



**Expert evaluation network
delivering policy analysis on the
performance of Cohesion policy 2007-2013
Year 3 – 2013**

**Task 2: Country Report on Achievements of
Cohesion policy**

Malta

Version: Final

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**A report to the European Commission
Directorate-General Regional Policy**

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List of abbreviations

- AIR Annual Implementation Report
- BoV Bank of Valletta
- CA Certifying Authority
- DOC Department of Contracts
- EC European Commission
- EDP Excessive Deficit Procedure
- EE Energy Efficiency
- EEN Expert Evaluation Network
- ESPON European Spatial Planning Observation Network
- ETC Employment and Training Centre
- FDI Foreign Direct Investment
- FEI Financial Engineering Instruments
- FIT Feed-In Tariff
- FLPG First Loss Portfolio Guarantee
- FTE Full-Time Equivalent
- GFCF Gross Fixed Capital Formation
- GHG Greenhouse Gas
- IB Intermediate Beneficiary
- ITT Instructions to Tenderers
- JEREMIE Joint European Resources for Micro to Medium Enterprises
- MA Managing Authority
- MBB Malta Business Bureau
- MC Monitoring Committee
- MCAST Malta College for Arts, Science and Technology
- MEPA Malta Environment and Planning Authority
- MTE Mid-Term Evaluation
- NFRP National Flood Relief Project
- NRP National Reform Programme
- NSRF National Strategic Reference Framework
- OP Operational Programme
- PA Priority Axis
- PSC Project Selection Committee
- PV Photovoltaic
- RES Renewable Energy Sources
- S&T Science and Technology
- SBA Small Business Act
- SEA Strategic Environment Assessment
- SFD Structural Funds Database
- SSTI South Sewage Treatment Infrastructure
- SWH Solar Water Heater
- TEN-T Trans-European transport network Transport
- UoM University of Malta

Executive summary

This report seeks to assess the progress of implementation and achievements reaped with respect to Cohesion policy in Malta during the 2007-2013 programming period in terms of Structural and Cohesion funds.

The Managing Authority (MA) aims to address Malta's challenges, as outlined in the National Strategic Reference Framework (NSRF) as well as its commitments under the National Reform Programme (NRP) and EU 2020 growth strategy, through six priority axes (PA): (i) enhancing knowledge and innovation; (ii) promoting sustainable tourism; (iii) developing the Trans-European transport network Transport (TEN-T); (iv) climate change and resource efficiency; (v) safeguarding the environment and risk prevention; (vi) urban regeneration and improving the quality of life. The EU allocated EUR 728.1 million to Malta under Operational Programme (OP) I for the period 2007-2013. Changes were proposed by the MA to the Monitoring Committee (MC) in November 2011 which led to the publication of a revised version in May 2012. They were mainly triggered by: (a) the availability of funds under PA 3 following savings registered with respect to the TEN-T Phase I project as well as the withdrawal of one maritime project; (b) the outcome of the Mid-Term Evaluation; and (c) the need to further align available funds under the ERDF with the EU 2020 targets. These changes were, therefore, neither reflective of the recent economic recession, nor related to problems of a national budget constraint nature.

The number of projects approved continued to increase in 2012 reaching 110 from 88 a year earlier. Out of these, 101 are projects amounting to a total of EUR 700.2 million and 9 are Aid Schemes with a total commitment of EUR 54.9 million. The percentage of committed to allocated funds for almost all PAs exceeds 90% with the exception of PA 4 though this is mainly due to the shifting of a major project from PA 4 (ERDF) to PA 5 (Cohesion Fund) in 2012. Overall contracting and disbursements also increased in 2012. Contracting increased by 22% to EUR 486.8 million in 2012 whereas total disbursements increased by 50.4% to EUR 318.6 million mainly reflecting a sharp increase in payments for projects under PA 3. Certification of funds increased by 41.7% in 2012 over 2011 which may reflect new procedures introduced in 2011 on speeding up the certification process. Total certified public eligible funds under both ERDF and Cohesion Fund amounted to EUR 260.5 million in 2012 representing 30.4% of allocated funds.

The large part of Community Funds, by the end of 2012, was used for projects related to environment and risk prevention. This is followed by road transport, tourism and culture, and social infrastructure. Details of achievements by policy area follow.

- a) 14.2% of total funds have been committed to "enterprise support". Interventions undertaken within this PA are very broad and include improvements in research facilities, the upgrading and setting up of enterprise infrastructure as well as other assistance to enterprises in the form of grants (including aid schemes) and measures intended to facilitate access to finance with the help of a Financial Engineering Instrument (FEI).
- b) 24.4% of total funds under OP I have been committed to "transport". Road and maritime infrastructure have been given particular attention within this PA reflecting mainly progress

under “Cohesion Fund 117” (TEN-T phase I), for which EUR 42.8 million was contracted by the end of 2012, as well as the refurbishment of works on the Marsaxlokk and Valletta breakwaters (“Cohesion Fund 124”) and the continuation of works on the Cirkewwa Ferry Terminal (“Cohesion Fund 198”).

