

Post COVID-19 – Strategic and Policy Document



THE GOZO BUSINESS CHAMBER

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Contents

1. Introduction	2
2. A Clear and Focused Digital Strategy for Gozo	3
3. The Financial Sector	4
4. A Tourism Strategy for Gozo	5
5. Important Capital Projects and Major Initiatives for Gozo	6
6. Construction and Real Estate	7
7. The Agricultural, Fisheries and Artisinal Sectors	9
8. Sustainability is Key	10
9. The Manufacturing, Wholesale and Retail Sectors	13
10. The Banking Sector	13
11. Conclusion	15
Annex 01 – The Proposals submitted through the GBC Survey	16
Bibliography	18

1. Introduction

Throughout this crisis the Gozo Business Chamber has had an important role in assisting its members. This is in line with what other Chambers are doing. As indicated by the Eurochambres¹ input for the EU Recovery Roadmap /Action Plan presented on the 20 April 2020:

Chambers of Commerce & Industry are closer than ever to their members during this crisis and recognise their responsibility to help them recover from the dramatic and ongoing economic slowdown (Eurochambres, 2020, p.1)

As a Chamber we need to look beyond this crisis. While we have and are still working hard to have in place mitigating measures which would preserve the economy's productive capacity, we must look beyond the COVID-19 crisis and focus on recovery. This crisis calls for a renewed, modern, digital and clean industrial revolution. Businesses also need to move beyond their traditional ethos. The present crisis is also a call for action to the business community:

It is time to recognise that we depend on others and that we are agents in society that are there to be of service to others. There can be no divergence between economic and communitarian perspectives. They go hand in hand (Zahra, 2020, p. 48).

Gozo's double insularity, means that our economic eco-system is already fragile on its own. As indicated by the 2019 European Commission report on the economic and social situation of Gozo:

the GDP per capita differences between Gozo and the main island of Malta have slightly increased over time. Various elements can explain this trend. Importantly, the island of Malta has a more service-oriented economy than the island of Gozo, which relies more on agriculture, fishing and construction activities. With this different economic orientation, the economic growth of Malta has outpaced that of Gozo (European Commission, 2019, p. 11).

This is why as a Chamber we have always proposed solutions which would reduce the disparities between Gozo's economy and that of Malta, rendering the Gozitan economy more reliable to function on its own steam, and therefore more sustainable.

The outbreak of the COVID-19 pandemic has had an effect on all businesses, even those that at the outset seemed the less impacted. This is because the Maltese economy in general is mainly driven by services leading to the "interconnectedness of business activities." (The Times of Malta, 2020a)

Through this document our intention is to put forward proposals both for mitigating measures which are still needed at this stage, and also for proposals encompassing long-term measures which should assist the recovery once this crisis is over. These proposals while applicable for Gozo, apply also on a national scale, and have been assimilated following also discussions and proposals from our members. As indicated by Patricia Scotland, Commonwealth Secretary General:

It is important that we take this opportunity to re-evaluate the status quo and the current models that support our daily lives and begin to assess the lessons that are already emerging from this catastrophe (Scotland, 2020).

¹ Eurochambres is the Association of European Chambers of Commerce and Industry representing over 20 million enterprises in Europe – 98% of which are SMEs – through 45 members and a European network of 1700 regional and local Chambers.

Ursula Von Der Leyen (2020), President of the European Commission, in her address to the European Parliament on the 16th April, citing Ernesto Rossi and Altiero Spinelli said that:

The moment has arrived, in which we must know how to discard old burdens, how to be ready for the new world that is coming, that will be so different from what we have imagined.

This document is intended to form a platform for discussion. It is not meant to be a comprehensive or conclusive document, as the situation is still evolving. At the end of the document an annex with all the proposals submitted from various members is being included. These are also valid proposals, which should be considered, including taxation measures which can provide the required stimulus during this period. In the main part of the document we have tried to focus on the main sectors of the Gozitan economy, and those, which though in their infancy can assist Gozo to move forward after the COVID-19 pandemic.

The role of the state in this situation is crucial: “Governments must lead responses to the COVID-19 pandemic through policy, coordination, funding, and fast agile implementation” (Olowo-Okere, 2020). As shown by the financial packages that have been formulated and implemented by the Government, cooperation is key so that we navigate and move out of this crisis together.

