inclusive education for pupils with special needs. It also includes measures from its first Gender Equality and Mainstreaming Strategy Action Plan, including tackling gender stereotypes and collecting disaggregated data to further support evidence-based policymaking. In addition, Malta highlights that all reforms and investments will be implemented in line with its National Disability Strategy.

Reforms and investments to reduce early school leaving and to expand upskilling und reskilling opportunities for all adults, in particular for low-skilled adults, are expected to benefit young students and people from vulnerable socio-economic backgrounds, including those with migration backgrounds. The plan further includes a programme to help families with low incomes get connected and have access to computers as well as related knowledge. This will improve digital literacy, reduce the digital divide and improve socio-economic cohesion.

Consultation process

The Maltese authorities consulted over 145 bodies to determine the main policy objectives for EU funding, including the RRF. Five committees were established in 2020 to focus on the main policy objectives under the Common Provisions Regulation and the wider investment needs of the country. Meetings were held to address various topics, including economic growth, the digital and green transition, environment, transport, social cohesion, education and health as well as Gozo’s territorial needs. Stakeholders included government bodies, urban and other public authorities, civil society, environmental bodies, and bodies representing social inclusion, fundamental rights, rights of people with disabilities, gender equality and non-discrimination of young people, among others. The outcomes of such consultations provided insights into stakeholders’ positions on the needs and investment priorities necessary for Malta’s socio-economic development. They also served as an important contribution towards identifying reforms and investments for Malta’s recovery and resilience plan.

In 2021, several bilateral meetings were also held with different stakeholders, including possible beneficiaries, with the focus on the recovery and resilience plan in particular. The broad outlines of the plan were also discussed with the Malta Council for Economic and Social Development, which represents the main employer bodies, trade unions and civil society as well as the government. Consultations on implementation of the plan in Malta will be carried out broadly in line with the consultation framework adopted for the European Semester. These will be steered by the Ministry responsible for the management of EU funds, in close collaboration with the Ministry for Finance and Employment.

Security self-assessment

Under Article 18(4)(g) of the RRF Regulation, Malta's plan includes a security self-assessment for the relevant investments in digital capacities under Components 3, 4 and 6 (in relation to strengthening the government's digital backbone, digitalisation of the Merchant Shipping Directorate, digitalisation of public administration, including the provision of digital tools for remote working solutions, digitalisation of the healthcare system and justice system). The plan explains that, as part of the procurement process, the technical designs will be scrutinised by the Malta Information Technology Agency, in particular to ensure they are in line with baseline security standards. Suppliers will also be expected to follow the government's information security policies. In addition, the relevant service contracts with the suppliers will include a specific security schedule to cater for risks related to data, supply chain, business continuity, supplier processes and equipment.

Moreover, consideration will be given to ensure that services are provided in line with EU legislation, including the General Data Protection Regulation (EU) 2016/679, with specific contractual clauses. Furthermore, the plan lists specific measures that will be implemented in the design of the relevant solutions to mitigate cyber-security risks. This includes data encryption, network segmentation, intrusion detection systems, audit logs, identity management integration, multi-factor authentication, the use of secure cloud services based in the EU, etc. Strategic measures mentioned in the security self-assessment would need to be closely monitored when implementing the plan.

Cross-border and multi-country projects

There are no major projects with a cross-border or multi-country perspective included in the recovery and resilience plan. The investment in digitalisation of the health sector (related to the installation of Magnetic Resonance Linear Accelerator (MR Linac) equipment) offers opportunities to participate in international networks.

Communication strategy

The recovery and resilience plan broadly outlines Malta's communication plans. The outline of the communication strategy aims to provide a coordinated, recognisable and simple message that highlights the impact of the plan on the economy and socio-economic well-being of Maltese citizens. The objectives of the strategy include:

- raising awareness about the recovery and resilience plan and its scope;
- communicating and promoting the adoption of the plan, and any amendments to it, where relevant;
- promoting implementation of the plan;
- publishing the list of projects funded under the plan;

- helping project beneficiaries understand publicity requirements and their fulfilment;
- publishing visual identity guidelines and publicity material to be used by all supported projects to ensure appropriate and consistent recognition of the assistance received; and
- promoting the role of the plan and the EU's contribution in meeting national objectives.

Publicity actions will be differentiated according to the target audiences. They will range from the general public to more targeted multipliers of the communicated message and beneficiaries, implementing stakeholders, as well as the users of the infrastructure and training of the actions being supported.

The recovery and resilience plan is expected to be promoted among the public through various communication channels. These include audio-visual, social and web media, as well as print media, promotional material, signage, and participation in local events. Malta stated its intention to create a website to provide visibility on the initiatives funded under this plan.

Appropriate communication measures are set to accompany all proposed reforms and investments in the plan. The focus is expected to be on health-related interventions, education and decarbonisation efforts in buildings and transport. For the implementation of communication and information activities, an indicative budget of EUR 250,000 is expected to be allocated to such interventions. A point of contact for coordinating communication activities related to the plan should be designated. Coordination between EU and national authorities should be pursued to maximise the impact and effectiveness of communication, and to ensure awareness of the RRP's contribution to the Maltese and European recovery and to the twin transition.

Malta aims to accompany implementation of the communication strategy by monitoring and evaluation activities. To this end, an output indicator aims to quantify the number of publicity activities carried out by 2026. Furthermore, as part of its evaluation activities, the Planning and Priorities Coordination Division in the Office of the Prime Minister plans to carry out an annual survey that provides an objective assessment of the public's knowledge, awareness and perception of EU-funded interventions in Malta. The annual survey is set to be adapted in order to take into account measures and interventions under the plan.

State aid

State aid and competition rules fully apply to the measures funded by the RRF. EU funds channelled through the authorities of Member States, like the RRF, become State resources and can constitute State aid if all the other criteria of Article 107(1) Treaty on the Functioning of the European Union (TFEU) are met. When this is the case and State aid is present, Member States must notify these measures to the Commission and acquire approval before they can grant the aid, unless those measures are covered by an existing aid scheme or comply with the applicable conditions of a block exemption regulation, in particular the General Block Exemption

Regulation. This declares certain categories of aid compatible with the single market in application of Articles 107 and 108 TFEU[24].

When State aid is present and it requires notification, it is the duty of the Member State to notify State aid measures to the Commission before granting them, in compliance with Article 108(3) TFEU. In this respect, the State aid analysis carried out by Malta in the recovery and resilience plan cannot be deemed a State aid notification. In as far as Malta considers that a specific measure contained in the plan entails *de minimis* aid or aid exempted from the notification requirement, it is the responsibility of Malta to ensure full compliance with the applicable rules.

4. SUMMARY OF THE ASSESSMENT OF THE PLAN

4.1. Comprehensive and adequately balanced response to the economic and social situation

The recovery and resilience plan presents a comprehensive and adequately balanced response to the economic and social situation, thereby contributing to all six pillars referred to in Article 3 of the RRF Regulation. The plan follows a holistic approach to achieve recovery and enhance socio-economic resilience. Overall, it focuses on the green-digital twin transition and on addressing Malta's main challenges, such as the effectiveness of public administration and of the justice system, the country's social and educational needs, the resilience of the health system, and improving competitiveness in key sectors.

Table 4: Coverage of the six pillars of the RRF by the plan's components

	Green transition	Digital transformation	Smart, sustainable & inclusive growth	Social and territorial cohesion	Health, and economic, social and institutional resilience	Policies for the next generation
Component 1	●		○			●
Component 2	●		○			●
Component 3		●	●		●	○
Component 4		○	●	○	●	○
Component 5			●	●	○	●
Component 6		●	○		●	

[24] Commission Regulation 651/2014, OJ L 187, 26.6.2014, p. 1.

Key: "●": investments and reforms of the component significantly contribute to the pillar; "○": the component partially contributes to the pillar.

Green transition

The recovery and resilience plan is expected to contribute substantially to the green transition. The green transition will be supported by various reform and investment measures to decarbonise transport, achieve sustainable mobility, improve the energy efficiency of buildings and promote renewable energy. The proposed investments in the renovation of buildings (Component 1) are expected to lead to a reduction of GHG emissions by limiting the use of electricity sourced from the national grid. This impact will be further sustained and strengthened by the proposed investments in the promotion of use of renewable energy technologies. These are complemented by reforms in the waste sector to improve the circular economy and reduce the environmental impact of waste. Component 2 promotes a modal shift from road transport to more sustainable transport modes and aims to decarbonise road transport through electrification in line with the current trends in order to make road transport smarter and more sustainable[25]. Investments that contribute to these objectives include building a new ferry landing site at Buġibba, St Paul's Bay, supporting the uptake of electric vehicles in the private sector and replacing part of the public transport fleet. In addition, reforms are proposed to improve transport planning, expand public transport, promote teleworking in the public sector and increase the efficiency of the public sector vehicle fleet.

Digital transformation

The proposed reforms and investments are expected to sustain the digital transition while improving productivity, increasing potential output and making the public sector more effective and transparent. The plan proposes an integrated approach to support and fast-track digital transition by strengthening the national policy framework, investing in the further digitalisation of public administration and public services, as well as strengthening initiatives related to digitalisation of the private sector. Key investments are included under Component 3, such as improving the government's digital backbone, digitalising the Merchant Shipping Directorate, digitalising public administration and its services further, and rolling out support measures to digitalise the private sector. In addition, reform measures that build on national strategies under development aim to bridge and reduce the digital divide, strengthen and promote digital skills and improve digital public services. They also aim to implement Malta's Smart Specialisation Strategy, which promotes business R&I and strengthens public-private cooperation. Investments under Component 4 should speed up the digital transition of Malta's healthcare system, improve the quality of patient care and patient experience, and reduce waiting times. The investment in digitalisation under Component 6 should improve how the justice system functions by implementing a number of secure digital solutions and tools to support users

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[25] https://publications.jrc.ec.europa.eu/repository/handle/JRC116644.

through collaboration and integration, thereby increasing accessibility to the justice system and its efficiency.

Smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning single market with strong SMEs

Investments and reforms in education and training are expected to contribute to smart and inclusive growth. The reforms in education and training and to active labour market policies proposed under the different components will help improve the training offer and align it better with labour market needs. In particular, Component 5 includes reforming the employment strategy, promoting upskilling by developing a career and lifelong guidance system for adult learners, and investments in skills for the tourism and hospitality sector, which is a key economic sector in Malta. This investment focuses on the training and upskilling of human capital to answer the future needs of higher quality, more sustainable and greener tourism. Ambitious investments and reforms for the renovation of buildings envisaged under Component 1 have the potential to boost job creation and support the development of green skills for the renovation and construction sector. Investments in innovative health services under Component 4 could have a spillover effect on growth and job creation in other fields. Support for the digitalisation of the private sector under Component 3 is also likely to create job opportunities in ICT. Reform efforts under Component 3 are expected to promote R&I in the business sector and strengthen private-public cooperation.

Social and territorial cohesion

Social cohesion will be strengthened through measures to improve access to education and training, and the adequacy of social protection and pension systems. Measures envisaged under Component 5 have the potential to increase participation in education and training, including for vulnerable groups such as young people at risk of early school leaving, low-skilled people and those with disabilities, reducing their risk of falling into inactivity and poverty traps. The development of digital training offers through the e-college platform in particular will allow better access to training for all and reduce possible geographical barriers. The provision of new medical services proposed under Component 4 aims to improve access to healthcare across the island. Component 5 also includes measures with the potential to further contribute to social cohesion, such as the review of the effectiveness of the unemployment benefits system in terms of adequacy, activation and adaptation to the economic cycle and a review of the adequacy and sustainability of the pension system.

The plan takes into account the limited territorial challenges. Given Malta's size, regional differences are related to the geographic split between the main island and Gozo. All measures in the plan benefit Gozo as well as the main island. The investments proposed under Component 5 are particularly important in this respect as they aim to improve the quality of the tourism industry, a key sector for the economic development of both islands.

Health, and economic, social and institutional resilience, with the aim of, among other things, increasing crisis preparedness and crisis reaction capacity

The resilience of the health sector is expected to be strengthened by a better planning of the health workforce and addressing the difficult situation of foreign workers in the sector. The first reform under Component 4 should improve workforce management and address obstacles to hiring and retaining foreign healthcare workers, also by improving their well-being. The reform contains measures to help retain health workers and address the persistent issues of staff shortages through better workforce planning and improving the integration and well-being of foreign workers. It contains measures to assess the regulatory environment affecting the hiring and retention of foreign health workers and provide recommendations for improvement, and later on to assess the progress in implementing these recommendations, including a quantitative evaluation of the reform's impact on workers' well-being.

