

Rethinking our Economy – GBC Budgetary Proposals 2021



THE GOZO BUSINESS CHAMBER

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Photo included in the Front Page: Joseph Caruana courtesy of www.visitgozo.com

The Document has been compiled by Daniel Borg, Chief Executive Officer of the Gozo Business Chamber

1. Introduction

On the 14 May the Chamber published its '**Post COVID-19 Strategic and Policy Document**'¹. The document examined key sectors of the Gozitan economy specifically: (a) a clear and focused digital strategy for Gozo; (b) the Financial Sector; (c) a Tourism Strategy for Gozo; (d) important capital projects and major initiatives for Gozo; (e) construction and real estate; (f) the agricultural, fisheries and artisanal sectors; (g) sustainability; (h) the manufacturing, wholesale and retail sectors; and (i) the banking sector.

The proposals outlined in that document are still valid, as the Chamber sought to formulate its proposals based on a long-term approach focused on tackling Gozo's underlying economic limitations. That document provided a crucial milestone which aim was to encourage a forward thinking long-term approach.

The scope of the budget proposals being included here is to focus on the most important and urgent proposals which can start to be actioned in the coming year. The proposals focus on four main areas: **transport and connectivity, public infrastructure, sustainability, and initiatives targeted towards the establishment of a digital sector in Gozo**. This is in line with the Government's vision of "securing an innovative, rejuvenated and connected island that delivers social and economic prosperity for all, while at the same time conserving its unique, rural and cultural characteristics".²

With respect to other measures such as the COVID-Wage Supplement and other assistance already being provided by the Government, it is important that the economic impact of the COVID-19 is continuously reviewed to ensure that the required assistance is provided to those economic sectors which are being impacted negatively during this pandemic. To this end, the Chamber is including in this document the results of a survey conducted between the 09th and the 14th September 2020, which tried to assess the impact of the government measures on businesses in Gozo (**Section 3: The Current Business Sentiment**), and also sought ideas from businesses on proposals which can be implemented to alleviate the impact of the COVID-19 on its economy (**Annex 01: The Proposals submitted through the GBC Survey**).

This pandemic has shown the importance of all stakeholders collaborating actively together to achieve common aims and objectives. During the prayer of the Angelus on Sunday 2 October 2020 Pope Francis highlighted how (with reference to the COVID-19 pandemic):

At the same time I hope that, with the converging commitment of all political and economic leaders, work might resume: families and society cannot continue without work . . . It is and will be a problem in the aftermath of the pandemic: poverty and lack of work. A lot of solidarity and creativity will be needed to resolve this problem.³

These are the underlying values that must sustain our recovery.

Gozo's governance structure is very peculiar. The Ministry for Gozo though being a dedicated structure for Gozo is directly responsible for a limited number of areas. To this end it is

¹ Gozo Business Chamber (2020), *Post COVID-19 – Strategic and Policy Document* (online) : <https://gozobusinesschamber.org/wp-content/uploads/2020/05/GBC-Post-COVID-19-Strategy-Document-pdf> [accessed 24 August 2020].

² Ministry for Finance and Financial Services (2020), *Towards a Sustainable Economy. 2021 Pre-Budget Document*, p.62 (online) : https://mfin.gov.mt/en/The-Budget/Documents/The_Budget_2021/PRE_BUDGET_DIGITAL_2021_01.pdf [accessed 17 September 2020].

³ Pope Francis (2020), *Angelus. Saint Peter Square, Sunday 2 August 2020* (online) : https://m.vatican.va/content/francesco/en/angelus/2020/documents/papa-francesco_angelus_20200802.html [accessed 24 August 2020].

important that all the Ministries, authorities and agencies work in cooperation so that Gozo can develop not only in the short, but also in the long term. The setting up of the Gozo Regional Development Authority is an important milestone in order to ensure that Gozo continues to be included in all the national strategic plans issued, as it will play an important part in bringing all the entities together in the present multi-level governance scenario.