It is to be noted that there are some underlying themes to the whole document. These include the promotion of localised production and services, and sustainability. In his message which was reproduced in a publication of L’Osservatore Romano, on the recovery post COVID-19, Pope Francis quotes the encyclical letter *Laudato si*, when he highlights that in this pandemic we need to:

to bring the whole human family together to seek a sustainable and integral development, for we know that things can change (Francis, 2015, section 13)

These are the underlying values that must sustain our recovery.

2. A Clear and Focused Digital Strategy for Gozo

Gozo had registered important steps in this area. A number of projects and initiatives had been initiated or completed. This included the second fibre optic cable between Gozo and Malta to cater for issues related to redundancy, and the setting up of the digital innovation hub. The latter has been a very important step for Gozo. Digital Innovation Hubs were a key priority of the ‘Digitising European Industry Initiative’ adopted in April 2016. The objective of Digital Innovation Hubs is to act as “one-stop shops where companies especially SMEs, start-ups and mid-caps can get access to technology-testing, financing advice, market intelligence and networking opportunities.” (Digital Innovation Hubs (DIHs) in Europe - Shaping Europe’s digital future - European Commission, 2020)

However, the digital sector, in Gozo, especially in specific areas such as gaming is still in its infancy. Start-ups in industries such as gaming have seen their profits wiped out because of the cancellation of sporting events worldwide. A start-up is generally focused on one specific area. Consequently, the COVID-19 pandemic has had a significant impact on start-ups in this area. As indicated by the Central Bank of Malta in 2015 “the extent of financial exclusion is higher for start-ups and small businesses” (Darmanin and Goffin, 2020), leaving them much more exposed than larger concerns.

Consequently, a digital strategy for the island should take into consideration how to make the best use of Gozo’s resources to ensure that companies in the tech and gaming industry are sustained during this period. A holistic incentive package specific to Gozo is needed to really

ensure the take-off of this industry on the island. As discussed during the INSULEUR Forum held in Gozo in October 2019, the digital economy poses great potential for islands. The Conference recognised that:

Digitalisation can serve as a roadmap for small and insular islands to tackle the difficulties that are generally associated with their geographical isolation by developing stronger links with the main centres of economic activity, developing innovative products and services and diversify business activity . . . islands lend themselves well as proving grounds for new and innovative models targeted at physically bound communities. (Statement of Conclusions and Intent on Developing a Common Digitalisation Strategy for EU Islands, 2020)

Short-Term Mitigating Measures

- Contacting companies to discuss their specific difficulties and providing the required assistance to implement required changes in their business model which would ensure their survival.
- Provide a tax holiday for companies in the digital sector to establish themselves here in Gozo.
- Grant a subsidy on rent for companies in the digital sector.

Long-Term Measures

- Creating an eco-system of incentives specific for Gozo, for business enterprises within the wide spectrum of the digital technology sector alongside a holistic strategy for Gozo in this sector.

3. The Financial Sector

The Financial Sector in Malta has gained substantial importance during the past years aided by legislation which led to the formation of a robust institutional and regulatory framework. During the past months the sector has suffered substantial reputational damage:

Various international reports and agencies have highlighted that the supervisory capacity is not fully in line with the size and international dimension of the financial sector (Seed, 2020, p. 33)

To this end it is also important that specific measures targeted toward this sector are also implemented, apart from measures which should ensure a clear and transparent governance framework.

Nonetheless it is to be noted that while the financial sector has made considerable advancements on the main island of Malta, in Gozo the impact is minimal. The consultation document on an integrated territorial development strategy for Gozo (2018), when analysing the Gross Value Added for both Malta and Gozo:

However, Gozo's contribution in terms of GVA dropped from 4.64% in 2010 to 4.28% in 2015.¹² This may be attributed to a number of factors including Malta's more rapid development, particularly in certain value-added services. Gozo's lowest contribution towards the total gross value added in 2015 was registered in the financial and insurance sector (0.09%); followed by

the arts, entertainment and recreation; repair of household goods and other services, at 0.14% share (Ministry for European Affairs and Equality, 2017, p.3).