The first investment in the component aims to establish a blood, tissue and cell centre, including the design and construction of the building and the procurement of medical equipment and healthcare furniture. It is accompanied by a reform to address the possible regulatory barriers to the centre's functioning. The capacity of the RRF will allow Malta to supply all blood needs and perform interventions related to bone tissue and stem cells based on clinical indications. This investment should provide the health system with valuable capacity to improve the health outcomes of the population. The second investment under Component 4 consists of three measures: (i) investments in the digital transformation of outpatient and operation management processes to fully enable effective resource utilisation; (ii) investments to transform the tissue analysis workflow and reporting into a unified digital platform; (iii) investments to improve radiotherapy delivery, allowing for a significant reduction in treatment volumes and times as well as side effects for patients. The implementation of these measures will help make the health system more resilient through digitalisation and new technologies. Furthermore, the measures in this component are complemented by the parallel initiatives financed under other EU programmes to support capacity building for health professionals and further investment in primary care centres.

The institutional resilience of Malta will be addressed through reforms and investments to promote the digitalisation of its public services under Component 3 and improve its institutional framework under Component 6. The investment in Component 3 should help further strengthen the digitalisation of public administration and improve the delivery of and access to digital public services, including in the maritime sector. Investments in the further digitalisation of the justice system under Component 6 should create better conditions for information exchange, which is instrumental in tackling the challenges in the area of justice, the fight against corruption and money laundering, and taxation. The reforms proposed under Component 6 should strengthen different elements within the justice system, in particular the independence of the judiciary, the lack of a separate prosecution service from the investigative branch, as well as operational inefficiencies. Furthermore, Component 6 contains reforms to improve the capacity to effectively detect and prosecute corruption and to fight money laundering.

Component 5 aims to improve the quality of education and training systems and increase participation, which is expected to strengthen economic and social resilience. A better skilled population should also help address high skills mismatches and labour shortages in the country. It will ensure access to better quality jobs and encourage more vulnerable groups to participate in the labour market.

Policies for the next generation, children and youth, such as education and skills

Future generations are expected to benefit from reforms and investments that improve energy efficiency and promote sustainable transport (Components 1 and 2), both in terms of well-being and health outcomes. In addition, the provision of suitable training for green skills that should complement the skills strategy proposed under Component 1 will offer young people high-quality, innovative job opportunities. Investments in the renovation of public schools will have a positive impact on the well-being of the children concerned. Investing in the health system (Component 4) is also expected to benefit future generations.

The plan also includes reforms and investments in the areas of education and training that address young people in particular. A national policy on inclusive education and a Reading Recovery Programme under Component 5 aim to reduce early school leaving and promote the inclusiveness of education and training. Preventing and reducing early school leaving through a student tracking system and improving the monitoring and evaluation of the education system will contribute towards a more effective and inclusive education system. The reforms envisaged aim to equip all children with the education and skills needed to thrive in a changing labour market, taking into account their specific needs. An investment to set up a Centre for Vocational Education Excellence in the field of tourism (ITS Campus), including childcare services, an incubator, an R&D centre as well as updated training programmes, should boost the take-up of vocational education and training and help further reduce the high early school leaving rate.

Conclusion on the assessment of criterion 2.1 of Annex V to the RRF Regulation

Taking into consideration all reforms and investments envisaged by Malta, its recovery and resilience plan represents to a large extent a comprehensive and adequately balanced response to the economic and social situation, thereby contributing appropriately to all six pillars referred to in Article 3 of the RRF Regulation, taking the specific challenges and the financial allocation of Malta into account. This would warrant a rating of A under the assessment criterion 2.1 in Annex V to the RRF Regulation.

4.2. Link with country-specific recommendations and the European Semester

The plan is ambitious in effectively addressing a significant subset of the structural challenges identified in the country-specific recommendations (CSRs) of 2019 and 2020. Many of the CSRs addressed to Malta focused on long-standing structural challenges in the area of governance, including aggressive tax planning, money laundering and justice, which have seen only limited progress in the past. Good governance is one of the pillars of the government's long-term economic vision, and the plan makes significant efforts to remedy the challenges in this area. Investing in education also features on the list, with relevant measures proposed to address weaknesses in the education system, also with a view to improving skills. Further reforms aim to address shortcomings in the long-term sustainability of public finances, resilience and provision of the health system, and employment. A major part of the planned investments focuses on the green and digital transition, thereby addressing the CSRs on investments in these areas.

Public finances: long-term sustainability and fiscal policy

Measures included in the plan relate to the long-term sustainability concerns for public finances (CSR 1 2019). Despite starting from a low base, pension spending is projected to be one of the fastest growing in the EU in the long term. Under Component 5, the plan proposes carrying out an assessment of the current pension system to ensure further adequacy, sustainability and social solidarity. The government will publish an Action Plan outlining policy proposals, including legislative changes where relevant, with the objective to improve the long-term sustainability and adequacy of the pensions system. However, there is no explicit commitment to implement such policy proposals as part of the recovery and resilience plan. Investments in the primary care services, which are also expected to ease the pressure caused by rising health costs in the long term, are primarily financed by EU programmes outside the recovery and resilience plan.

Healthcare system: Resilience and provision of health

The resilience of the health system (CSR 1 2020) is being addressed through targeted investments and reforms. The planned establishment of a Blood, Tissue and Cell Centre for Malta, which will be preceded by a review of the national legislation on the matter in line with relevant EU rules, is expected to make Malta self-sufficient in these innovative treatments. This helps make the health system more resilient. Reforms to improve workforce management and make it easier to hire and integrate foreign workers are also expected to strengthen the capability of the health system to maintain high quality and stable services.

The investment and reforms under Component 4 are to be complemented by initiatives financed under other EU programmes, including those that shift mental health treatments away from long-term institutionalisation and promote the socio-economic integration of these patients and integration of paediatric rehabilitation services. Further capacity building for health professionals, including training, mobility and upskilling, will also be supported by other EU funding. Similarly, investments in primary care will be supported outside the recovery and resilience plan. The Southern Primary Care Hub, which is expected to be finished in 2023, should reduce the pressure on the main Mater Dei Hospital. The longer-term vision is to decentralise healthcare towards community-based care. Efforts also continue to expand the provision of e-health infrastructure, which links sectoral systems together for the exchange of health data.

Labour market and social policies

The plan is expected to help address the labour market challenges identified in CSR 2 2020. To mitigate the negative impact of the COVID-19 crisis, Malta has rolled out several measures to safeguard jobs prior to the recovery and resilience plan. The Wage Supplement Scheme, which is similar to a short-time working scheme, has been the most important measure. Nevertheless, the plan does not envisage anchoring the scheme in legislation. However, Component 5 envisages assessing and periodically monitoring the adequacy and coverage of unemployment benefits in Malta to ensure effective access to them.

Furthermore, implementation of the measures in the newly adopted Employment Strategy concerning at least (i) older workers (aged 55-64); (ii) low-skilled adults; and (iii) the gender employment gap is expected to make the labour market more resilient. Component 6 further includes implementation of key measures in the Gender Equality and Mainstreaming Strategy Action Plan to boost gender equality in the Maltese labour market and beyond.

Education and skills: Training outcomes, quality, access, inclusiveness

The plan makes efforts to improve the quality and inclusiveness of education and skills development (CSR 3 2019 and CSR 2 2020). Several measures outside of the plan, such as counselling, extra-curricular activities and anti-bullying measures, also included in the national strategy on early leavers from education and training, aim to address the long-standing issue of early school leaving. Component 5 envisages complementing these efforts with prevention and intervention measures. These include the provision of accredited school-based literacy support programmes (reading recovery programme) for the lowest-performing 6-7-year-olds and the introduction of an early school leaving tracking system – the Data Warehouse Project – with data access for institutions working on policy monitoring and guidance. Component 5 further entails the implementation of key measures from the Basic Skills Strategy to improve the quality of skills acquisition in Malta. Providing online courses and guidance services to adults seeking the best educational trajectory to match their needs via a newly set-up e-college is expected to make it easier for a wide audience to access upskilling and reskilling programmes, including low-skilled adults.

Component 3 (reform 2) promotes enhanced cooperation between the education and training system and employers. It also refers to strategies currently being defined that promote the improvement of digital literacy among the population and the strengthening of the pool of ICT specialists. The launch of a training and certification programme in the buildings and construction industry will increase the capacity to provide training to professionals at various levels, with specific priority given to the acquisition of the skills necessary to support building renovation projects. It will increase the availability of qualified staff by making an existing skill card mandatory and by extending skilling and upskilling measures to new professional categories. The development of skills will also be supported by a targeted investment in a new campus for the Institute for Tourism Studies, one of two vocational education and training institutions in Malta. It offers updated training programmes linked to the digital and green transition in the tourism sector. On inclusiveness of education, the plan includes the roll-out of multi-sensory learning rooms for students with special needs in colleges and the setting up of two autism units in secondary schools. This will allow for further integration of pupils with special needs into the mainstream school environment. The measure will be accompanied by continuous training in inclusive pedagogy for teachers and learning support educators as well as the implementation of key measures from the National Inclusion Policy Strategy.

Digital transition

The recovery and resilience plan is expected to support the digital transition (CSR 3 2020) both through investment and accompanying policy reforms. Component 3 strives to accelerate the digital transformation by improving the government's digital services. This involves strengthening the resilience, security and efficiency of its digital backbone and investing in new digital solutions, devices and tools. This, together with the further improvement of public services and internal services within public administration, is expected to improve the user experience of individuals and businesses.

Investment in the health sector (Component 4) is also expected to contribute to the digital transformation. The digitalisation of outpatient facilities at the Mater Dei Hospital is expected to employ machine learning and artificial intelligence to improve the effectiveness of resource utilisation, time management and interaction with patients. Moreover, the introduction of digital pathology is expected to transform the (currently manual) histology workflow and reporting of cancer cases into an easily accessible advanced digital platform, which will allow for real-time tracking of cancer cases. The plan also envisages investing in the digitalisation of the justice system (Component 6) to improve workflows and the efficiency of the system. Various services in courts will benefit from central integration elements such as robotic process automation, hybrid cloud platform usage, e-ID authentication and single sign-on.

Green transition, in particular clean and efficient production and use of energy

Investments and reforms in resource and energy efficiency (CSR 3 2019), the clean and efficient production and use of energy, and waste management are expected to support the green transition (CSR 3 2020). Component 1 includes investments in the renovation of a number of public buildings, public schools and hospitals, and support the renovation of private buildings. Each renovation is expected to reduce direct and indirect GHG emissions by at least 30%. Investments under Component 1 also cover the promotion of renewable energy generation and use in buildings, roads and public spaces. These investments are complemented by reforms to strengthen the regulatory framework in the building sector and ensure a sufficient and diversified pool of staff with appropriate expertise (by launching a training and certification programme). The reforms and investments under Component 1 are complemented by schemes and financial instruments supported by other EU funds that target residential and commercial renovations. On waste, Component 1 includes (i) the adoption of a construction and demolition waste strategy and the implementation of follow-up measures; (ii) the completion of a study and legislation to extend producer responsibility to additional waste streams; and (iii) reform of the waste collection system by regions, including packaging waste.

The plan includes investments and reforms in sustainable transport (CSR 3 2019 and CSR 3 2020) aimed at reducing traffic congestion (CSR 3 2019). More specifically, the reforms are expected to improve transport planning and encourage the use of public transport, promote a modal shift from road to ferries, encourage remote working in the public sector and increase the efficiency of public sector fleet management. Furthermore, the investments will focus on the construction of a ferry-landing site with electric charging infrastructure for vessels, incentivising the purchase of zero-emission electric vehicles in the private sector and financing the acquisition of electric buses for public transport. These measures are expected to reduce congestion and improve the sustainability of transport.