- c) 32.7% of total funds under OP I have been committed to “environment and energy”. Great efforts were made to minimise the effects of solid and liquid waste on the environment. In terms of the former, the rehabilitation of landfills was crucial in reducing the amount of emissions caused by such disposal of waste. Emissions pertaining to liquid waste were also targeted with all sewage effluent now being treated before being discharged into the sea. Progress was also achieved on rain water harvesting as well as in reducing the problems pertaining to flash flooding on the occurrence of heavy storms. With respect to energy, effort was made to encourage greater investment in Renewable Energy Sources (RES) and Energy Efficiency (EE) schemes. However, in focussing excessively on this, indicators that aim to address other objectives show no achievements to date.
- d) 27.0% of total funds under OP I have been committed to “territorial development”. With respect to measures aimed at tourism, priority was given to embellish Malta’s tourism product as well as address innovation, though little was done to further develop niche sectors within this sector. With respect to urban regeneration and improving the quality of life, various infrastructural projects were implemented aimed at improving infrastructure within the education and health sectors as well as improving e-accessibility, and valorising the country’s urban heritage, among others.

These projects have contributed to bettering Malta’s competitiveness position, address existing deficiencies in Malta’s physical infrastructures particularly those related to the environment, energy, transport and Information and Communication Technology (ICT). Furthermore, they helped to introduce measures to mitigate and adapt to climate change, invest further in Malta’s human capital development, particularly with respect to health and education, as well as address regional disparities.

Two evaluations on OP I have been carried out during the current programming period, namely the ex-ante and mid-term evaluations (MTEs), as reported in previous Expert Evaluation Network (EEN) reports. A thematic evaluation is currently underway that aims to assess the contribution of OP I initiatives to competitiveness and improved quality of life, with a first update expected in 2014 and a final update in 2015. No other evaluations are expected to be undertaken on OP I during the current programming period.

In addition to ongoing hurdles related to administrative and bureaucratic procedures, the implementation and take-up of funds within this programming period is suffering from strict state aid conditionality. Rules need to be clearer and more predictable in order to ensure a smoother implementation. This is even more important in light of the fact that Malta is expected to move out of the Convergence objective in the next programming period thereby becoming eligible to even tighter state aid rules. Moving into the transitional regional category will also imply a reduction in the co-financing rate, making it harder for beneficiaries to absorb EU funds. The MA could mitigate this by funding communication and information activities, aimed at behavioural change, which may be conducive to project effectiveness. These include, for

instance, campaigns which are also considerably important to ensure the success of a project (e.g. green transportation in addition to the improvement of road quality).

The next programming period could also benefit from greater emphasis on adaptation to climate change, enterprise assistance in the form of aid schemes or FEIs, as well as regional disparities between Malta and Gozo. Lastly, the difficulties experienced at implementation stage during the current programming period could be addressed in the next period by utilising funds under OP I (PA 7) to ensure that technical assistance is available for the whole programming period; this would be crucial to assist the project application process both with respect to public and private beneficiaries.

1. The socio-economic context

Main points from the previous country report:

- The Maltese archipelago includes three islands: Malta, Gozo and Comino. There are relevant regional disparities and these concerns, in particular, the island of Gozo.
- Following the rebound in 2010, the Maltese economy experienced a slowdown in 2011 and the first half of 2012, with real growth rates at 1.9% and 0.9% respectively. Gozo continues to lag behind in terms of growth (5.3%) in relation to the national average (6.2%). In terms of employment levels, full-time jobs increased by 1.6% between 2009 and 2011 in Gozo, compared to a national average of 2.9%.
- The disparities between Gozo and the average national performance are a reflection of longer term structural trends affecting the development of the smaller island, rather than a direct consequence of recent developments. However, the widening disparities in development indicators have led to discussions being opened with the European Commission (EC) in line with the 2003 Declaration by Malta on the Island Region of Gozo¹.
- Malta did not face the financial turmoil and consequent credit crunch that affected a number of other EU member states. This relieved fiscal policy from the need for extraordinary financial and economic rescue efforts and, as a result, had no effect on a national or regional basis. However, constraints on fiscal expenditure, as imposed by the Stability and Growth Pact, continue to impinge.
- The allocation of regional development funds remains a top priority for the Government which has not been affected by efforts aimed at reaching fiscal targets nor have national issues diverted attention away from the regional issues affecting Gozo.