Short-Term Mitigating Measures

- Government should come in to support any bond issuer in Malta which may be facing financial difficulties in paying out either interest or capital at the end of the term. Funds could come via the local banks using the guarantee of the Malta Development Bank.
- Government should also use either the CBM or any other entity to act as a market maker in the secondary market in order to provide the required liquidity (at the moment there are more sellers than buyers and this is pushing down prices). If prices in the market fall drastically, this may result in the crash of the corporate bond market in the Malta Stock Exchange. There are about 40,000 individual investors holding around Euro 1.5bn in assets. Most of these are pensioners.

Long-Term Mitigating Measures

- Formulate a packet of incentives to attract companies in the financial sector to establish themselves here in Gozo. This might also include tax benefits.

4. A Tourism Strategy for Gozo

This sector is a very important one for Gozo. Tourism is indicated to contribute around 50% of Gozo's Gross Domestic Product, and 20% in terms of both direct and indirect employment (E-Cubed Consultants, 2015). It is also important to note that Gozo is heavily reliant on the self-catering sector where more than 70% of the total available accommodation is in this sector. This means that in some cases these were owned by operators who would not own multiple accommodation units, and where these would have been most probably their principal sources of revenue. It is also important to note that Gozo is dependent on domestic tourism during the low season.

Most probably, given the present scenario the first limitations that would be lifted would be internal. Thus the first phase of the strategy should focus on domestic tourism, with the second phase on international tourism. Mainly with respect to foreign tourism, the approach should be from "visit now" to "visit later", and developing a welcoming environment inspiring confidence and trust. Within this scenario destinations will need to demonstrate that they are destinations where health and safety are held in high regard. However: "as destinations move towards recovery, the first priority within the communications strategy should be to direct people to national tourism, in order to rebuild the industry from the inside." (Tourism Industry Weekly Impact Call - Week 3, 2020)

A calendar of cultural events targeting domestic tourism should be prepared so that when limitations currently imposed because of public health requirement are lifted, these event can start taking place in order to attract foreign tourists.

Virtual Reality Experiences can be integrated with the www.visitgozo.com including tours and monuments of specific sites in Gozo and also activities linked specifically to Gozo such as its

culinary tradition. Through these measures one can engage with potential visitors in an innovative way, creating a sense of bonding with visitors not only locally but worldwide. This promotion strategy should also see the portrayal of positive stories such as how actors in the tourism industry have come in to help vulnerable people during the pandemic crisis, through their sense of social responsibility.

The Gozo Business Chamber is also making a specific proposal on the diving sector. While this proposal can also be applied to other types of adventure sports such as climbing, this is one of the most important specific niche tourism sectors for the island. According to statistics published by the Malta Tourism Authority, in 2018 there were an estimated 29,344 foreign tourists who visited Gozo only specifically for diving, and this generated an estimated 258, 521 nights in 2018 (Malta Tourism Authority, 2019).

Short-Term Mitigating Measures

- Create incentives for the domestic tourism market, through an enticing cultural calendar of events once health restrictions are eased.
- Encourage operators to provide offers on the accommodation sector, especially the self-catering sector.
- Offer reduced travel rates for ferry crossings between Monday and Thursday.
- Gradually open up the diving sector through an established protocol.
- Entities in the tourism / catering sector should be incentivised to renovate their premises, using this period to upgrade their product.
- Offer subsidised loans and grants for entities in the tourism sector to upgrade their product.

Long-Term Measures

- Promote Gozo in foreign markets through digital virtual reality experiences (integrated in the www.visitgozo.com), and positive stories in the local tourism industry.

5. Important Capital Projects and Major Initiatives for Gozo

Gozo's success during the last few years has been sustained by the fact that Gozo is now considered as an important contributor to the national economy. This has seen for example the construction of the Malta campus of the Queen Mary University of London here in Gozo. Work on important capital projects for Gozo such as the new hospital for Gozo, the new primary school in Victoria, the park and ride facility (which should see the start of a service of E-buses to the Mgarr terminal), and the archaeological museum should continue unabated where possible. Even when this crisis is over such important public capital projects would sustain the confidence in the economy with a positive spill-over effects on other sectors. There should also be an important re-thinking on capital projects which have been on the shelf for a very long period of time. Such projects would not need to consider the uptaking of any green areas, but should consider the redevelopment of existing or polluted areas. An important project in this direction is a multi-storey parking in Victoria, in place of the existing parking

facilities. This should be done underground so as not to impinge on Victoria's historical and authentic landscape.