The plan includes certain measures that are expected to help address the CSRs on R&I (CSR 3 2019 and 2020). Component 3 includes the finalisation and implementation of Malta's Smart Specialisation Strategy, with a focus on promoting business R&I and encouraging public-private cooperation. This measure is expected to address some important issues for encouraging R&I investments, such as simplifying administrative processes, which present a burden especially for SMEs. Nevertheless, the measure remains rather vague and lacks more concrete and impactful actions (for example, with regards to effective public-private cooperation, to promote inter-sectoral mobility of researchers, institutionalise and incentivise academia-business linkages, etc.). In addition, the plan includes an investment in the Blood, Tissue and Cell Centre under Component 4 which is expected to create a platform for highly specialised personnel to develop and implement innovative tissue-related health services. Furthermore, Component 5 proposes an investment to establish a Centre for Vocational Education Excellence, which incorporates an R&D centre. While the above-mentioned measures will not by themselves be sufficient to ensure an R&I-focussed investment climate in Malta due to their relatively limited and targeted scope, they are expected to partially contribute to increasing R&I investments in the country, as called for in the CSRs.

Justice system, prosecution service, corruption

The plan contains important steps to strengthen judicial independence and step up the fight against corruption (CSR 2 2019 and CSR 4 2020). Component 6 envisages reforms within the justice system to strengthen its independence. Legal amendments were introduced in 2020 to change how the Chief Justice and members of the judiciary are appointed, while also altering the composition of the Judicial Appointments Committee responsible for appointing judges and magistrates. This will ensure that the majority of its members are members of the judiciary. A review of the independence of specialised tribunals will be undertaken in communication with the Council of Europe's Venice Commission and remedial action taken based on the outcome of the review.

The plan also aims to improve the quality and efficiency of the justice system by increasing the number of members of the judiciary and targeted investments to digitalise the courts system. The latter investment consists of two parts: (a) the entry into force of legal amendments to make it possible for civil proceedings to be held via live video conferencing and for criminal judicial acts to be filed electronically; and (b) a number of digital solutions for the justice system. This includes the mapping and redesign of processes to achieve end-to-end digital processes, project management, legal and overall consultancy and cost benefit analysis support, as well as an integrated e-filing system across the justice sector, the integration of a digital case journey and the use of emerging technologies to, among others, ensure virtual court sittings.

On prosecution, Malta has separated the dual role previously held by the Attorney-General as both prosecutor and legal advisor to the government; the Attorney-General retains the role of chief prosecutor, while the State Advocate has become the State's legal advisor. The prosecution of all non-summary cases (carrying a sentence of more than 2 years) is being transferred from the police to the Office of the Attorney-General. A review will be undertaken on transferring less serious (summary) cases to the Attorney-General's office for prosecution. Legislative changes will be made in line with these recommendations. In addition, a number of anti-corruption bodies have been given the status of injured party at law, allowing them to seek judicial review of decisions not to prosecute by the Attorney-General in cases referred by them. An assessment will be carried out with the possibility to further broaden the scope for judicial review. The police will remain responsible for investigative work, with greater transparency introduced on how the Police Commissioner is appointed. The institutional framework capacity to fight corruption is expected to be strengthened through the implementation of the National Anti-Fraud and Corruption Strategy, reform of the Asset Recovery Bureau, and through reforms targeting the Permanent Commission Against Corruption. This includes added transparency in the appointment of the Chairperson and members of the Commission, the adoption of a budgetary and human resources plan together with standard operating procedures to ensure appropriate resources and better functioning of the body, and the creation of a digital registry of information on corruption cases held by the Permanent Commission Against Corruption.

Money laundering

The measures presented in the plan offer a strong commitment to minimising money laundering opportunities (CSR 2 2019 and CSR 4 2020). In 2020, the National Coordinating Committee on Combating Money Laundering and Funding of Terrorism prepared the new National Anti-Money Laundering/Combating Terrorist Financing/Targeted Financial Sanctions Strategy and Action Plan for 2021-2023, which replaces the strategy for 2017-2020. Implementation of this action plan (Component 6) is the cornerstone of Malta's recovery and resilience plan in terms of addressing outstanding weaknesses in the area of money laundering. From the seven policy goals contained in the action plan, the focus is on detecting, investigating and prosecuting money laundering. This responds to 2019 and 2020 CSRs, which called for effective enforcement. Increased powers and capacity of the Asset Recovery Bureau are also expected to strengthen law enforcement in the area of money laundering and financial crime. In addition, after the Financial Action Task Force put Malta under increased monitoring in June 2021, the plan also commits to adopting necessary steps to rectify shortcomings found by the task force.

Aggressive tax planning

The plan includes four measures under Component 6 aimed at limiting the room for aggressive tax planning practices (CSR 2 2019 and CSR 4 2020). The plan proposes limiting tax benefits for dividends derived from bodies resident in countries listed on the Code of Conduct Group list of non-cooperative jurisdictions. While the measure goes in the right direction, its geographic scope is limited. The planned introduction of transfer pricing rules is expected to reduce corporate profit shifting possibilities. Effectiveness of such rules will nevertheless depend on their thorough implementation. The planned study to formulate policy recommendations on outbound and inbound payments of dividends, interest and royalties and the subsequent introduction of legislation should help address features of the taxation system that facilitate aggressive tax planning. However, the citizenship and residence schemes continue to pose a risk of double non-taxation for both companies and individuals. Subject to the full implementation of a spontaneous exchange of information relating to individuals that are granted citizenship under the scheme, this measure is expected to partly mitigate the risk of aggressive tax planning by individuals. It will only apply to future applicants and not to existing applicants, which limits its overall effectiveness.

Response to the current economic and social situation and impact on growth potential

The planned reforms and investments are expected to alleviate the current economic and social situation in the short term and contribute to a higher growth potential in the longer term. Efforts to boost skills and reskilling initiatives are likely to ease labour market pressures observed before the crisis. Together with inclusion policies in the education system and measures to further lower the high school leaving rates, they are expected to improve the socio-economic situation of low-skilled and disadvantaged groups. The measures adopted as part of the green transition, including those focusing on energy efficiency savings in buildings and the wider use of renewable energies, accompanied by policies supporting sustainable mobility and circular economy, can make growth more sustainable in the long run. Investment in digitalisation aims at the wider use of digital solutions, thereby boosting productivity and competitiveness. Reforms in the area of the institutional framework should improve Malta's attractiveness as a destination for international investors, although further steps need to be taken to address certain aspects in the area of money laundering identified by the Financial Action Task Force.

Conclusion on the assessment of criterion 2.2 of Annex V to the RRF Regulation

Taking into consideration the reforms and investments envisaged by Malta, its recovery and resilience plan is expected to contribute to effectively addressing all or a significant subset of challenges identified in the country-specific recommendations or challenges in other relevant documents officially adopted by the Commission under the European Semester, and the recovery and resilience plan represents an adequate response to the economic and social situation of Malta. This would warrant a rating of A under assessment criterion 2.2 in Annex V to the RRF Regulation.

Table 5: Mapping of country challenges identified in 2019-20 country-specific recommendations and Malta's recovery and resilience plan components

Country challenges	Associated CSR (2019-2020) and European Semester recommendations	neutrality through enhanced energy efficiency, clean energy and a circular economy	**Component 2-** Addressing carbon neutrality by decarbonising transport	**Component 3-** Fostering a digital, smart and resilient economy	**Component 4- S**trengthening the resilience of the health system	**Component 5-** Enhancing quality education and fostering socio-economic sustainability	**Component 6-** Strengthening the institutional framework
Public finances: long-term sustainability and fiscal policy	2019.1.1, 2020.1.1					○	
Healthcare system: Resilience and provision of health	2020.1.2				●		
Labour market and social policies	2020.2.1					●	
Education and skills: Training outcomes, quality, access, inclusiveness	2019.3.5, 2020.2.2					●	
Digital transition	2020.3.4			●			●
Green transition, in particular clean and efficient production and use of energy	2019.3.3 2020.3.4	●					
Sustainable transport and congestions	2019.3.4, 2020.3.5		●				
Natural resources and waste management	2019.3.2, 2020.3.6	●					
Research and Innovation	2019.3.1, 2020.3.7			○			
Front-load mature public investment projects; promote	2020.3.2, 2020.3.3		●			●	

private investment							
Justice system, prosecution service, corruption	2019.2.2, 2019.2.4, 2020.4.1						●
Money laundering	2019.2.3, 2020.4.2						●
Aggressive tax planning	2019.2.1, 2020.4.3						○

Key: '●': investments and reforms of the component significantly address the challenge; '○': the component partially addresses the challenge.

4.3. Growth potential, job creation, economic, institutional and social resilience, European Pillar of Social Rights, mitigating the impact of the crisis, and social and territorial cohesion and convergence

The plan aims to accelerate Malta's economic recovery and improve its growth prospects through investments and reforms. The plan's main objectives are to improve Malta's economic, social and institutional resilience, which should ultimately reduce the country's vulnerability to shocks. It also aims to contribute to implementing the European Pillar of Social Rights, including by promoting policies for children and youth, and to mitigate the economic and social impact of the COVID-19 crisis. All this will support economic, social and territorial cohesion and convergence within the EU.

Fostering economic growth and jobs

The plan contains investments and reforms to support economic growth and jobs in the short and long term. The investments are expected to provide a short-term demand boost, thereby contributing to the economy's recovery in the short to medium term. A stronger institutional framework, education system reforms and digitalisation efforts are expected to boost growth potential in the long term. Further benefits for growth and jobs are expected from the investments and reforms to boost energy efficiency, decarbonise transport and improve the health system. The plan's measures are also in line with the EU update of the 2020 New Industrial Strategy[26].

[26] See European Commission *Updating the 2020 New Industrial Strategy*, COM(2021) 350 final, 5.5.2021.

Long-standing weaknesses in the institutional framework are being addressed. This is expected to improve the business environment and boost the country's capacity to attract investment. Component 6 includes crucial reforms to strengthen the judiciary's independence, to address in part those features of the tax system that facilitate aggressive tax planning and to strengthen the institutional framework in order to fight against corruption and money laundering. This will increase transparency, raise trust in institutions and promote good governance. The improved business environment will provide a solid foundation for investment and productivity growth.

Greater digitalisation aims to facilitate the digital transition of Malta's economy. Components 3 and 6 aim to improve the effectiveness and efficiency of public administration and the justice system by providing digital solutions for public services, benefitting both individuals and businesses. This is to be achieved by developing public services that combine a whole set of characteristics, such as being: (i) digital, cross-border and interoperable; (ii) user-centric, inclusive and accessible; (iii) open and transparent; (iv) trustworthy and secure; and (v) in line with the once-only principle. The measures are expected to generate some spillover benefits to the private sector, both by leading by example and by improving access to, and efficiency of, services provided by government to businesses. They aim to reduce barriers to doing business, thereby improving productivity and competitiveness across sectors. Component 3 also includes measures to support the digitalisation of companies, which is expected to make businesses more competitive and promote job creation, especially of high-skilled jobs.

Improving skills and bridging the gap between education provision and labour market needs is expected to address bottlenecks to growth. Component 5 aims to encourage students to continue pursuing education beyond compulsory education through better vocational education and training, with one objective being to reduce Malta's early school leaving rate. The development of a revised Employment Strategy aims to address issues raised by the COVID-19 crisis and address structural challenges, including skill mismatches, and adapt to new trends such as increased automation. The strategy will focus on modern and effective active labour market policies that equip workers with the right skills, support their employability and provide the right incentives to work. Overall, the reforms aim to improve skills, providing a bridge towards the education and training of adults to ensure that the skills of the workforce are up to date. This is expected to address skills shortages and boost job creation. Promoting upskilling and reskilling opportunities is particularly important for SMEs, where skills mismatches and shortages create significant bottlenecks, while participation in training remains low. The benefits from these measures are likely to be long-term and long-lasting.

Further benefits for growth and jobs are expected from investments and reforms to boost energy efficiency, decarbonise transport and improve the health system. The renovation of private sector and public buildings and the measures taken for the development of a long-term renovation strategy (Component 1) will increase opportunities for a qualified and specialised workforce and reduce costs from energy consumption. Efforts to decarbonise transport (Component 2) will shorten travel-to-work time, reduce noise pollution and improve air quality, resulting in a positive impact on the quality of life and health of the workforce. Strengthening the resilience of the healthcare system (Component 4) would lead to better health outcomes, thereby raising productivity, and to greater activity of people in the labour market and longer working lives.

The plan's assessment of the impact on growth and jobs is broadly in line with Commission simulations. Compared with a scenario without the RRF, Malta estimates that RRF-financed investments, and the reforms accompanying them, will contribute to a 0.5% increase in GDP after 2 years, a 0.6% increase after 5 years, a 0.5% increase after 10 years, and a 0.2% increase after 20 years. The proposed reforms and investments tend to create short-term employment opportunities, particularly at low and medium skill levels. However, these effects are seen to be temporary. In contrast, the impact on wages is more permanent and is consistent with continuing productivity gains.