2. Gozo's underlying Economic Structure

In 2018, 64% of the people working in Gozo full-time were working in the private sector, while 36 % worked in the public sector.⁴ 60.3% of the business units employed between 1 and 9 persons.⁵

GDP per capita in Gozo at € 15,997 is 64% of the national economy (2018). The growth in GDP in Gozo has lagged behind with the average rate of growth over the period 2014-2018, amounting to 9.8%, compared to 10.29% in Malta.⁶

Tourism plays a very important part in Gozo's economic texture. From a study published in 2015⁷ it is estimated that tourism contributes around 50% of Gozo's Gross Domestic Product, and around 20% in terms of both direct and indirect employment. While the main island of Malta constantly exhibited significant increases in consecutive years, fuelled principally by an increment in foreign inbound tourism, the same cannot be said for Gozo. In 2019, the number of domestic tourists in Gozo was 215,272, a decrease of 5.2% over the previous year (227,121). On the other hand the number of foreign inbound tourists, amounted to 180,979 a decrease of 11.7% over the previous year (204,849).⁸ Same-day visitors to Gozo continued to increase between 2016 and 2019. As indicated by the 2020 regional statistics, "tourism in Gozo and Comino remained highly skewed towards same-day visitors" (p.207). In 2019 the number of same-day visitors to Gozo amounted to 1,346,550 an increase of 37.3% when compared to 2016 (980,553). While same-day visitors have a significant environmental impact, their economic impact is very limited. This means that despite Gozo's over reliance on the tourism sector, the economic activity generated is not correlated to the environmental impact of this sector.

Gozo's over reliance on certain sectors is shown also by the percentage contribution of certain economic segments to its regional Gross Value Added (GVA). Thus for example while in the main island of Malta **construction** contributed 3.5% to its regional GVA in 2018, in Gozo this contribution goes up to 7.5%. The same can be said for **real estate activities**. In the main island of Malta the contribution of this sector to its regional GVA was 4.6% in 2018, while in Gozo this contribution went up to 8.9%.⁹

⁴ This refers to employment by 'place of work'

National Statistics Office (2020), *Regional Statistics. Malta 2020 Edition*, p.91.

⁵ National Statistics Office (2020), *Overview of Social and Economic trends in Gozo* (power point presentation), delivered at the Gozo Regional Committee 28 August 2020.

⁶ EMCS (2020), *Stakeholder Consultation Committee. Programming – European Structural and Investment Funds 2021-2027. Gozo* (Power Point Presentation).

⁷ Ministry for Tourism (2015), *The Contribution of the Tourism Industry to the Maltese Economy. Report prepared for the Ministry for Tourism by EU-Cubed Consultants* (online) : <https://tourism.gov.mt/en/Documents/The%20Contribution%20of%20The%20Tourism%20Industry%20to%20The%20Maltese%20Economy%20-%202014.pdf> [accessed 19 August 2020].

⁸ NSO (2020), *News Release 110/220 Regional Tourism 2017-2019* (online) : https://nso.gov.mt/en/News_Releases/Documents/2020/07/News2020_110.pdf [accessed 11 September 2020].