The economic momentum that Gozo has acquired in recent years should be continued. To this end it is important that projects which were in the pipeline such as the 'fast ferry' service and the airlink between Gozo and Malta should continue. The same applies for the permanent link between Gozo and Malta. As its name suggest such a link would provide the required assurances to the Gozitan economy if any of the above indicated services, including also the ferry service would have to stop for some reason or another. Gozo needs multi-modal forms of accessibility. As already reiterated various times by the Chamber, this project should not mean an increase in construction. Even in this area the Chamber wants a complete rethinking of the whole sector in Gozo, and is putting forward the following proposals. The current scenario of the construction industry in Gozo needs to be addressed, as Gozo is already losing the characteristics which rendered it unique.

Long-Term Measures

- Continue and start important capital projects for Gozo such as the new primary school in Victoria, the new hospital in Gozo, the archaeological museum, the park and ride facility at Ta' Xħajma, a new multi-storey car park in Victoria, and the permanent link between Gozo and Malta.
- Consider the implementation of a multi-store parking facility in Victoria. This is necessary for the regeneration of the area as a hub of economic activity.

6. Construction and Real Estate

The Chamber maintains that proper regulation should be in place in this sector, and that in the case of Gozo, development should never come at a cost to the environment. Safeguarding Gozo's environment means that the green belts between localities are maintained, and that the urban conservation areas are protected. This was already proposed by the Gozo Business Chamber in its budget proposals for 2019 when it highlighted that the subsea tunnel project between Gozo and Malta:

should be accompanied by a holistic plan ensuring the sustainable development of the island of Gozo, such as for example that the green belts between localities are retained, and that the unique character of each locality is preserved. The Chamber believes that the present Outside Development Zones (ODZ) in Gozo should not be touched. Accessibility needs to be accompanied by a sustainable development approach. (Gozo Business Chamber, 2020)

Presently the construction sector has continued to function due to a backlog in demand which was fuelled by the positive economic growth being experienced prior to the outbreak of the COVID-19 pandemic, and by a reduced tax rate of 2%, which applies on any property purchased in Gozo. This measure which was adopted in previous budgets has been considered as having had a positive effect on the property sector on the island. As an initial measure, one could consider reducing this rate to 1% for an interim period. This however should not in any way impinge on Gozo's environment, or lead to any form of relaxation on existing rules. On the contrary, stringent regulation is required to ensure that Gozo's environment is protected. The Government should also continue with the reforms required in the construction industry.

Another short-term measure which is required at this particular point in time relates to promises of sale agreement which have come to a halt. A protocol needs to be established in this sense to ensure that transactions between vendors and purchases can continue. Given the current issues, , letter of intent of Bank Loans with regards to such promises of sale should also be suspended / extended, until suspension on promises of sale is lifted.

Referring to the landmark judgment by the Constitutional Court which was triggered by the challenge against the Planning Authority's approval of a five storey block of fifteen (15) flats located, at a short distance behind the Church in San Lawrenz, an article appearing in a local newspaper argued that the way the property is situated, with one side of the street being an Urban Conservation Area, and the other side of the street being a Design Priority Area is leading to "an aesthetic and architectural imbalance" (Borg, 2020a). The current building spree is leading to the uglification of Gozo's rural landscape. This sentiment was also echoed by Gozitan mayors. In an article by V. P. Borg that voiced the opinion of Gozitan mayors on the subject, it was indicated how "quaint village centres are no longer safe from incongruous forbidding apartment blocks" (Borg, 2020b). The same article argues that the proliferation of five-storey apartment blocks has been facilitated by the change in policy in which the maximum limit of floors has been superseded by a measurable maximum building height.

The situation cannot continue as is, and a specific policy for Gozo needs to be drafted. If the present situation in the construction sector is not addressed this will have negative effects both on a community and also an economical level. On a community level this will impinge the quality of life of Gozo's resident community. On an economical level it will diminish Gozo's attractiveness as a tourism destination which is distinct from the main island of Malta. This is however a sensitive subject which merits considerable consideration and study. To this end the Chamber has set up a committee to study the situation and make specific long-term recommendations about the subject.

Short-Term Mitigating Measures

- Reduce the tax rate to 1% from the present 2% for an interim period in order to enable the market to recuperate.
- Currently promises of sale have been suspended. While the construction sector has continued to operate, transactions between parties cannot continue. A protocol should be issued so that pending promises of sale start again to be processed to ensure that the sector does not come to a complete halt.