All investments in the plan financed through the RRF are expected to be additional to the baseline without the RRF. Over 2020-2026, growth-enhancing government expenditure in the policy areas[27] covered by expenditure financed through RRF grants be almost 50% higher than in the reference period 2017-2019.

Box 2: Stylised NGEU impact simulations with QUEST – Malta

[27] The policy areas are defined according to the classification of the functions of government COFOG (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Government_expenditure_by_function_%E2%80%93_COFOG).

Model simulations conducted by the Commission using the QUEST model show that the economic impact of the NGEU in Malta could lead to an increase in GDP of between 0.7% and 1.1% by 2026[28]. After 20 years, GDP could be 0.2% higher. Spillover benefits account for a large part of such Impacts.

According to these simulations, this would translate into up to 1,200 additional jobs. Cross-border (GDP) spillovers account for 0.6 pps in 2021 and 2022, showing the value added of synchronised expenditure across Member States (line 2). Even in a scenario with a lower productivity of NGEU funds, it would still lead to a significant impact (line 3)[29].

QUEST simulation results (% deviation of real GDP level from non-NGEU case)

Scenario	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040
Baseline	0.9	1.1	1.0	1.0	1.1	1.1	0.8	0.5	0.5	0.4	0.2
of which spillover	0.6	0.6	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.1	0.0
Low productivity	0.5	0.7	0.7	0.7	0.7	0.7	0.4	0.2	0.2	0.1	0.1

This stylised scenario does not include the possible positive impact of structural reforms, which can be substantial. A model-based benchmarking exercise shows that undertaking structural reforms that would result in halving the gap vis-à-vis best performers in terms of indicators of structural reforms could raise Malta's GDP by up to 17% in 20 years, more than the EU average[30].

Given the differences in assumptions and methodology, **the results of this stylised assessment cannot be directly compared with the numbers reported in Chapter 4 of Malta's recovery and resilience plan.**

Strengthening social cohesion

The plan contains reforms and investments to improve the inclusiveness of education and access to training, and update the social security system. The reform initiatives (Component

[28] RRF amounts to roughly 90% of NGEU, which also includes ReactEU, Horizon Europe, InvestEU, Just Transition Fund, Rural Development and RescEU.
[29] Technically, the low productivity scenario considers a significantly reduced output elasticity of public capital.
[30] Varga, J, in 't Veld J. (2014), *The potential growth impact of structural reforms in the EU: a benchmarking exercise,* European Economy Economic Papers no. 541.
http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp541_en.pdf.

5) on literacy, accessibility of education and inclusive policy are expected to contribute to better access to education and to tackling the challenge of early school leaving. This is in line with Principle 1 of the European Pillar of Social Rights with respect to quality and inclusive education, training and lifelong learning. Malta also proposes reforms and investments in the area of skills. There will be a specific focus on offering training to low-skilled adults, including early school leavers, by setting up an e-college and establishing a new Centre for Vocational Excellence for the tourism and hospitality sector. Together, these measures are expected to contribute to providing the Maltese population, in particular the most vulnerable, with better skills and new opportunities, and improve their employability. Better educational and labour market outcomes will help mitigate pre-existing risks of poverty and social exclusion. Component 5 also includes measures aimed at reviewing the effectiveness of the unemployment benefits system in terms of adequacy, coverage, activation and adaptation to the economic cycle, and at improving the adequacy and sustainability of the pensions system, with a potential to further contribute to social cohesion.

Investment and reforms in digital and health technologies are expected to broaden the accessibility of public services. The improvement and increased accessibility of public services thanks to new technologies (Component 3) has the potential to ensure broader access for all, including for those who are more difficult to reach. This measure is expected to mitigate the emergence of new divides in society. The digitalisation of health services and the establishment of a Blood, Tissue and Cell Centre are also expected to improve accessibility, in line with Principle 16 (access to healthcare) of the European Pillar of Social Rights. The component also pays special attention to the integration and well-being of foreign workers.

Reducing vulnerability and increasing resilience

Greater trust and transparency in the institutional framework are important steps for increasing the resilience of Malta's society and economy. The implementation of measures under Component 6 is expected to help raise domestic and external trust in Maltese institutions. The digitalisation of public administration (Component 3) and law courts will further increase transparency and ensure high-quality services to citizens. These measures are expected to improve government effectiveness and efficiency in designing timely and appropriate policy answers to economic shocks. These are major factors underpinning society's and the economy's capacity to adjust and react to external shocks.

Measures in the areas of education, skills and employment are expected to improve how the labour market functions and to limit ongoing damages in the case of economic shocks. Several measures in Component 5 aim to improve skills, strengthen active labour market policies and bridge the gap between education provision and labour market needs. The review and regular monitoring of the effectiveness of unemployment benefits aims at increasing the adequacy of benefits whilst boosting the incentive to work. Overall, the measures are expected to help the labour market adjust more rapidly to needs arising from technological progress and sudden changes in the external environment, thereby reducing the possibility of continuing increases in unemployment, inactivity and social exclusion.

The resilience of the health system is expected to improve. Component 4 will contribute to retaining health workers and addressing continuing staff shortages through better workforce planning and improving the integration and well-being of foreign workers. Investing in the Blood, Tissue and Cell Centre is expected to enable the national health system to provide services for which patients previously had to travel abroad. This reduces Malta’s reliance on other countries for these critical essential services, especially in the event of an economic shock.

Measures to promote better employability, better health and longer working lives should contribute to reducing future pressure on the social security system and on the sustainability of public finances, thereby reducing the economy’s vulnerability to future shocks. Policies and investments under Component 4 should contribute to better health outcomes for the population, increasing participation in the labour market and increasing productivity, while maintaining future social protection expenditure. Under Component 5, the measures that promote reskilling should help raise wages while reducing pressure on the social security system. The regular analysis and monitoring of the pension and unemployment benefits systems is expected to further contribute to the sustainability of public finances.

Cohesion and convergence

The recovery and resilience plan takes into account the limited territorial challenges. Given Malta’s size, regional differences only relate to the geographic split between the main island and Gozo. All measures in the plan benefit both Gozo and the main island. The investment proposed under Component 5 is particularly important in this respect, as it targets improving the quality of the tourism industry, which is a key sector for the economic development of both islands.

Conclusion on the assessment of criterion 2.3 of Annex V to the RRF Regulation

Taking into consideration all reforms and investments envisaged by Malta, its recovery and resilience plan is expected to have a high impact on strengthening the growth potential, job creation, and economic, social and institutional resilience, on contributing to the implementation of the European Pillar of Social Rights, including through the promotion of policies for children and youth, and on mitigating the economic and social impact of the COVID-19 crisis, thereby enhancing the economic, social and territorial cohesion and convergence within the Union. This would warrant a rating of A under the assessment criterion 2.3 of Annex V to the RRF Regulation.

Box 3: Employment and social challenges identified in the Social Scoreboard accompanying the European Pillar of Social Rights

The Social Scoreboard supporting the European Pillar of Social Rights sets out a number of employment and social challenges for Malta. Malta benefited from a dynamic labour market prior to the crisis with low levels of unemployment, including for young people, and one of the highest employment growth rates in the EU. Amidst the adverse conditions of 2020, Malta improved upon an already high employment rate compared with the EU average and managed to limit the rise in unemployment. Malta's population enjoys generally good health and one of the longest life expectancies in the EU. Unmet needs for medical care are low, with little variation between income groups.

Social Scoreboard for MALTA	
Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24) (2020)
	Youth NEET (% of total population aged 15-24) (2020)
	Gender employment gap (2020)
	Income quintile ratio (S80/S20) (2019)
	At risk of poverty or social exclusion (in %) (2019)
Dynamic labour markets and fair working conditions	Employment rate (% population aged 20-64) (2020)
	Unemployment rate (% population aged 15-74) (2020)
	Long term unemployment (% population aged 15-74) (2020)
	GDHI per capita growth (2019)
	Net earnings of a full-time single worker earning AW (2019)
Social protection and inclusion	Impact of social transfers (other than pensions) on poverty reduction (2019)
	Children aged less than 3 years in formal childcare (2019)
	Self-reported unmet need for medical care (2019)
	Individuals' level of digital skills (2019)

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

Update of 29 April 2021. Members States are classified on the Social Scoreboard according to a statistical methodology agreed with the EMCO and SPC Committees. It looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories. For methodological details, please consult the Joint Employment Report 2021; NEET: neither in employment nor in education and training; GDHI: gross disposable household income.

The early school leaving rate remains very high in Malta. Although decreasing, the rate (at 16.7%) remains one of the highest in the EU (9.9%), feeding an already high share of low-skilled adults, with a further limited participation in adult learning. Moreover, the prevalence of underachievement and low education levels significantly increases the risk of poverty and social exclusion and feeds already high labour and skills shortages.

The gender employment gap in Malta (17.7 pps in 2020) remains one of the highest in the EU. In recent years, provision of free childcare and a 'making work pay' strategy have contributed to an important rise in the employment rate of young women. However, female labour market participation still falls after the age of 40, maintaining a high overall gender employment gap despite a major reduction in the last decade (from 31.4 pps in 2012).

After years of decline, poverty started to increase in 2019. In 2019, the 'at risk of poverty or social exclusion' rate (20.1%) was still slightly below the EU average (20.9%) but increasing after years of decline. The impact of social transfers (other than pensions) on poverty reduction, at 26.3%, is substantially lower than the EU average (32.4%) and declined further in 2019.

The recovery and resilience plan submitted by Malta aims to address some employment and social challenges relevant for the implementation of the Pillar. To support equal opportunities and access to the labour market, the plan envisages targeted reforms to: promote skills development; address early school leaving and improve inclusiveness of education through setting up an 'e-college'; strengthening an existing literacy programme; and setting up special classrooms for students with disabilities. A revised employment strategy aims to support the employability and mobility of workers, and promote further participation of older workers and low skilled adults. The plan also aims to boost gender equality through the Gender Equality and Mainstreaming Strategy Action Plan. In the area of social protection and inclusion, Malta plans to review its unemployment benefits system to make it more responsive to the economic cycle and to review the sustainability of the pension system, including through consultations, studies and possible recommendations.

Complementing the recovery and resilience plan's effort on skills and education, Malta pursues its reform of secondary education. Originally supported by the European Social Fund and then through the national budget, the reform *My Journey: Achieving through different paths* introduces vocational and applied subjects in general secondary education alongside the core curriculum. The aim is to better cater to different educational needs, tackle drop-out rates, and focus on improving employability already at an early stage. The reform started to be implemented in the academic year 2019-20.

4.4. The principle of 'do no significant harm' (DNSH)

Malta's recovery and resilience plan assesses compliance with the DNSH principle. The assessment follows the methodology set out in the Commission's technical guidance on the application of 'do no significant harm' under the RRF Regulation (2021/C 58/01). It covers the six environmental objectives set out in Article 17 of Regulation (EU) No 2020/852: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems. The environmental impact is assessed per reform or investment. Hence, the 30 reforms and 17 investments in Malta's recovery and resilience plan translate into 47 'do no significant harm' assessments.

Each 'do no significant harm' assessment follows a two-step approach. The first step assesses whether there is a risk that a measure could do significant harm to one or more of the environmental objectives. In some cases, the assessment concludes that there is no risk of significant harm, in which case the measure is assessed as compliant with this objective of the RRF Regulation. In cases where the analysis identifies a risk, a more detailed assessment is performed in which Malta demonstrates the absence of significant harm, including through mitigating measures.

Where needed, the requirements of the DNSH assessment are addressed in the design of a measure and specified in a milestone or target related to this measure. This ensures that the fulfilment of the respective milestones and targets can only be positively assessed once compliance with the DNSH principle is ensured. For instance, measure *C3-I4 – Rolling out measures to intensify the digitalisation of the private sector* under Component 3 includes a horizontal scheme to promote the digitalisation of companies. To ensure that only activities complying with the DNSH principle receive funding, Malta is required to include in the call for projects a list that excludes certain activities from being eligible. The verification of an investment's DNSH compliance is made binding through a milestone.

A significant share of Malta's plan is allocated to the purchase of vehicles in the private and public sector. Three investments under Component 2 financially support a scrappage scheme, new vehicles for the public sector, and new buses for public transport. In line with example 5 of the DNSH Technical Guidance, it is set down in the design of the measures that only zero-emission vehicles and buses are eligible for support. This mitigating measure avoids significant harm to the objectives addressing climate change mitigation and pollution prevention and control.