Developments since the 2012 report

The Maltese islands recovered well from the recession with a growth in real GDP of 4.0% in 2010². Economic activity, however, slowed down in more recent years with real GDP growth amounting to 1.6% and 0.8% respectively in 2011 and 2012. Most recent data pertaining to 2013³ show a real growth of 1.8% in the first quarter and of 1.7% in the second quarter compared to the same quarters last year⁴. This compares well with the average of the EU-27

¹ The 2003 Declaration by Malta on the Island Region of Gozo which states that "...the island region of Gozo has economic and social specificities as well as handicaps arising from the combined effects of its double insularity, its environmental fragility, its small population size coupled with a high population density as well as its inherent limited resources". The Declaration furthermore requires that: "before the end of each Community budgetary period entailing a redefinition of the Community regional policy, Malta will request that the Commission report to the Council on the economic and social situation of Gozo and, in particular, on the disparities in the social and economic development levels between Gozo and Malta.

² Source: Eurostat http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_gdp_k&lang=en

³ NSO (2013), "News release – GDP: Q2/2013", Reference number: 170/2013, 6 September 2013.

⁴ Refer to Annex Table A.

When considering a 4-quarter sum, real GDP growth in 2012q3-2013q2 amounted to 1.6% when compared to the same period last year.

member states that are still experiencing negative growth rates in real GDP in the first two quarters of this year (y.o.y) following the contraction in economic activity by 0.4% in 2012⁵.

The island of Gozo, however, suffers from greater handicaps than mainland Malta particularly due to its double insularity, with sea ferry services to Malta virtually being the only means of transport available to it. Regional data⁶ confirm that Gozo generally lags behind Malta in terms of economic growth (with growth in Gross Value Added -GVA- averaging 4.5% and 2.5% in 2010 and 2011 respectively compared to 6.1% and 3.0% for mainland Malta over the same time period)⁷. Gozo, however, proved to be more resilient than Malta during the recessionary period, mainly due to its smaller dependence on exports⁸.

As reported in the 2012 EEN report, the disparities in development indicators between the two islands have led to negotiations being initiated in 2012 between the government and the EC, in line with the 2003 Declaration by Malta on the Island Region of Gozo. The outcome of these discussions is yet unknown. However, the disparities between the two islands reflect long-term structural issues rather than cyclical effects related to the recent recession. Indeed, there has been indication that a good part of the additional funding under Heading 2 for the next programming period will be earmarked for Gozo thus ensuring that Gozo will receive more funds than it has ring-fenced under the current programming period.⁹

Malta did not introduce austerity measures in the aftermath of the economic crisis though, since accession to the EU, it has been subject to three Excessive Deficit Procedures (EDPs) and, as a result, its deficit has been under the scrutiny of the EC. The first was launched by the Council decision of 7 July 2004 and was abrogated by the Council on 5 June 2007. The second was launched on 7 July 2009 and abrogated on 4 December 2012, following a one year extension, to 2011, due to “unexpected adverse economic events¹⁰ with major unfavourable consequences for the government finances that occurred in 2010”¹¹. The EC, however, re-opened proceedings against Malta in May 2013 on account of its 2012 deficit exceeding the 3% of GDP reference value¹² when this excess was not due to an exceptional circumstance. Malta is expected to rectify its excessive deficit by 2014¹³.

The effects of the crisis were relatively shallow and short-lived compared to other EU member states. As a result, regional policy, which is reflected in Malta by specific consideration of the

⁵ Real GDP growth of -1.5% and -0.2% were registered for the first and second quarters respectively of 2013 (y.o.y.).

Refer to Annex Table B.

⁶ NSO (2012), “News release – Regional GDP: 2007-2011”, Reference number: 249/2012, 24 December 2012.

⁷ Refer to Annex Table C.

⁸ Data on hotel occupancy published by NSO indicates that the majority of bed nights in Gozo are occupied by residents while those in Malta by non-residents. Details can be found at: http://www.nso.gov.mt/statbase/data_table_display.aspx

⁹ Malta EU Steering Committee, News Issue 99, February 2013

¹⁰ This refers to the economic recession in 2009.

¹¹ http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/12603_commission/2_013-05-21_mt_126-3_en.pdf

¹² The deficit to GDP ratio in 2012 reached 3.3%

¹³ http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/12607_commission/2_013-05-29_mt_126-7_commission_en.pdf

island of Gozo's needs, has not been affected. In addition to Malta's better performance in economic growth vis-à-vis the average of the EU-27 member states, Malta also performed well with respect to its unemployment ratio. During the recessionary period, Malta's unemployment rate peaked at 6.9% in 2009 before declining in 2011 to 6.5% and 6.4% in 2012. On the other hand, EU and euro area unemployment rates are still on the rise having reached 10.5% and 11.4% respectively in 2012¹⁴. Furthermore the employment rate, which dropped marginally in 2009, continued to edge upwards reaching a growth rate of 2.2% in 2012.