Long-Term Measures

- The Chamber has set up a committee to study the situation and make specific long-term recommendations about the subject.

7. The Agricultural, Fisheries and Artisanal Sectors

In 2017 agriculture, forestry and fishing contributed 0.16% of the total Gross Value Added (GVA) of the national economy. This is a very important amount considering that the whole sector contributed 0.9% of the national GVA (NSO 2019, p. 134).

The present situation where the flow of goods and services between countries becomes increasingly difficult, shows the importance to sustain local produce. The agricultural sector in Gozo has been gradually slowing down owing principally to declining profit margins and the fragmentation in land ownership which leads to decreasing economies of scale. A recent editorial in the Sunday Times of Malta summed up these issues when it indicated that:

As local farmers struggle to stay afloat in this sea of imported produce, issues connected to land entitlement, the abandonment of agricultural fields to urbanisation and a drastic drop in the number of young farmers have all affected production capacity and supply (The Sunday Times of Malta, 2020).

As indicated in the same editorial, the COVID-19 pandemic has clearly show that the security of the food supply chain is a critical issue in the current situation:

when global supply chains are suddenly under strain, a weak farming sector heavily impinges on the country's food security and sovereignty. Malta is suddenly highly vulnerable to global trade dynamics (The Sunday Times of Malta, 2020)

A long term plan for this sector is therefore required in order to ensure its sustainability. This means solving long-term issues such as land entitlement and ownership, with proactive policies to combat land fragmentation. This may also include incentives to both the tourism and the agricultural sector to create links and synergies which may be mutually beneficial to both.

There also needs to be re-thinking on the present agritourism policy that allows the granting of certain development on agricultural land. Gozo can develop its own model. However, certain underlying issues such as a clear and transparent regulatory framework which allows access to the country side to the community, in line with what has been developed in other countries should be formulated.

One also needs to rethink how local artisans can be promoted and sustained through an economic model which makes their services economically viable, and through the exploration of new business models which can help artisans make the next step to venture in new areas.

Short-Term Mitigating Measures

- Promote local agricultural produce to encourage the consumption of local agricultural produce.
- The promotion of local goods should also apply to the fisheries sector.
- Promote and assist local artisans to promote their products, sustain their activity and explore new business models.

Long-Term Measures

- Prepare a long term plan for the agricultural sector targeted towards addressing long-term issues such as land entitlements and ownership, with proactive policies to combat land fragmentation. This may also include incentives to both the tourism and the agricultural sector to create links and synergies which may be mutually beneficial to both.

8. Sustainability is Key

The sustainability of our economy will surely be one of the key themes of the post-COVID-19 scenario. Joseph Borg, President of INSULEUR², in his letter to members highlighted how sustainability is the way forward in order to ensure the sustainability of island economies:

Due to the fragile situation of islands, we were always looking ahead. In this context we always believed that it was only through sustainability that we could survive . . . we believe that islands will be the first to benefit from it ('Green Deal'), as they are also the first to experience the negative impacts of climate change. After the world emerges from this crisis there are a lot of lessons that we have to learn, and that we have to share together. This pandemic is clearly showing that we cannot continue to plod ahead as if nothing has happened. We need to do things differently.

Sustainable development means to grow in harmony with the environment and nature, ensuring a better quality of life of inhabitants and future generations. Sustainability, which is transversal to all sectors, doesn't necessary imply additional costs, but with the actual innovative technologies means: efficiency, reduction of costs, optimisation of solutions with a circular economy approach. Integrated sustainability promotes the synergies among energy and water, energy and mobility, water-energy nexus and agriculture, waste and energy, green economy and sustainable tourism.

The dimensions of islands tend to favor integrated solutions, in which power generation through renewables and energy efficiency are combined together with electrical mobility, or desalination solutions.

Similarly, investment in desalination simulates water saving by improvements in water distribution networks and efficient management of water resources. For islands, a transition of especially road transport to electro mobility is a more manageable challenge due to smaller

² The Network of the Insular Chambers of Commerce and Industry of the European Union. Joseph Borg, President of the GBC is also President of INSULEUR.

distances while offering even larger advantages in terms of protection of a vulnerable environment and saving of fuel costs. This especially when combined with a transition to renewable power generation. Islands are unique life-size laboratories, capable of demonstrating on short term the benefits of a transition to electrified transport and renewable power generation.