Malta's recovery and resilience plan puts a particular focus on energy-efficiency renovations and construction activities. Three investments under Component 1 include energy-efficiency renovations. While these interventions reduce emissions, they normally create significant amounts of construction and demolition waste. Malta ensures no significant harm in particular to the circular economy objective for these investments by detailing in the plan, for each of the measures, that at least 70% (by weight) of the non-hazardous construction and demolition waste generated on the construction sites is to be prepared for reuse, recycling and other material recovery, as required by EU waste legislation.

Another focus area in Malta's recovery and resilience plan is digitalisation (Component 3). Particularly relevant from an environmental perspective is IT equipment, whose operation may cause significant greenhouse gas emissions. Significant harm to the climate change mitigation objective is avoided in Malta's recovery and resilience plan through a commitment to the use of the best available IT infrastructure. To this end, Malta has confirmed that it will comply with the Ecodesign Directive for ICT equipment and that data centres will implement the relevant practices listed as 'expected practices' in the European Code of Conduct on Data Centre Energy Efficiency.

The plan also includes a number of institutional and regulatory reforms (Component 6) and measures related to waste management (Component 1), education and skills (Component 5) and health (Component 4). The DNSH assessment has confirmed that they have no negative environmental impact, ensuring they do no significant harm to any of the six environmental objectives.

Particular attention has been paid to measures whose potential impact on environmental objectives warrants close scrutiny. Component 2 includes the construction of a new ferry landing site. The investment is set to shift transport from road to sea, thereby encouraging multimodality with cleaner transport modes and addressing traffic congestion. However, for now, it cannot be ensured that only zero-emission ferries use the infrastructure. Therefore, in line with the DNSH Technical Guidance, Malta will — as a flanking measure — install electric charging infrastructure for vessels. The feeder pillars for electric vessels are expected to avoid harmful lock-in effects and pave the way for the decarbonisation of ferry transport in Malta. The installation of the charging infrastructure is required by a milestone, ensuring that no significant harm to the climate change mitigation and pollution prevention objectives is to be expected. The project will also assess non-hazardous construction and demolition waste to ensure it is prepared for reuse or recycling where feasible. Moreover, Malta has given a binding commitment to implement any requirements from the environmental impact assessments and other appropriate assessments needed for the measure. Additional safeguards have also been taken for the planned adoption of the Construction and Demolition Waste Strategy and for one of the implementing measures related to the restoration of exhausted quarries. The risk of significant harm is avoided by setting down in milestones that no activity is to lead to a significant increase of waste disposal or to disincentives to preparing for reuse or recycling. In addition, the waste used for backfilling must be: (1) suitable non-hazardous waste substituting non-waste materials; and (2) limited to the amount strictly necessary, in line with Article 3(17a) of Directive 2008/98/EC on waste.

Conclusion on the assessment of criterion 2.4 of Annex V to the RRF Regulation

Taking into consideration the assessment of all the measures envisaged, no measure for the implementation of reforms and investments projects included in Malta's recovery and resilience plan is expected to do a significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) No 2020/852 (the principle of 'do no significant harm'). This would warrant a rating of A under the assessment criterion 2.4 of Annex V to the RRF Regulation.

4.5. Green transition

Climate target

Measures supporting climate change objectives in Malta's recovery and resilience plan account for EUR 170.1 million, which represents 53.8% of the plan's total allocation[31]. Of the six components in the plan, two include expenditure that contributes to the climate objectives.

Malta's recovery and resilience plan correctly follows the methodology for climate tracking set out in Annex VI to the RRF Regulation. For each measure, the plan identifies intervention fields and corresponding coefficients for the calculation of support to the climate objectives. The following should be noted:

- The proposed reform measures for the climate contribution do not have any associated cost in the recovery and resilience plan. In this context, the plan does not identify intervention fields for these measures, and they do not contribute to reaching the climate target.
- Some measures of the recovery and resilience plan consist of several sub-measures. For these measures, the plan indicates an intervention field for each sub-measure and computes the climate contribution at sub-measure level.

[31] Table 8 in the Annex presents the detailed application of the climate tracking methodology for all measures and sub-measures with a climate contribution.

- Where relevant, milestones and targets include specifications that ensure that the requirements of an intervention field are met (for instance, where intervention field 025ter – Construction of new energy-efficient buildings is used, a milestone/target specifies that the buildings need to have a primary energy demand at least 20% lower than the NZEB requirement (nearly zero-energy building, national directives).
- The choice of intervention fields for the climate transition is well justified and reflects the nature, focus, objective or expected outcome of the investments.
- The recovery and resilience plan does not propose to increase the climate coefficients for any measure.

Table 6: Climate contribution and cost per component

Component	Cost (EUR million)	Climate contribution (EUR million)	Climate contribution (percentage of plan's total allocation)
C1 Addressing climate neutrality through enhanced energy efficiency, clean energy and a circular economy	77.9	69.3	21.9%
C2 Addressing carbon neutrality by decarbonising transport	110.4	100.9	31.8%
C3 Fostering a digital, smart and resilient economy	55.3	-	-
C4 Strengthening the resilience of the health system	49.9	-	-
C5 Enhancing quality education and fostering socio-economic sustainability	41.4	-	-
C6 Strengthening the institutional framework	10	-	-
Overall contribution		170.1	53.8%

Note: the plan's total allocation is EUR 316,403,496. This corresponds to the financial allocation after deduction of Malta's proportional share of the expenses of Article 6(2) of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation. The amount of the estimated total costs of the recovery and resilience plan is higher than the plan's total allocation.

Sustainable transport measures provide the largest contribution to climate objectives. Component 2 is expected to contribute to reducing greenhouse gas and air pollutant emissions from transport across all transport modes. This results in a climate contribution of EUR 100.9 million, more than half of the plan's total climate contribution. The construction of a ferry landing site at Buġibba, St Paul's Bay is expected to help shift transport from road to sea, thereby addressing both road congestion and air and noise pollution in the Valletta region. The ferry landing site is to be equipped with electric charging infrastructure to enable the electrification of ferry transport and the use of zero-emission vessels, in line with the ‘recharge and refuel’ flagship initiative. In addition, a financial support scheme is set to promote the purchase of zero-emission electric vehicles in the private sector. Similarly, another investment will support the purchase of zero-emission electric vehicles in the public sector. Furthermore, one investment aims to decarbonise the public transport fleet through the purchase of zero-emission electric buses. Notably, these investments are underpinned by important reforms. For instance, the roll-out of free public transport to additional groups will incentivise the use of collective road transport. Similarly, the implementation of solutions set out in the Sustainable Urban Mobility Plan for the Valletta region, the creation of regeneration areas, and an awareness-raising campaign are all expected to make transport more sustainable. These measures constitute a comprehensive response to support the reduction of harmful emissions from fossil fuels in the transport sector.

Energy-efficiency interventions account for a large part of the climate contribution. These are achieved mainly through renovation of existing public and private buildings and, to a lesser extent, the construction of new energy-efficient buildings under Component 1. Measures or sub-measures tagged with corresponding intervention fields contribute EUR 64.3 million to climate objectives. This corresponds to around one third of the plan’s total climate contribution. In line with the ‘renovate’ flagship initiative, the energy-efficiency interventions target the greening and retrofitting of buildings in both the private and public sector, such as hospitals and public schools. In addition, the construction of a near carbon-neutral school is a pilot project that is expected to serve as a model for the future and provide a future-proof learning environment for students. Malta ensures through a milestone or target that the required level of energy efficiency will be achieved. It has also been ensured that the financing allocated to these measures is sufficient for achieving the required energy savings. However, additional public funding will be needed to deliver on the energy saving objectives of the national energy and climate plan 2030, notably for energy renovations in private households.

Renewable energy investments promote decarbonisation efforts in Malta and contribute EUR 5 million to the climate target. Component 1 includes investments in rooftop photovoltaic systems in buildings, roads, footpaths, and other public spaces, supporting the ‘power up’ flagship initiative. Such photovoltaic systems are intended to be used to feed renewable energy for street lighting and pedestrian crossings, charging points for electric cars and e-bikes, USB charging points, security cameras, Wi-Fi hotspots and other road technologies. These investments will serve as a model to increase environmental awareness and ensure a high visibility of renewable energy investments.

Green transition

The measures in Malta’s recovery and resilience plan are expected to contribute to the green transition and environmental protection. The plan supports Malta’s decarbonisation and energy transition objectives, as set out in the NECP. In this, Malta commits to reducing greenhouse gas emissions (-19% in non-ETS sectors compared with 2005), increasing energy efficiency (reducing primary energy intensity to 0.07 toe/€), and increasing renewable energy (reaching 11.5% renewables in gross final energy consumption). High-level NECP objectives also include ensuring continued diversification of energy sources, increasing the flexibility of the energy system, addressing energy poverty, and implementing a national strategy for research & innovation in energy and water. The NECP ensures coherence between the energy and climate domains, as well as the interconnection with the green and energy transition dimensions of the investments envisaged in the recovery and resilience plan. Importantly, the plan also helps to make the climate transition fair (for example, through the roll-out of free public transport). It also supports Malta in meeting the national energy and climate targets set out in the 2030 national energy and climate plan and in achieving climate neutrality by 2050. Transport investments will help decarbonise one of Malta’s most-contributing sectors by replacing fossil fuel cars with either clean vehicles or alternative transport modes. Renovations of buildings will reduce the use of fuel oil and wasted electricity.

While the plan contains no measures having biodiversity as their objective, some of the measures may indirectly benefit biodiversity. For example, measures supporting reductions in pollution emissions from building renovations, the decarbonisation of transport, and the planned strengthening of waste management are expected to be beneficial for biodiversity. Also, Malta has carried out a systematic do-no-significant-harm assessment indicating that none of the proposed measures generates harm to biodiversity. Taking into account that pollution is one of the direct drivers of biodiversity loss, the energy efficiency renovations under Component 1 and the measures to decarbonise transport under Component 2 are expected to contribute to reducing greenhouse gas and pollutant emissions. By reducing emissions, the plan aims to reduce the negative impact on biodiversity. This stance is also in line with the *EU Action Plan: Towards Zero Pollution for Air, Water and Soil.* Furthermore, Component 1 includes measures on municipal waste, construction and demolition waste (such as the draft construction and demolition waste strategy for Malta), single-use plastics and extended producers responsibility. The enhancement of the waste policy framework is expected to improve waste prevention, separate waste collection, and waste treatment in line with the waste hierarchy, thereby contributing positively to biodiversity protection on the islands. The plan does not include measures addressing adaptation to the impacts of climate change, though its major investments are climate-proofed to deal with issues such as sea-level rises.

Conclusion on the assessment of criterion 2.5 of Annex V to the RRF Regulation

Taking into consideration the assessment of all the measures envisaged, the recovery and resilience plan is expected, to a large extent, to make a significant contribution to the green transition or to address the challenges resulting from it and ensures that at least 37% of its total allocation contribute to the climate target. This would warrant a rating of A under criterion 2.5 of Annex V to the RRF Regulation.

4.6. Digital transition

Digital tagging

Measures supporting digital objectives in Malta's recovery and resilience plan account for EUR 80.8 million, which represents 25.5% of the plan's total allocation[32]. Of the six components in the plan, three include expenditure that contributes to the digital objectives.

Malta's recovery and resilience plan correctly follows the methodology for digital tagging set out in Annex VII to the RRF Regulation, by identifying intervention fields and corresponding coefficients for the calculation of each measure's contribution to the digital objectives. The following should be noted:

- The proposed reform measures for the digital contribution do not have any associated cost to be funded under the recovery and resilience plan. In this context, the plan does not identify intervention fields for these measures, and they do not contribute to reaching the digital target.
- Some measures of the recovery and resilience plan consist of several sub-measures. For these measures, the plan indicates an intervention field for each sub-measure and computes the digital contribution at sub-measure level.
- The choice of intervention fields for the digital transformation is well justified and reflects the nature, focus, objective or expected outcome of the investments.
- The recovery and resilience plan does not propose to increase the digital coefficients for any measure.

[32] Table 8 in the Annex presents the detailed application of the digital tagging methodology for all measures and sub-measures with a digital contribution.