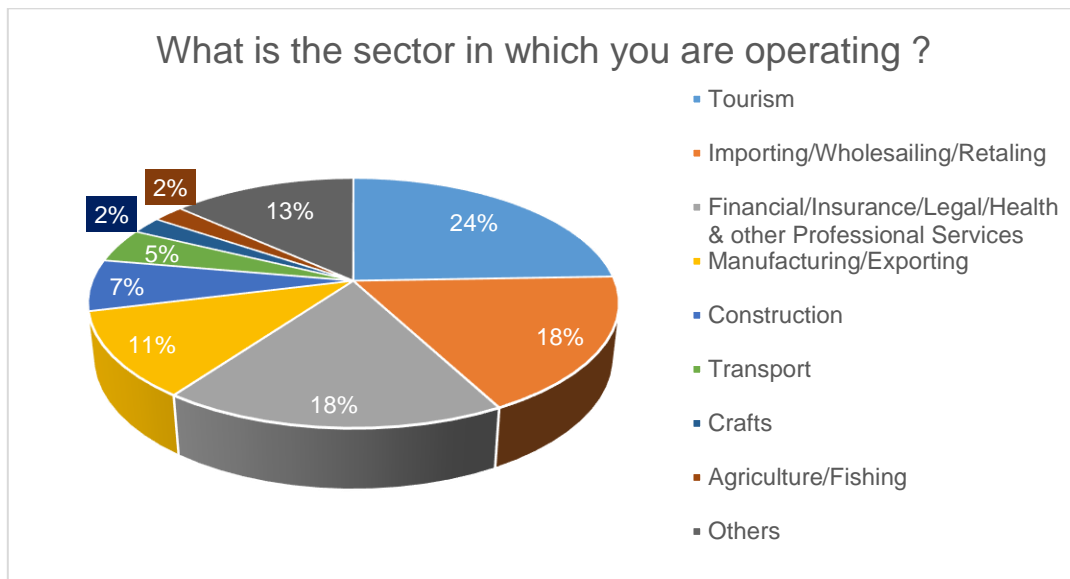
⁹ National Statistics Office (2020), p. 29.

Gozo's over reliance on these sectors calls for a rethinking of our economy in order to have sectors which should ensure Gozo's long-term economic future.

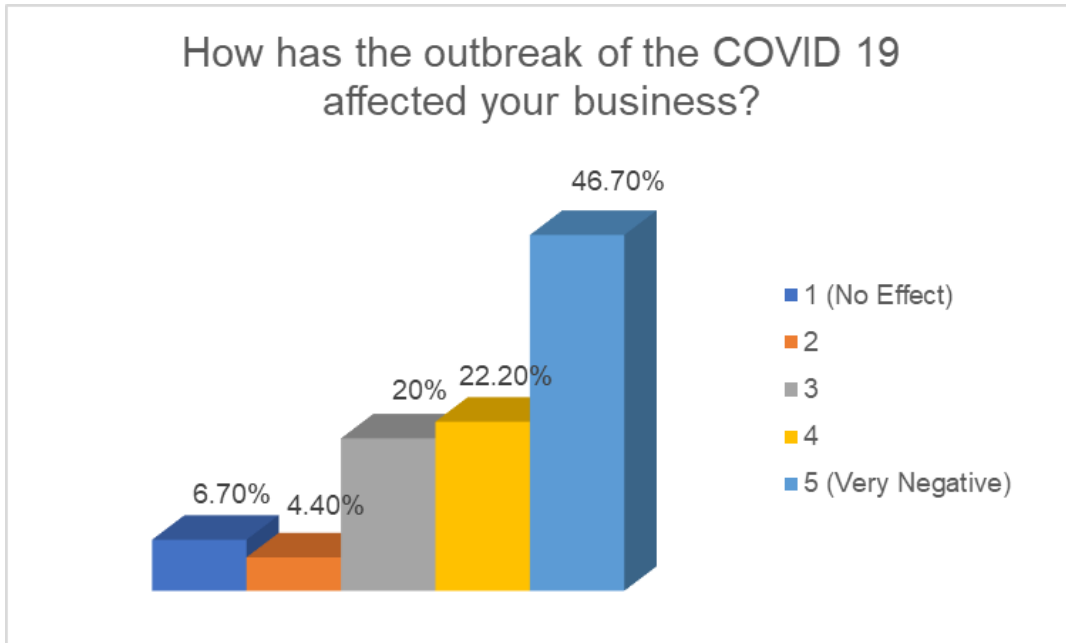
3. The Current Business Sentiment

Between the 09th and the 14th September 2020 the Gozo Business Chamber conducted a survey among members of the Gozitan business community with the intent of obtaining an insight on the current economic sentiment in view of the incentive and aid framework provided by Government during the past months.