In general, islands have strong reasons for being self-reliant, and are potential laboratories for confronting climatic changes and environmental threats.

There is a favorable political context that support the above:

- At COP 21, islands have been recognised as an ideal laboratory for technological innovation against climate change;
- The European Commission has launched the “Clean Energy for EU Islands” initiative to support the energy transition of EU islands from 2020 to 2030.
- In 2017, right in Malta, the European Commission and the EU Member States have signed a political declaration to accelerate renewables energy transition in more than 2.700 EU islands;
- Several global institutions such as UN and IRENA have started specific programs for small islands development states (SIDS);
- Greening the Islands has created an observatory aggregating island stakeholders to address and align strategy and plans of governments and corporates, originate innovative circular economy projects, replicating best practices around the world.

Gozo has all the characteristic to become a front-runner among the islands in Europe and internationally in managing the restart in a more efficient and sustainable way.

The stop of the activities due to COVID-19 has significantly reduced the CO2 emissions worldwide and people have experimented a cleaner world as ever. General opinion is against a return to the polluted environment of pre-COVID-19 but more in favor to the long vision and a stable and resilient economy created by the sustainable development. Covid-19 has raised the importance of local independence and self-sufficiency in the energy sector that can be ensured by a circular economy approach.

The Green New Deal was already an integral part of the European project. The European Union aims to be carbon neutral by 2050, with net-zero greenhouse gas emissions by that date.

We now need to integrate recovery with the Green Deal. 17 Member States, including Malta, and Members of the European Parliament (MEPs) have already supported the design of a Green Recovery Plan (The Times of Malta, 2020b). Initiatives should therefore focus on the de-carbonisation of the economy. This means engaging in projects which should focus principally on a transition away from fossil fuels. In this area Gozo can act as a test-bed for actions in this area. Gozo's small size facilitates the implementation of certain actions such as etransport.

Short Term Measures:

- Instead of paying other countries to help Malta reach its renewable energy targets that money should be released to assist businesses to invest in renewable sources of energy.
- Electric vehicles of Maltese residents crossing over to Gozo are to pay a reduced fare. On the other hand Gozitan residents with electric vehicles would cross for free on Gozo channel ferries.
- Refund on electric vehicles for Gozo residents to be raised to € 9,000 instead of the present maximum of € 7,000.

Long-Term Measures

- The present leased ferry should in the long-run be replaced with a hybrid ferry.

Other long-term measures should be the promotion and implementation of:

- investments to create competences on the different green economy sectors and boost green job creation that has a high specialisation and a long term added value compared to jobs related to traditional and obsolete technologies.
- projects related to energy efficiency in hotels and buildings in general; production of renewable energy; local energy communities or cooperative model; "preservation or restoration of natural areas that provide eco-system services"; and remediation of polluted lands (Hallegatte and Hammer, 2020);
- the efficiency of the water cycle in hotels and buildings in general;
- the use of electric cars, restrictions for polluting vehicles in urban areas, specific road path for bicycles, electrification of ports and vessels: charging infrastructure and policy to promote use of electric boats and the use of renewable energy sources for mobility;
- new methods to increase separate collection starting from glass, paper, metals, plastic and organic waste from hotels and markets and then implementation of domestic organic waste collection;
- organic sludge treatment and reuse for agriculture;
- collection and reuse of demolition materials; and
- an awareness campaign on the protection of the environment and sustainability targeted towards the Gozitan population.

9. The Manufacturing, Wholesale and Retail Sectors

According to regional statistics published in 2019, in 2017 manufacturing in Gozo contributed 0.31% to the National Gross Value Added of the national economy.³

These past few years has also seen the emergence of enterprises involved in the wholesale sector who try to compete on a national level, and which are also based in Gozo. Due to the transport costs between the two islands, the profit margins of these entities was already significantly lower than their Maltese counterparts. To this end it is being proposed that the transportation incentives which are presently granted to the manufacturing sector should also be extended to this sector. This would ensure that they would be competing on a level playing field with their Maltese counterparts, and that the investment that they made in the past few years would be sustained. This would also create new jobs in this sector.