Table 7: Digital contribution and cost per component

Component	Cost (EUR million)	Digital contribution (EUR million)	Digital contribution (percentage of plan's total allocation)
C1 Addressing climate neutrality through enhanced energy efficiency, clean energy and a circular economy	77.9	-	-
C2 Addressing carbon neutrality by decarbonising transport	110.4	-	-
C3 Fostering a digital, smart and resilient economy	55.3	55.3	17.5%
C4 Strengthening the resilience of the health system	49.9	15.5	4.9%
C5 Enhancing quality education and fostering socio-economic sustainability	41.4	-	-
C6 Strengthening the institutional framework	10	10	3.2%
Overall contribution		80.8	25.5%

Note: the plan's total allocation is EUR 316,403,496. This corresponds to the financial allocation after deduction of Malta's proportional share of the expenses of Article 6(2) of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation. The amount of the estimated total costs of the recovery and resilience plan is higher than the plan's total allocation.

Digital transition

Malta's recovery and resilience plan addresses the challenges related to the digital transition by focusing on strengthening public administration services and supporting business digitalisation. Component 3 on digitalisation is fully dedicated to the digital transition and consists of four investments and two complementary reforms focusing on digitalisation of the public and private sectors. Component 4 on the health system devotes a considerable share of its resources to the digital transition in the healthcare sector. The investment under Component 6 on the institutional framework is earmarked for digitalising Malta's judicial system.

The digital measures in the plan contribute to the 'modernise' EU flagship initiative laid down in the Commission's Annual Sustainable Growth Strategy (COM/2020/575). The envisaged reforms and investments related to the digital transition will notably strengthen the resilience, accessibility and security of government digital infrastructures and services, including the justice and healthcare systems.

Overall, the digital measures in the Maltese plan are well aligned with the digital objectives of the RRF. The measures of the plan cover three areas identified in Annex VII to the RRF Regulation:

- digitalisation of public services;
- digitalisation of businesses; and
- investment in human capital.

The recovery and resilience plan contains reforms to facilitate digital transition and modernisation in Malta. One reform in the plan envisages developing and implementing initiatives regarding the three main objectives of Malta's upcoming Digital Strategy 2021-2027: (i) to reduce the digital divide (notably by supporting families with low income to get connected and have access to computers, and to related knowledge); (ii) to promote digital skills (in particular by developing a set of initiatives for upskilling and increasing Malta's pool of ICT professionals); and (iii) to improve digital public services (including their delivery, the use of emerging technologies and the provision of open access to public government databases). While the plan envisages investments to address the third objective, implementation of the measures to reduce the digital divide and promote digital skills development will be supported by national and other EU funding, outside the plan. Another reform included in the plan will establish and implement a new policy framework for smart specialisation, with a focus on fostering business research & innovation and strengthening public-private cooperation to transform research results into market-ready solutions.

The main share of the investments relating to the digital transition is dedicated to digitalisation of the public administration and public services. The plan includes three investments for their digitalisation, amounting to EUR 40.3 million:

(i) The plan envisages an investment in the government's digital backbone to strengthen its resilience, capacity and security and to increase the homogeneity, standardisation and sharing of services across the public administration (investment C3.I.1). The digital backbone will also serve as the horizontal foundation to enable principles of digitalisation, such as the once-only-principle, and sharing of data. This investment is also expected to include the provision of training to public officers, in particular on cybersecurity and the use of new technologies. Broader action for the development of digital skills will be supported through the use of other EU funding programmes, such as the European Social Fund Plus.

(ii) Another investment will facilitate digitalisation of Transport Malta's Merchant Shipping Directorate. This will help ensure more efficient regulatory practices and improve internal operations, customer relations and administration within that directorate (investment C3.I.2). Training for the upskilling of public officers is also envisaged.

(iii) In the context of the digitalisation of public services, the plan will also improve public services, internal services within the public administration, front-end customer experience, data sharing and reuse, virtual desktops, the property transfer process, the national single window for customs, and digital tools for remote work of public officers (investment C3.I.3). These improvements are in particular targeted at increasing the uptake of e-government services by the population; this has been a challenge in Malta. The plan also envisages a client-centric design of services, which will involve clients to identify and resolve their needs and challenges.

The recovery and resilience plan is also expected to intensify digitalisation of the private sector. The plan envisages the establishment of several measures, with a budget of EUR 15 million, to support the digitalisation of companies in various economic sectors, including wholesale and retail, tourism (including culture) and manufacturing (investment C3.I.4). This measure will help companies digitalise their operations (in terms of hardware, software and digital solutions), and hence improve their efficiency, productivity and customer experience. It will target investments in areas such as the internet of things (IoT), cybersecurity and data protection, augmented reality and artificial intelligence. Support is envisaged for SMEs, including micro-enterprises and the self-employed. It will be complementary to the support provided under the European Regional Development Fund.

The recovery and resilience plan includes significant investment (EUR 15.5 million) in digitalisation of the healthcare system. The plan is expected to fast-track the transition of Malta's healthcare system to be able to rely more on digitalisation and new technologies. The digital transformation of outpatient and consumer engagement processes — by enabling effective resource utilisation, time management and workflows — will improve the quality of patient care and patient experience and reduce waiting times (investment C4.I.2).

The recovery and resilience plan devotes sizeable funds (EUR 10 million) to the digitalisation of Malta's justice system. The plan envisages implementation of a number of secure digital solutions and tools to support users in the justice sector through collaboration and integration, increased accessibility to justice, and greater efficiency (investment C6.I.1). In particular, the plan provides for digital solutions that will cater for an integrated e-filing system across the justice system. Other digital solutions will target the particular needs of different segments and stakeholders within the justice system. The primary stakeholders concerned by the relevant measures are the law courts, Malta's police force, the State Advocate, the Attorney General, the Legal Aid Agency and the Asset Recovery Bureau.

Overall, the above-mentioned measures in the plan are expected to have a lasting impact on Malta's ability to seize the opportunities offered by the digital transition and address the challenges resulting from it. The plan will make an important contribution to ensuring a citizen- and service-oriented public administration with a modern and secure digital infrastructure. It will also be key to increasing the variety, efficiency and quality of digital public services and to limiting the administrative burden on individuals, companies and the administration. To achieve a long-term and transformative impact, it will be important to couple these investments with capacity building, ensure interoperability of different digital solutions and systems, and give appropriate consideration to the security and resilience of the infrastructure and services that will be acquired. Further spillover effects will also be achieved through the involvement of the private sector, i.e. Maltese SMEs and start-ups, in the development of enhanced services.

In addition to the public sector, the plan will provide important support to digitalising the private sector, notably SMEs in several industries, thus strengthening the competitiveness of Malta's economy. To maximise the impacts of this measure, it is particularly important to link investments in digital assets with investments in reskilling and upskilling of workers, in order to build capacities and promote truly transformative digitalisation processes among SMEs.

Moreover, a strong synergy should be ensured between investments for digitalisation of businesses and measures to reinforce cybersecurity capacities under investment C3.I.1. Through digitalisation, the plan will also improve the functioning of the healthcare and justice systems, increasing their accessibility and efficiency.

Conclusion on the assessment of criterion 2.6 of Annex V to the RRF Regulation

Taking into consideration the assessment of all the measures envisaged, the recovery and resilience plan is expected, to a large extent, to make a significant contribution to the digital transition or to address the challenges resulting from it and ensures that at least 20% of its total allocation contribute to support digital objectives. This would warrant a rating of A under criterion 2.6 of Annex V to the RRF Regulation.

4.7. Lasting impact of the plan

The proposed reforms and investments are expected to have a lasting, positive impact on Malta's economy and society. The recovery and resilience plan includes an ambitious package of measures aimed at addressing challenges identified in the context of the European Semester. The measures also facilitate the green and digital transition and strengthen Malta's growth potential, job creation and economic and social resilience.

Structural change in administration and institutions

The plan presents structural changes in the country's public administration and related institutions. This is particularly the case in components addressing the institutional framework (Component 6), digitalisation (Component 3), and health (Component 4).

The plan is expected to strengthen the institutional framework of Malta's justice system and law enforcement entities. Reforms that create better safeguards for the independence of the justice system and improve its functioning are important to ensure its effectiveness and strengthen trust in the institutions while also improving the business environment. Important reforms are included to strengthen the independence of the judiciary, increase the quality and efficiency of the justice system, reinforce anti-corruption entities, create a separate and more accountable prosecution service, and increase transparency in the appointment of top positions. Institutions combating money laundering are also expected to be further strengthened through targeted training, the implementation of the national 'anti-money laundering/combating terrorist financing/targeted financial sanctions' strategy and action plan, addressing pending actions required by the Financial Action Task Force, and through capacity building and better functioning of the Asset Recovery Bureau.

The plan aims to boost digital preparedness of the public administration and improve public services for citizens. This is true for, among other things, the merchant shipping sector within Transport Malta and the Maltese law courts. These investments are expected to improve the effectiveness and efficiency of public administration by providing end-users a better service and quick access to information, while also enabling remote access of certain services, including justice. Service providers themselves will also benefit from improved technologies by improving their own working methods.

The health component also envisages a number of institutional changes that aim to improve the sustainability, resilience and quality of the health system. A resilient and high-quality healthcare system is important given the significant ageing of Malta's population and the rapid influx of foreign workers. By balancing capital expenditure costs with innovative treatments that would otherwise be sought overseas, Malta seeks to reduce its long-term health expenditure. The component also aims to address an important concern in the functioning of Malta's health system, namely its human capital. By addressing barriers to the hiring, retention and integration of foreign workers, the plan aims to improve the internal structures of Malta's health service.

Structural change in policies

All components include long-lasting policy-related structural changes. The most prominent are the components addressing the circular economy: renewable energy and renovation of buildings (Component 1), and decarbonising transport (Component 2); as well as education and socio-economic sustainability (Component 5). In addition, reforms proposed to address concerns of aggressive tax planning (Component 6) are, to some extent, also expected to have a lasting impact through changes in taxation policy.

Structural policy changes target sustainable construction, to curb carbon emissions and to improve waste prevention and management. Malta aims to develop a long-term building renovation strategy that will pave the way for the decarbonisation of its building stock by 2050. The setting up of a building authority will remedy the fragmentation of responsibilities that represents a major barrier to this objective, while the renovation of a number of private sector and public buildings will act as a model for further renovations. Waste management is also being reformed through the reorganisation of waste collection, extending the producer responsibility framework to additional waste streams, limiting the production and sale of single-use plastic, and measures addressing construction and demolition waste. Targeting sustainable construction, and its waste, is an important structural policy change given the rapid growth in this sector that followed the strong growth in population and tourist arrivals.

Several measures contribute to addressing traffic congestion and emissions, which have increased in line with population growth. The plan aims at reducing car usage through several measures, including better sea transport, promoting the use of public transport and ride-sharing in the public service, and creating pedestrian open spaces in urban areas. Investments also aim to reduce the transport sector's carbon footprint through electrification of vehicles in the private and public sectors, including part of the public transport fleet.

With education and training having been repeatedly outlined as a challenge for Malta in the European Semester, the plan proposes structural policy changes in this area. These aim to strengthen measures to prevent and intervene on early school leaving, create opportunities for the upskilling and reskilling of adults to match emerging skill needs, improve inclusive education for pupils with special needs, and improve the education policy monitoring system. Tourism studies, an important sector of the Maltese economy, is also being directly targeted through the creation of a new centre for vocational education in this field. A higher quality service provided in the hospitality industry could attract higher value-added tourists to the island. In addition, the sustainability of public finances is also being addressed through further development of the regular analysis and monitoring of the pension and unemployment benefits systems.

Malta has also taken certain steps to address concerns of aggressive tax planning. Four reforms target aggressive tax planning by corporates and individuals; these reforms are expected to have an impact on tax avoidance. Malta plans to: remove the tax exemption on dividends derived from entities resident in jurisdictions listed in the Code of Conduct Group list of non-cooperative jurisdictions; prevent a loss in public revenues stemming from international tax arbitrage by introducing transfer pricing legislation; carry out a study — with legal amendments to follow — to mitigate the risks of aggressive tax planning stemming from inbound and outbound dividend, interest and royalty payments; and introduce a spontaneous exchange of information mechanism with the tax jurisdictions of individuals who obtain Malta's citizenship under the citizenship scheme.

Lasting impact

The plan addresses most of the challenges outlined in the European Semester. These are linked to pressures on environmental degradation and climate change caused by the rapid population growth, difficulties linked to a tight labour market and skills shortages, the need to strengthen Malta's law enforcement structures and anti-money laundering efforts, taxation, ensuring better health and educational service provisions, and also reinforcing measures to better prepare the economy for a digital transformation.