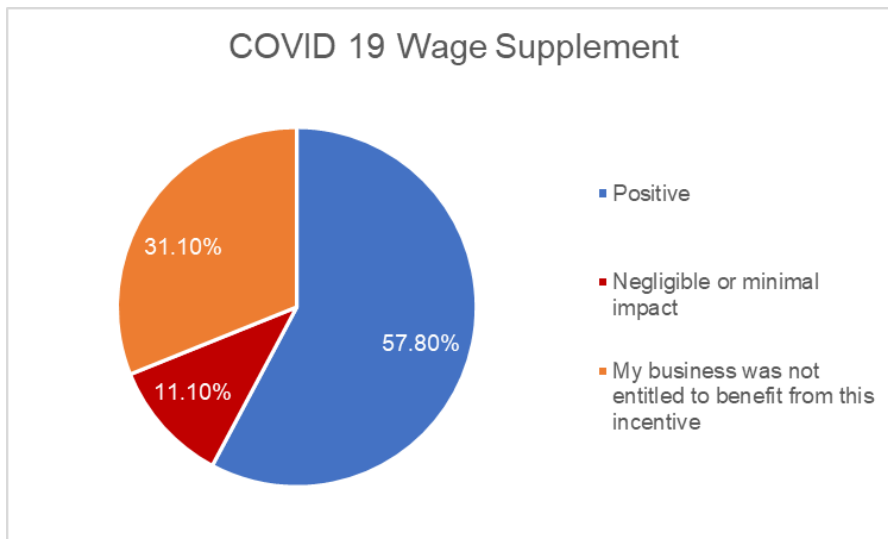
The entities which participated in the survey came from the following sectors. It is to be noted that the majority of the businesses who replied to this questionnaire came from the tourism sector.



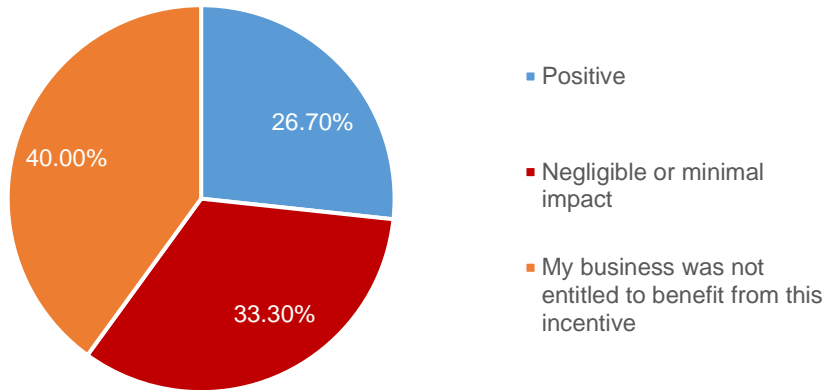
Businesses were also asked from a scale from 1 to 5 how did the COVID 19 pandemic affect their business with 5 being 'very negative' and 1 having 'no effect', the majority (46.7%) outlined how they were effected in a very negative way:



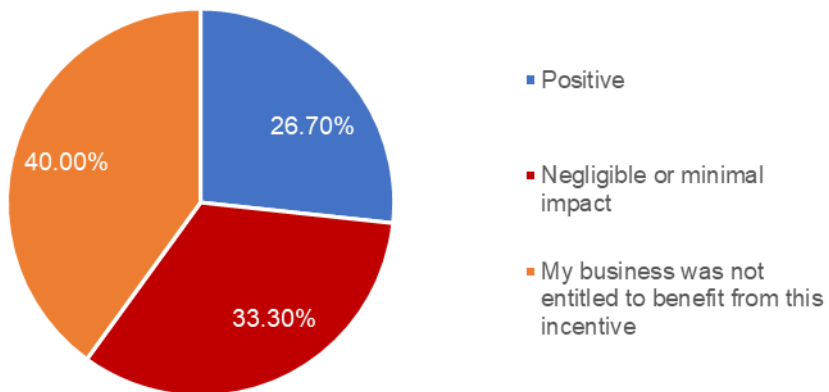
The Survey also analysed businesses' responses with respect to the four main measures implemented by the Government: (a) **COVID Wage Supplement**; (b) **Rent Refund Scheme**; (c) **Electricity Bill Refund Scheme**; and the (d) **Voucher Scheme**. Considering those who were not entitled to these benefits, the majority of the businesses highlighted that these measures impacted them positively.