The retail sector in Gozo is also suffering considerable difficulties. Despite the gradual reopening of shops and activities it will be difficult for these concerns to sustain their economic activities in the short and medium term. Apart from wages, rents being paid, are the main concerns being faced in this area of activity.

Short-Term Mitigating Measures

- Extend the assistance being provided on the transportation costs between the two islands (re manufacturing sector) to the wholesale sector as well.
- Promote the consumption and use of locally manufactured goods.
- Provide assistance on commercial rents being paid by entities in this sector. This should take the form of a burden sharing mechanism between the landlord, the person renting the premises, and the Government and should be based on ascertained loss of income being sustained. Despite the gradual reopening it will be difficult for these sectors to be profitable in the short and medium term. While this measure is being targeted principally to the manufacturing, wholesale and retail sectors, this assistance should be extended to all sectors who do not own their own premises, included the tourism sector.

10. The Banking Sector

Eurochambres highlighted how:

The need of businesses for financial support – even to ensure adequate working capital - will continue into the recovery period as our entrepreneurs seek to revive their activities while managing the cash flow and balance sheet impact of the lockdown. The revenue tap may well not flow properly again for some time either given the likely knock-on effect of the crisis on consumer behaviour. This all adds up to a very challenging context for millions of previously viable and sustainable SMEs, so every measure possible should be taken to support them from EU level down (2020, p. 3).

³ On a national level the contribution of the manufacturing sector in 2017 to the national Gross Value Added (GVA) was 8.17%. On the main island of Malta the contribution of manufacturing to national GVA was 7.86%.

The banking sector, together with government, should be an important stakeholder in order to inject the required liquidity in businesses, not only to survive but to lead the ‘revival’ once the crisis is over.

Within this context the Malta Development Bank, plays a very important role, as an intermediary with the local banking sector. As indicated by the Chairman of the Malta Development Bank, Josef Bonnici, the Bank has the all-important role to act “a counter-cyclical state instrument”. He also indicated that:

There is agreement that we are dealing with an abnormally concentrated business collapse and the scale of response needs to be proportional to the severity of the economic fallout. Extraordinary times call for an extraordinary policy response. (Bonnici, 2020)

The purpose of the COVID-19 Guarantee Scheme is tripartite: (i) “enable businesses to gain access to vital bank liquidity, which would not have been possible in the absence of the COVID-19 guarantee scheme”; (ii) benefit from a moratorium of six months (which can be extended to one year on a case-by-case basis) on both the interest and the capital repayments; and (iii) “significant interest rate reduction compared to the average rates charged before the introduction of the guarantee scheme” (Ibid.). The COVID-19 Guarantee Schemes will enable banks to issue loans to cover: the salaries of employees; the lease of the establishment including rental costs; unpaid invoices due to a decrease in business revenues; acquisition of material and stock for the continuation of business; expenses directly related to contracts which were cancelled or postponed because of the COVID-19; and maintenance costs.

The Gozo Business Chamber, together with the Gozo Tourism Association were very clear on their position when they outlined that the reduction in interest rates (when first announced) was not enough,⁴ especially when this was compared to what other European countries were doing (Gozo Business Chamber – Gozo Tourism Association, 2020).

The subsequent reduction of the interest rate⁵ with a maximum ceiling (3.5%) was a step in the right direction, though a more aggressive approach is being adopted in other countries. The Gozo Business Chamber is therefore calling for the Malta Development Bank to continuously assess this scheme based on the needs of the market. The injection of liquidity is necessary to ensure that businesses survive, and that they are prepared to restart once this crisis is over.

Short-Term Mitigating Measures

- Continuously assess the COVID-19 Guarantee Scheme based on the needs of the market.

⁴ When the scheme was first announced, the interest rate was to be determined by the Commercial Banks. These “would need to give an interest rate reduction to beneficiaries of one percentage point on the average lending rate as compared to similar facilities prior to the introduction of the guarantee scheme.” (MDB COVID-19 Guarantee Scheme, 2020)

⁵ The Government is going to cover 2.5%.

11. Conclusion

As already indicated in the introduction, this document is not envisaged to be a comprehensive or static document. The objective is that this policy and strategic document should act as a platform for discussion in order to ensure that the economic development registered in the Maltese and Gozitan economy will continue to be sustained considering that at this stage redistributive actions to smoothen the impact of the COVID-19 are the priority.