The measures proposed are expected to have a positive and lasting impact on Malta's economy and well-being. The plan is expected to contribute to: reduced energy consumption; improved air quality; reduced noise pollution; better work-life balance; improved access to, and efficiency of, government services to businesses and individuals; improved access to, and quality and resilience of, healthcare, social protection and educational services; bridging the gap between education provision and labour market needs; reduced risks of aggressive tax planning and money laundering; and strengthened institutions with positive spillover effects on the business environment.

Conclusion on the assessment of criterion 2.7 of Annex V to the RRF Regulation

Taking into consideration all reforms and investments envisaged by Malta in its recovery and resilience plan, their implementation is expected, to a large extent, to bring about a structural change in the administration or in relevant institutions, and in relevant policies, and to have a lasting impact. This would warrant a rating of A under criterion 2.7 of Annex V to the RRF Regulation.

4.8. Milestones, targets, monitoring and implementation

Adequacy of the structure tasked with implementation of the plan, monitoring of progress and reporting

The management structure is well defined and responsibilities are clearly allocated. The Ministry responsible for the management of EU funds is empowered to perform the tasks related to coordination, management and control. It will act as head of the RRP — and be the main contact for the Commission — and national coordinating authority for the Technical Support Instrument and all other EU funds. This ensures an appropriate expertise built on the programming and implementation of EU funds, tailored to the specificities of the recovery and resilience plan. Within the Ministry responsible for the management of EU funds, the Planning and Priorities Coordination Division (PPCD) has been designated to provide leadership, coordination and overall oversight, thereby extending the EU cohesion funds governance framework to the recovery and resilience plan. Within the PPCD, the horizontal unit will perform the internal control tasks related to the monitoring of the achievement of milestones and targets prior to the submission of the payment claim to the Commission, while the RRP unit will carry out the tasks related to implementation of the plan. Both units are assigned separate staff with clearly defined responsibilities to ensure compliance with the principle of separation of functions between implementation and control.

The plan describes adequately the intended monitoring and reporting mechanisms. The management and information system maintained by the PPCD will be used for the recovery and resilience plan. The system has been subject to various audits performed at national and EU level. The system is available to record and store operational data, including data related to final recipients in line with EU requirements. This system will collect the necessary information to monitor the whole life cycle of the reforms and investments, including milestones, targets and information supporting the monitoring of their financial implementation. Proportionate reporting requirements will be imposed on recipients of EU funding to ensure that data needed for monitoring the implementation are collected efficiently, effectively and in a timely manner. In addition, all beneficiaries involved in the implementation of operations will maintain a separate accounting system and an appropriate accounting code for all transactions.

Milestones, targets and indicators

The milestones and targets included in the Maltese plan constitute an appropriate system for monitoring the plan's implementation. The selected milestones and targets represent the key elements of the proposed investment and reform measures over their life cycle. They are sufficiently clear and comprehensive to ensure that their completion can be traced and verified. They reflect adequately the overall level of the plan's ambition and appear realistic. The milestones and targets appear well timed throughout the plan's implementation schedule. The verification mechanisms, data collection and responsibilities described by the Maltese authorities appear sufficiently robust to verify the completion of milestones and targets, and to justify in an adequate manner the disbursement requests.

Overall organisational arrangements

The overall organisation is appropriate. The various institutions in charge of implementing the measures are clearly indicated in the description of the six components, ensuring clarity, transparency and accountability. An overall institutional coordination mechanism is put in place. The responsible institutions involved in the execution of each reform and investment will liaise on a regular basis with the Ministry responsible for the management of EU funds, which will act in close cooperation with the Ministry for Finance and Employment. The PPCD will have a central role in providing coordinated leadership and implementation support to other key actors involved in the process, including the recovery and resilience plan beneficiaries and line ministries. Staff will benefit from an annual training plan tailored to the specificities of the recovery and resilience plan. In addition, newly recruited staff will benefit from additional training.

Conclusion on the assessment of criterion 2.8 of Annex V to the RRF Regulation

The arrangements proposed by Malta in its recovery and resilience plan are expected to be adequate to ensure effective monitoring and implementation of the recovery and resilience plan, including the envisaged timetable, milestones and targets, and the related indicators. This would warrant a rating of A under the assessment criterion 2.8 of Annex V to the RRF Regulation.

4.9. Costing

Malta has provided estimated costs for each investment included in the recovery and resilience plan. All costs are incurred after February 2020 and do not substitute recurring national budgetary expenditure, subject to a few duly justified exceptions, therefore meeting the requirements of Article 5 of the Regulation. No costs were associated with the reforms in the plan. The cost breakdown is generally detailed and well substantiated. While the tables proposed in the standard template were duly filled in and presented, Malta did not provide an independent validation for any of the cost estimates proposed. The assessment of the cost estimates and other supporting documents show that a large majority of the costs are reasonable and plausible. However, in some limited cases, further supporting evidence and clearer justification for the assumptions made for some measures would have been needed to reach a fully positive assessment.

Reasonable costs

The cost estimates are generally based on well-documented and comprehensive calculations and sound underlying assumptions. For the most part, the estimates are based on comparisons with procurement contracts for similar services or past investments of a similar nature. Where these are missing, costs are based either on expert judgement of responsible agencies (e.g. Malta Information Technology Agency for government backbone digitalisation) or private consultants (e.g. PwC for digitalisation of the Merchant Shipping Directorate). The methodology and calculations are, for the most part, clearly described and backed up by sound assumptions. Nevertheless, in a few cases the final cost estimate deviates from the underlying source data without a full explanation of the reasons for such a deviation. For most measures, there are references to similar past projects and the supporting evidence was provided, with very limited exceptions.

At the level of the plan, the costs are deemed, to a medium extent, reasonable. Taking into account the limits of *ex ante* assessment of cost estimates, the proposed amounts have been deemed appropriate for most of the measures.

Plausible costs

The amount of the estimated total costs of the recovery and resilience plan is in line with the nature and type of envisaged investments. For most investments, cost estimates are referenced to past projects of a similar nature for which clear supporting documentation is provided, thus justifying the applied unit costs. Further adjustments to the main cost drivers are generally well explained. In some cases, explanations for the adjustments made as compared with the evidence based on past projects were not sufficiently detailed.

No double EU financing

The plan confirms that all investments will be financed solely by the RRF. Malta asserts that demarcation between various funding sources is specified already at the programming stage. This aims to ensure that the same cost will not be covered by both the recovery and resilience plan and other EU financing, in line with the provisions of Article 9 of the RRF Regulation. Given efforts to make a clear delineation between funds, the plan does not envisage complementarity of funding with other EU funds for the same investment. Nevertheless, separate individual investments financed by different funds aim to complement each other in order to increase impact. Malta has also put in place structures at national level that should ensure consistency between funding and avoid double funding (see further details in Section 4.10 Controls and audit).

Commensurate and cost-efficient costs

The amount of the estimated total cost of the plan is commensurate with its expected economic and social impact and is in line with the principle of cost efficiency. The reasonability and plausibility of estimated costs is considered to be medium. Moreover, the measures presented in the plan are projected to have a stimulating impact on the Maltese economy and job creation (see Section 4.3), thus mitigating the negative impact of the COVID-19 crisis.

Conclusion on the assessment of criterion 2.9 of Annex V to the RRF Regulation

The justification provided by Malta on the amount of the estimated total costs of the recovery and resilience plan is, to a medium extent, reasonable, plausible, in line with the principle of cost-efficiency and is commensurate to the expected national economic and social impact. Malta provided sufficient information and evidence that the amount of the estimated cost of the reforms and investments of the recovery and resilience plan to be financed under the Facility is not covered by existing or planned Union financing. This would warrant a rating of B under the assessment criterion 2.9 of Annex V to the RRF Regulation.

4.10. Controls and audit

Robustness of internal control system and distribution of roles and responsibilities

The plan provides sufficiently detailed information on the national set-up for the RRF internal control system, which is similar to the one used for EU cohesion policy funds. The

Ministry responsible for the management of EU funds in Malta will act as the RRP Coordinator. The Ministry is entrusted with the authority to fulfil all relevant tasks related to the management and control of the recovery and resilience plan and will be the single point of contact with the Commission for the plan. Within the Ministry, the Planning and Priorities Coordination Division (PPCD) has been designated to provide the necessary leadership, monitoring and oversight concerning the plan's implementation. It will also be responsible for the drawing up and signing of management declarations and summaries of audits, and for submitting payment requests. A new RRF Unit within the PPCD will be created and headed by a manager responsible for overseeing implementation of the plan and the achievements of agreed milestones and targets. Effective implementation will also be under the direct responsibility of the PPCD. In addition, the existing PPCD horizontal unit will carry out the internal control function on the verification of expenditure and on the achievement of planned milestones and targets.

The PPCD will enter into agreements with the bodies responsible for implementing the respective investments or reforms. The line ministries will be primarily responsible for overseeing the individual bodies' implementation of interventions within the ministerial portfolio.

The audit authority is the Internal Audit & Investigations Department (IAID). This is the same audit authority as that for EU cohesion policy funds. Its independence from the coordination body and institutions responsible for implementing the reforms and investments will be ensured. Therefore, the segregation of duties principle will be respected. The internal control system seems to be robust. The plan presents a well-defined structure of the internal control system. This particularly applies to the collection and verification of data on the achievement of milestones and targets. The plan specifies the sources of relevant information and the transmission channel that the PPCD will use to collect them. It also stipulates that the PPCD's RRP unit will verify them.

Adequacy of control systems and other relevant arrangements

The outline of the control system put in place seems appropriate and relevant actors are identified across all levels. The level of information is not sufficient to draw conclusions on the adequacy of management verifications to be carried out by institutions responsible for implementation of the reforms and investments at component level. However, at plan level, the management verifications will consist in both: (i) administrative/documentary verifications with respect to each application for reimbursement by beneficiaries; and (ii) on-the-spot verifications of operations to check whether milestones and targets have been achieved, and the accuracy of the information provided by the beneficiary regarding material and financial implementation. All interventions will be subject to at least one on-the-spot verification during their lifetime. In the case where an action would involve too many beneficiaries, a sampling methodology will be applied. Moreover, within six months of the plan's approval and ahead of the first interim request for payment, Malta will carry out a risk assessment and put in place the risk register linked to the plan. This will strengthen the internal control system by putting in place the mitigation measures appropriate for dealing with the prevention, detection and correction of cases of conflict of interest, corruption, fraud and double funding. The PPCD will also ensure that the plan is implemented in compliance with relevant EU and national law, including avoiding the abovementioned serious irregularities. The PPCD will use a checklist to assess compliance with EU and national law, identify any shortcomings and identify any red flags that signal the suspicion of serious irregularities. Furthermore, the institutional framework capacity to fight corruption is expected to be reinforced through implementing the capacity building elements of the national anti-fraud and corruption strategy, which has recently been adopted (more details are provided in the analysis on Component 6).

The second level of the control system is entrusted to an independent audit body that acts with complete autonomy and independence from the bodies responsible for managing the actions and operations covered by each component. The plan provides a general description of the audit approach. The audit checks will focus on both system audits and operations audits. Malta commits in the plan to finalise the first audit strategy within three months of adoption of the recovery and resilience plan. The first system audit will be carried out before the first payment claim and will cover the main coordinating body (PPCD), the records kept, the risk register put in place by PPCD and the IT system used for management and control. As regards operations audits, the audit authority will perform audits on an appropriate sample basis.

The plan indicates that the IT system (MIS system) supporting the control and monitoring function is already operational to support the plan's implementation. The same system will be used for the collection and storage of data on final beneficiaries in accordance with the provisions of Article 22(2)(d) of the Regulation. This system will be also used for the EU cohesion policy funds in the programming period 2021-2027. The plan points out the access rights of EU bodies to the data, as per Article 22(2)(e).

Adequacy of arrangements to avoid double EU funding

The Maltese authorities have put in place the following mechanisms and tools to address double funding:

(i) demarcation lines at the stage of programming of individual programmes co-financed by the EU;
(ii) *ex ante* analysis at the stage of project selection;
(iii) two meetings every year with responsible bodies for EU cohesion policy funds;
(iv) the use of Arachne (the data mining and risk scoring tool made available by the Commission) and the MIS system (which is also used for structural funds);
(v) on-the-spot checks to ensure the beneficiary is providing accurate information; and
(vi) self-declaration by beneficiaries as to whether any item of expenditure supported under the recovery and resilience plan is also being supported under other funding sources.