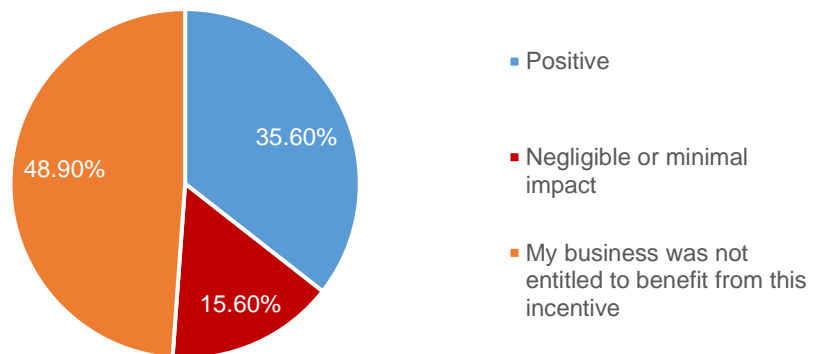
Electricity Bill Refund



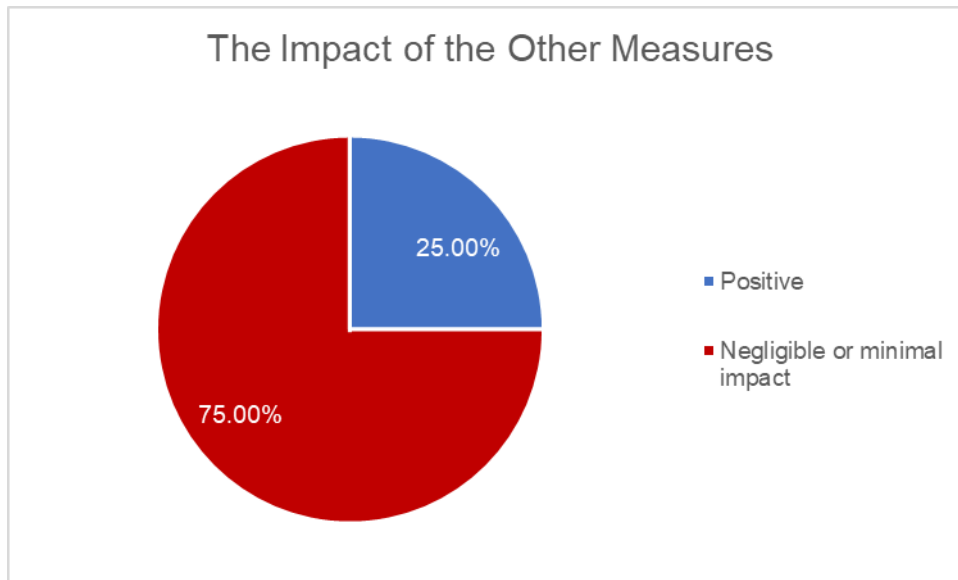
Electricity Bill Refund



The Impact of the Voucher Scheme on your Business

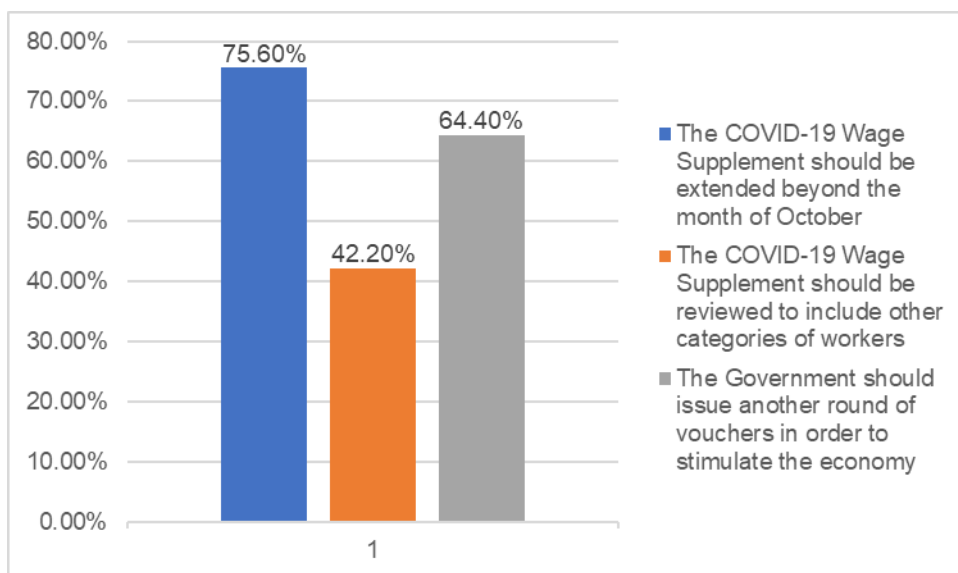


As regards the other measures announced by the Government 25% outlined that these were positive, while 75% highlighted that these had a negligible or minimal impact on their business:



It is also to be noted that:

- 75.6% of the respondents highlighted that the COVID-19 Wage Supplement should be extended beyond the month of October;
- 42.2 % remarked that the COVID-19 wage supplement should be reviewed to include other categories of workers;
- While 64.4% commented that the Government should issue another round of vouchers to stimulate the economy.



4. Transport and Connectivity

Gozo is presently connected to the main island of Malta via a scheduled ferry transport between the two islands. All the island is served with a public transport system through a scheduled bus service reaching all localities on the island. In the past Gozo also had a

scheduled helicopter service linking Gozo to the Malta International airport. A heliport was built for the purpose. Air Malta's subsidiary Malta Air Charter operated a helicopter service to Gozo for ten years when due to subsequent losses the service had to be stopped in 2004. Spanish company Heli Sureste took over but abandoned the route in 2006. Harbour Air Malta deployed seaplanes between Malta's Grand Harbour and Gozo between 2007 and 2012. In May 2019 a call for proposals for a helicopter service between Gozo and Malta was launched by state company Malta Air Travel Ltd¹⁰. At present the service is not yet being offered. Steward Health Care which runs the Gozo General Hospital also operates an air ambulance from the heliport in Gozo.

In the past few years plans for a permanent link between Gozo and Malta are under way. In June 2020 four bidders participated in the pre-qualification questionnaire for the design, building, financing, operation and maintenance of the Gozo – Malta tunnel. Transport Malta has also launched a request for proposal for a conventional ferry service linking Gozo to various other localities in the main island of Malta.

Gozo is often termed as suffering from 'double insularity'. As indicated by the current president of the Gozo Business Chamber, during a seminar discussing SME policies in remote areas of the EU, double insularity implies "being a remote area off another island"¹¹. To this end the plans to ensure that accessibility to Gozo is increased should continue unabated.

While the introduction of a fourth ferry service has helped in easing mobility between the two islands, it is still important that further accessibility both through air and maritime links should be sustained. Encouraging further maritime services to Gozo targeted towards specific segments such as Gozitan employees and students, working and studying in Malta would be a step in the right direction. Moreover, a helicopter service would ensure further accessibility for international travellers.