The Gozo Business Chamber is aware that the COVID-19 pandemic is affecting everyone. Within this scenario cooperation between all the stakeholders is necessary. This is the scope of this policy and strategic document.

Annex 01 – The Proposals submitted through the GBC Survey

The Gozo Business Chamber conducted an exercise among the Gozitan business community, to draw proposals on how to re-start the Gozitan economy post COVID-19. This survey was conducted during the month of March and the following proposals were submitted:

Short Term Mitigating Measures

- Exemption of Taxable Income for 2021 in the tourism sector in order to provide the required stimulus to the economy. Pending dues to government entities should be suspended or reduced substantially.
- Cheaper Utility and Fuel Prices.
- Interest rates on loans charged to businesses should not be more than 1%, preferably 0%. Loans should assist businesses to import goods once the economy is restarted. A moratorium of 12 to 18 months should be applicable on loan repayments and interest charged during this period.
- Provide access to over draft and loans, spread over a reasonable time for repayments with a low rate of interest.
- Injecting liquidity into businesses would make up for the shortage of cash flow, and will help incentivise new investment and combat dangerous deflation.
- Subsidise interest rates on existing credit facilities (loans, Over-drafts) that were acquired and/or operational facilities prior to March 2020.
- Introduce support measures for all economic sectors, as all the economy has been hit by the COVID-19.
- Government assistance on wages should remain throughout 2020. Such assistance may enable business entities even in the tourism sector to engage in activities such as renovation, forward planning and expansion. Moreover, even if these activities re-open, it will be very difficult to re-start and make up for the losses incurred during this period.
- Assistance should be provided on certain fixed costs such as commercial rent, especially for those businesses whose activity came to a complete halt.
- Exempt all business from the payment of VAT until September, so as to provide good discounts when the economy is gradually reopened.
- Incentivise research on local needs, especially basic necessities, identify common purchasing groups to reduce costs. Identify local virtuous businesses that include Malta as a catchment area and try to create a circular economy by focusing on foreign purchases only for raw materials and encourage the production of local produce. Develop specific skills. Introduce green technologies and recycling practices,
- Reopen retail shops gradually even with reduced opening times.
- Reduce temporarily the capital gains tax on property acquisitions.

Long-term measures

- Enable Maltese residents to cross over to Gozo.
- The current threshold of vat exempt transactions for service providers is at Eur 20,000. A long term measures would be to increase this to Eur 30,000.
- Provide a (VAT) tax holiday for 24-48 months for Gozitan operators in the Tourism industry and an (NI) tax holiday for employers (Gozitan operators in the Tourism industry).
- Provide VAT and NI holidays for all sectors.

- Extend Grace Periods on Bank loans, VAT and Social Security for at least 12 to 18 months.
- Increase the De Minimis limit for Gozo from Euro 200k over a 3year period to Euro 700k.
- Reduce Corporate Tax (Tax on profit for companies) from 35% to 20% for qualifying industries in Gozo (such Tourism operators).
- Reduce Corporate Tax (Tax on profit for companies) from 35% to 20% for Companies/partnerships that increase the number of full-time employees by (X) 1.5 over a 12 month period.
- Reduce Corporate Tax from 35 to 15%.
- Give a special differentiated VAT rate for businesses established in Gozo.
- Benefit start-ups with 90% guarantees on all credit facilities acquired in the first 36 months. However the guarantees shall only be utilised for up to 5 years.
- Incentive the domestic tourism market.
- Waive the eco-tax on tourism
- Market Gozo as a distinct destination.
- Diversify the economy so that Gozo is less dependent on tourism.
- Incentivise the requalification of buildings so that they become more eco-friendly
- Encourage professional training on recycling, and green skills in the construction industry.
- Incentivise the use of alternative sources of energy.
- Encourage and incentivise local agricultural produce.
- Boost local consumption by incentivising locally made products/services.
- When markets are opened tourism should be the top-most priority. The tourism market should be incentivised through free flights (e.g. 1 million seats) and last minute deals.
- The tourism industry should be supported in the long term especially when it comes to wages in order to be able to retain a workforce that might not be wholly required in the first months after reopening.
- Enhance the productivity of the local workforce.
- Continue to build on Gozo's cultural calendar with activities of international calibre.
- Make government services in Gozo more accessible to the public and businesses.
- Ease Government licences until the economy recovers.

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