The implementing bodies for the Recovery and Resilience Facility are the same as those implementing the cohesion policy funds, which gives additional assurances for cross-checking the data and avoiding double funding. The relevant authority also undertakes a project risk approach that will determine the frequency of follow-up by the authority responsible for monitoring the project in question. Furthermore, all beneficiaries have to provide, on a yearly basis, a confirmation that no other funds have been requested or received to finance the same — or part of the same — operation(s).

Legal empowerment and administrative capacity of control function

The Ministry responsible for the management of EU funds in Malta is the Office of the Prime Minister. Similarly, the audit authority, the IAID, is an independent department, established by legal act, in the Office of the Prime Minister. Malta indicates that, in line with the Constitution, the Prime Minister decides how portfolios are allocated and therefore no other legal empowerment is required. These authorities, therefore, are legally entrusted with the duties in the context of the RRF as described in the plan.

As regards the administrative capacity of the coordinating body PPCD, Malta has provided information on the new RRF unit to be constituted by six officers, and on two new additional positions in the horizontal unit. In addition, the plan specifies that, in the audit body, three staff members will be involved in the RRF audits. The plan also provides for the possibility, if needed, to outsource certain RRF audit tasks to external auditors, similar to the practice under cohesion policy.

Conclusion on the assessment of criterion 2.10 of Annex V to the RRF Regulation

The arrangements proposed by Malta in the recovery and resilience plan to prevent, detect and correct corruption, fraud and conflicts of interest when using the funds provided under the Facility, including the arrangements aimed to avoid double funding from the Facility and other Union programmes, are assessed to be adequate. This would warrant a rating of A under the assessment criterion 2.10 of Annex V to the RRF Regulation.

4.11. Coherence

The Maltese recovery and resilience plan builds on Malta's "Sustainable Development Vision for 2050" and is recognised as one of the key instruments for its implementation. The plan includes a set of consistent, coherent and mutually supportive reforms and investments that are proportional and commensurate with the overall long-term development objectives.

Mutually reinforcing measures

Each component includes reforms and investments that are consistent and mutually reinforcing. No cases have been observed where the measures proposed within any component (be it reforms or investments) contradict or undermine any other's effectiveness. Under Component 1, the reforms to strengthen the regulatory framework and ensure a sufficient pool of well-prepared staff for the buildings sector create the appropriate conditions to support the implementation of planned investments, such as the renovation of a number of private sector and public buildings, public schools and hospitals. Under Component 2, the policies promoting the use of collective and multimodal transport are linked with planned investments in the purchase of electric buses and other investment to promote alternative modes of transport. These include notably the building of the new ferry-landing site with electric charging infrastructure, and which is served by electric buses. The reforms regarding public sector mobility management creates enabling conditions for investment in the electrification of the public vehicle fleet. The reforms under Component 3 to strengthen the national regulatory framework are complemented by investments to sustain the digitalisation process of the public administration and public services and to strengthen initiatives related to digitalisation of the private sector. Under Component 4, one reform is intended to address any regulatory gaps and bottlenecks for the full exploitation of the new Blood, Tissue and Cell Centre. Additional reforms included under Component 5 to strengthen early school leaving prevention measures, to diversify opportunities for upskilling and reskilling for all adults and to improve quality inclusive education for pupils with special needs are complemented by the investment in the new Centre of Vocational Education Excellence (ITS campus). These examples demonstrate the coherence and complementarity between the reforms and investments included in each component.

Complementarity of measures

Skilling and upskilling is envisaged under various components, which reinforce and complement each other. The reforms and investments in skilling and upskilling set down in Component 5 are complemented by additional reforms under other components. Under Component 1, this relates to the implementation of a mandatory skills card for training in energy renovations. Under Component 4, it relates to the planning of a training needs analysis, an upgrade of the central HR database, and the development of a tool for health workforce planning. Under Component 6, it relates to the training and capacity building for officials in national authorities that fight fraud and corruption and anti-money laundering, and of parties involved in the newly proposed transfer pricing rules, including tax administration staff, private tax practitioners and company representatives. Furthermore, the measures under Component 5 for the skilling and upskilling of low-skilled adults are expected to be facilitated by the effective implementation under Component 3 of the reform to reduce the digital divide and increase the pool of ICT specialists.

The digitalisation of public administration, health and justice complement each other in improving accessibility and quality of various public services for individuals and businesses. The fast-tracking of the digital transformation of public administration under Component 3 is expected to complement the digitalisation of the justice system under Component 6 in improving efficiency of the public sector and reducing compliance and accessibility costs for individuals and businesses. The digitalisation of the health system under Component 4 pursues the same objective through changes to the outpatient and consumer engagement process.

Component 1 and Component 2 act together to ensure economic circularity and climate neutrality. Reforms and investments in the building and waste sector under Component 1 are reinforced by measures under Component 2 to decarbonise the transport sector. Under Component 1, reforms to strengthen the regulatory framework and ensure a sufficient pool of well-prepared staff for the buildings sector are accompanied by the implementation of planned investments in buildings renovation. Under Component 2, various reform policies are envisaged to promote the use of collective and multimodal transport. These include planned investments in the purchase of electric buses and other investment to promote alternative modes of transport, notably the building of the new ferry-landing site with electric charging infrastructure, and which is to be served by electric buses. These reforms and investments together are expected to foster the circular economy and climate neutrality.

Important reforms address existing institutional bottlenecks to improve the overall governance framework. There are reforms aiming to improve the justice system, to strengthen the anticorruption framework and to tackle money laundering and taxation issues under Component 6. Measures to remedy the fragmentation of the institutional framework in the buildings sector and of the waste collection system are included under Component 1. Similarly, the adoption and implementation of the Sustainable Urban Mobility Plan for the Valletta Region, under Component 2, should help cooperation across different policy areas, across different levels of government, and with local residents and other major stakeholders. Component 3 aims to strengthen the national policy framework for the digital transition, while Component 5 provides for the implementation of a new education policy monitoring system. Overall, the recovery and resilience plan is expected to improve the governance framework and create the basis for more transparent and effective policymaking that will be conducive to, among other things, improved competitiveness and innovation.

The plan does not present inconsistencies or contradictions between the different components. It does present a balanced approach between reforms and investment. Due care was given to ensure that implementation timelines of reforms and investments are aligned to ensure successful delivery of the measures.

In order to promote wider coherence across instruments, notably with the EU cohesion policy funds, a balanced territorial allocation of resources is encouraged.

Conclusion on the assessment of criterion 2.11 of Annex V to the RRF Regulation

Taking into consideration the qualitative assessment of all components of Malta's recovery and resilience plan, their individual weight (importance, relevance, financial allocation) and their interactions, the plan contains measures for the implementation of reforms and public investments which, to a high extent, represent coherent actions. This would warrant a rating of A under the assessment criterion 2.11 of Annex V to the RRF Regulation.

ANNEX

***Table 8: Climate and Digital Tagging Table*[33]**

Measure/Sub-measure ID	Measure/Sub-measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	**Coeff. %**	**Int. Field**	**Coeff. %**
C1.I.1 (a)	Investment in the renovation and greening of public and private sector buildings, including deep retrofitting, through energy and resource efficiency measures - EE public sub-measure	9,6	026bis	100%		
C1.I.1 (b)	Investment in the renovation and greening of public and private sector buildings, including deep retrofitting through energy and resource efficiency measures - EE private sector sub-measure	19,3	024ter	100%		
C1.I.1 (c)	Investment in the renovation and greening of public and private sector buildings, including deep retrofitting through energy and resource efficiency measures - RES sub-measure	1,1	029	100%		
C1.I.2	Investment in the renovation and deep retrofitting of public hospitals	20	026bis	100%		
C1.I.3 (a)	Investment in the renovation, deep retrofitting and renewable energy in public schools - EE sub measure	9,6	026bis	100%		
C1.I.3 (b)	Investment in the renovation, deep retrofitting and renewable energy in public schools - RES	0,4	029	100%		

[33] While the total cost of Malta's recovery and resilience plan exceeds the total allocation of non-repayable financial support to Malta, Malta will ensure that all spending related to the investments mentioned in this table as contributing to climate and digital objectives are fully financed by the funds from the Recovery and Resilience Facility.

Measure/Sub-measure ID	Measure/Sub-measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
	sub measure					
C1.I.4 (a)	Investment in the construction of a pilot near carbon-neutral school to serve as a model for the future and provide a future-proof learning experience to students - EE sub measure	14,4	025ter	40%		
C1.I.4 (b)	Investment in the construction of a pilot near carbon-neutral school to serve as a model for the future and provide a future-proof learning experience to students - RES sub measure	0,5	029	100%		
C1.I.5	Renewable energy investments in roads and public spaces	3	029	100%		
C2. I.1 (a)	New ferry landing place to promote alternative modes of transport at Buġibba, St Paul's Bay - port infrastructure sub-measure	15,9	081bis	40%		
C2. I.1 (b)	New ferry landing place to promote alternative modes of transport at Buġibba, St Paul's Bay - alternative fuel infrastructure sub-measure	0,2	077	100%		

Measure/Sub-measure ID	Measure/Sub-measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C2.I.2	Enhancing the uptake of electric vehicles in the private sector	50,3	n/a[34]	100%		
C2.I.3	Decarbonising the public sector fleet	10	n/a[35]	100%		
C2.I.4	Part replacement of the public transport fleet	34	074	100%		
C3.I.1 (a)	Strengthening the resilience, security and efficiency of the government digital backbone and investing in appropriate digital solutions, devices and tools that will enable Government to provide proactive action, secure services and streamlined operations to citizens and the business sector - capital costs sub-measure	14,1			011	100%

[34] The 'Methodology for climate tracking' annexed to the Recovery and Resilience Facility Regulation does not set out intervention fields that would enable climate or environmental tracking of electric vehicles or plug-in hybrid vehicles, except for vehicles for urban transport falling under intervention field 074. In accordance with Article 18(4)(e) of the Regulation, the methodology should however 'be used accordingly for measures that cannot be directly assigned to an intervention field listed in Annex VI'. In this context, the Commission has applied a 100% climate contribution coefficient for zero-emission vehicles of all categories (this includes battery, electric, and fuel cell/hydrogen-powered vehicles); a 40% climate contribution coefficient for plug-in hybrid light-duty vehicles; and, in line with the criteria under the Taxonomy Regulation, a 100% climate coefficient for low-emission heavy-duty vehicles.

[35] The 'Methodology for climate tracking' annexed to the Recovery and Resilience Facility Regulation does not set out intervention fields that would enable climate or environmental tracking of electric vehicles or plug-in hybrid vehicles, except for vehicles for urban transport falling under intervention field 074. According to Article 18(4)(e) of the Regulation, the methodology should however 'be used accordingly for measures that cannot be directly assigned to an intervention field listed in Annex VI'. In this context, the Commission has applied a 100% climate contribution coefficient for zero-emission vehicles of all categories (this includes battery electric and fuel cell/hydrogen-powered vehicles); a 40% climate contribution coefficient for plug-in hybrid light-duty vehicles; and, in line with the criteria under the Taxonomy Regulation, a 100% climate coefficient for low-emission heavy-duty vehicles.

Measure/Sub-measure ID	Measure/Sub-measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C3.I.1 (b)	Strengthening the resilience, security and efficiency of the government digital backbone and investing in appropriate digital solutions, devices and tools that will enable Government to provide proactive action, secure services and streamlined operations to citizens and the business sector - training sub-measure	2,6			108	100%
C3.I.2	The digitalisation of the Merchant Shipping Directorate within Transport Malta, thus providing a more efficient regulatory service to operators	5,9			084	100%
C3.I.3	Further digitalisation and modernisation of the public administration, including public and intra-facing services, through several solutions to improve the front-end customer experience, data sharing and reuse, virtual desktops, property transfer processes, National Single Window for customs and digital tools for remote-working solutions	17,7			011	100%
C3.I.4	Rolling out measures to intensify the digitalisation of the private sector	15			010	100%
C.4.I.2	Enhancing the resilience of the health system through digitalisation and new technologies	15,5			095	100%
C6.I.1	Digitalisation in the justice system	10			011quater	100%

Int. Field = intervention field

Coeff. = Coefficient for the calculation of support to climate change objectives and to digital transition, on the basis of Annex VI and Annex VII to the RRF Regulation.