Furthermore the Chamber believes that the permanent link between Gozo and Malta is an important project for Gozo, and notes with satisfaction the initiatives taken up till this stage, including the publication of the pre-qualification questionnaire for the design, building, financing operation and maintenance of the Gozo-Malta Tunnel and the submissions made. The Chamber believes that this project will solve Gozo's accessibility issues and put Gozo on an equal footing with the main island of Malta.

¹⁰ The Times of Malta, 2019. *Malta Gozo helicopter service plans get off the ground*, The Times of Malta, 21 May. Available at: <https://timesofmalta.com/articles/view/call-for-proposals-for-helicopter-service-between-malta-and-gozo.710588> [accessed 11 September 2020]. And

CH Aviation, 2019. *Helicopter Services brands Gozo tender discriminatory* (online) : <https://www.ch-aviation.com/portal/news/79772-helicopter-services-malta-brands-gozo-tender-discriminatory> [accessed 11 September 2020].

¹¹ Joseph Borg (2010), *Giving Gozo its Due* (online) : <https://www.eesc.europa.eu/resources/docs/borg-speech.pdf> [accessed 12 August 2020].

As its name suggests the permanent 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. Development policies for Gozo should be in place which would adequately cater for this situation, which is presently unsustainable

Proposed Budgetary Measures

- Continue with important projects for Gozo including enhancing further maritime and air links between Gozo and Malta.
- Continuation of the permanent link project between Gozo and Malta.

5. Public Infrastructure

Gozo necessitates certain important initiatives in terms of its infrastructure. Apart from the permanent link between Gozo and Malta, there are another three projects which are of extreme importance to Gozo: (a) the **building of a new hospital for Gozo**; (b) an **underground multi-storey level car park in Victoria**; and (c) a **new breakwater for Marsalforn**.

While the Chamber notes with satisfaction the building of the Barts Medical School, Gozo now merits a new hospital if this development is to be sustained.

Parking in Victoria is also a significant issue. Due to various developments parking has been significantly reduced. This is a long overdue project which should be considered urgently so that the situation would not continue to deteriorate further.

Marsalforn urgently needs a new breakwater. After the destruction of the old breakwater, various catering establishments on the promenade suffer considerable damages during stormy weather.

Proposed Budgetary Measures

- The building of a new hospital for Gozo
- The building of an underground multi-storey parking in Victoria, that would not impinge on Victoria's historical and authentic landscape.
- The building of a new breakwater for Marsalforn harbour.

6. Sustainability

The strengths and challenges being faced by Gozo with respect to sustainability are multifaceted. Islands are more exposed to the effects of climate change. On the other hand due to their small scale, and geographical boundaries they form an ideal lab to test technological innovation aimed at environmental protection.

In 2017 the number of cars per 1,000 residents aged 18 years and over in Gozo was 840, the largest share when compared to other regions on the main island of Malta¹². Sea transport between the two islands also increased year on year. In 2019 the number of sea trips between Gozo and Malta was 27,631 an increase of 17% over the previous year. The number of passengers and vehicles crossing between the two islands also increased. In 2019 the number of passengers who crossed between Gozo and Malta was 5,917,780, an increase of 2.7% over the previous year (5,758,318). The number of vehicles crossing between the two islands in 2019 (1,782,909) also experienced an increase of 7.4% over the previous year (1,659,902).

To this end the Gozo Business Chamber is proposing measures targeted towards decreasing net emissions emanating from the transport sector.

Proposed Budgetary Measures

- Replace the present leased ferry with a hybrid ferry. This should also be considered for the other Gozo Channel vehicles as a long term approach when coming to replace the existing fleet.
- 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.

7. Initiatives targeted towards the establishment of a digital sector in Gozo

The Government has invested substantially in Gozo's **digital connectivity** and **infrastructure**. Gozo's digital innovation hub and the deployment of the second fibre optic link which will offer the needed redundancy for digital companies to set up shop in Gozo has seen the island in the last few years upgrade its digital infrastructure.

At this point in time however Gozo necessitates, with reference to companies in the digital sector, a "holistic incentive package specific to Gozo . . . to really ensure the take-off of this industry on the island"¹³. This would ensure the development of an eco-system of companies in the digital sector in Gozo

¹² NSO (2020), *Regional Statistics Malta 2020 Edition*, p. 148

¹³ Gozo Business Chamber (2020), *Post Covid-19 – Strategic and Policy Document*, p.3 (online) : <https://gozobusinesschamber.org/wp-content/uploads/2020/05/GBC-Post-COVID-19-Strategy-Document.pdf> [accessed 13 August 2020].

Proposed Budgetary Measures

- 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 which establish themselves in the Digital Innovation Hub.
- 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.

8. Conclusion

This document is envisaged to put forward proposals in view of the Government's upcoming budget. Given the difficulties created by the COVID-19 pandemic and Gozo's structural economic limitations, the document strives to propose budgetary measures which the Gozo Business Chamber thinks should start a process of change within the Gozitan economy. This is long overdue. The economy cannot continue to remain dependent on certain sectors such as tourism, construction, and real estate alone.

As indicated by the survey conducted by the Gozo Business Chamber, the measures implemented by the Government were instrumental for businesses to survive during this period. To this end the Government should continue to monitor the situation to provide the required aid, along the lines already provided for through these schemes. As indicated in the introduction government, businesses and civil society need to cooperate together during this crucial point in time in order to navigate through these uncharted waters, and achieve sustainable economic growth which should benefit society as a whole.

Annex 01 – The Proposals submitted through the GBC Survey

The survey conducted by the Gozo Business Chamber also asked respondents on measures which should be implemented by the Government to stimulate the Gozitan economy in the upcoming budget. The following provides an overview of the responses received:

- Decrease VAT to 15% - 10% for Gozitan businesses
- Extend the COVID wage supplement until April 2021 especially those sectors which are to the greatest extent dependent on foreign tourism.
- Reduce income tax.
- Keep the property stamp duty at a rate of 1.5% for purchases after March 2020.
- Eliminate the business succession tax when businesses remain within the same family
- Increase the grant on electric cars sold to Gozo residents by 20% on the current €7000.
- Provide incentives to the tourism sector to refurbish their premises during the upcoming winter period and to train their staff.
- Ensure that Gozo's cultural calendar is revived once the pandemic is over.
- The voucher scheme should be extended to all businesses which were assisted through the COVID-Wage supplement.
- Provide the required liquidity to the construction sector through soft loans to alleviate the detrimental cashflow currently being experienced.
- Assist traditional trades and crafts to ensure that these are revived and contribute in a significant to the local economy.
- Start as many public projects as possible to create jobs and increase incentives for foreign companies to operate from here thus creating more jobs.
- Companies operating more than one commercial premises, applying for the Rent and Electricity refund schemes should be not be penalised from benefitting from these schemes if they have less than 10 employees registered in the Wage Supplement Scheme for every commercial premises they operate.
- Provide incentives to employers to encourage teleworking.
- Provide vouchers that can be spent in food stores, groceries, butchers etc
- Assist business entities in the entertainment sector, since events were again stopped completely in August by providing the full wage supplement. Moreover, assistance should be provided by covering the whole national insurance contribution.
- Provide financial support to start new business ideas.
- Government should lower or waive national insurance contributions for self employed, who have seen a reduction in revenues of at least 25% or more.
- Professional service providers have not benefited from the Government schemes, thus more schemes should be tailored for professional services providers.
- Aid with capital investment and renovation.
- Electricity subsidies should be given to all businesses related to agriculture and tourism irrespective of number of workers.
- Crossings on the Gozo Channel ferry on a Sunday should be free during the winter period. A scheme providing for reduced fares could also be operated during the winter period.
- The accountancy profession should be included in the COVID-19 wage supplement scheme as debtors are not paying due to the present cashflow problems.
- Waive license fees for 2021.