2. The regional development policy pursued, the EU contribution to this and policy achievements over the period

The regional development policy pursued

Main points from the previous country report:

- The country's priorities are re-affirmed by national policy documents, including the NRP¹⁵, which aims to address the EU 2020 targets. Notwithstanding regional policy directed at Malta in its entirety, distinct characteristics of the island of Gozo led to the Maltese government allocating 10% of Structural and Cohesion Funds towards it. Regional specificities of the island of Gozo are also addressed through the Eco-Gozo vision document¹⁶.
- During the current programming period, Malta is also benefitting from funding under the European Territorial Cooperation Objective and is currently participating in six Territorial Cooperation programmes¹⁷.
- The EU allocated EUR 728.1 million to Malta under OP I for the period 2007-2013. Total funds under OP I, including co-financing, amount to EUR 856.6 million.
- Changes to OP I were proposed by the MA to the MC in November 2011 which led to the publication of a revised version in May 2012¹⁸. These changes came about due to (i) the country's ability to absorb funds by shifting towards projects presenting a higher probability of successful absorption; (ii) the implementation of actions which are more likely to give longer term development dividends and which are more in line with growth strategies at the level of the EU. In addition, some changes took place in line with recommendations put forward in the MTE.

¹⁴ Source: Eurostat.

¹⁵ Ministry of Finance, the Economy and Investment (2011), "Malta's National Reform Programme under the Europe 2020 Strategy", Valletta, Malta.

¹⁶ Ministry for Gozo (2009), "Eco-Gozo, a better Gozo: proposed action 2010-2012", November 2009, Malta.

¹⁷ This also includes the ENPI CBC MED Programme that is not funded by ERDF.

¹⁸ PPCD (2012), "Operational Programme I, Cohesion policy 2007-2013: Investing in Competitiveness for a Better Quality of Life", May 2012, Malta.

Developments since the 2012 report

Malta's OP aims to address the country's challenges, as outlined in its NSRF as well as its commitments under the NRP and EU 2020 growth strategy, through six priority axes: (i) enhancing knowledge and innovation; (ii) promoting sustainable tourism; (iii) developing the TEN-T; (iv) climate change and resource efficiency; (v) safeguarding the environment and risk prevention; (vi) urban regeneration and improving the quality of life. Total funds under OP I, including co-financing, amount to EUR 856.6 million.

As reported in the AIR for 2011, a number of changes to the OP were proposed by the MA to the MC in November 2011. The MC approved these changes after which the MA finalised the Strategic Environment Assessment (SEA) screening. On 13th March 2012, the revised OP was submitted to the EC for approval whereby it was deemed admissible on 28th March 2012 and formally approved on 24th May 2012.

Since the revised OP was not yet approved by the EC, the 2011 AIR did not report these changes in its tables. These changes have now been included in the 2012 AIR. They were mainly triggered by three factors:

- a) the availability of funds under PA 3 following substantial savings registered in the contracting of the TEN-T phase I road infrastructures as well as the withdrawal of one of the maritime projects due to heritage issues in the site proposed;
- b) the outcome of the MTE; and
- c) the need to further align available funds under the ERDF with the EU 2020 targets.

The result of this assessment led to a shift of EUR 24 million in allocated funds from PA 3 to PA 5 representing a decline of 14.2% in allocated funds to the former and an increase of 14.5% to the latter¹⁹. The scope of PA 5 has also been extended to include risk prevention in addition to safeguarding the environment. There has also been a change to PA 4 which will also focus on resource efficiency in addition to climate change so as to be better able to address the EU 2020 targets on renewable energy.

During 2012, the interpretation of Article 55²⁰ and its applicability for projects that yield cost-savings²¹ and revenue²² continued to be a problem since the nature of these projects may be construed to constitute state aid. This is due to the fact that the generation of electricity, which is not solely used for internal purposes but is sold on the grid, may be interpreted to lead to unfair competition. In addition, the prolonged development of the Feed-In Tariff (FIT) policy (pertaining to issues including the rate applicable)²³ led to uncertainty and delays in the awarding of these projects. It was decided that small EE and RES projects, valued at less than EUR 1 million, would be directly considered outside the scope of Article 55²⁴ and, therefore, no longer required to apply the funding-gap methodology, including financial studies. In addition,

¹⁹ Refer to Annex Table D in the Annex.

²⁰ Council Regulation (EC) No 1083/2006.

²¹ Resulting from Energy Efficiency (EE) actions.

²² Primarily from the Feed-In Tariff (FIT) of RES projects.

²³ The policy was announced in July 2010 and subsequently the legal notice was issued in September 2010.

²⁴ This was confirmed by the EC in a letter to the MA dated 25th May 2012.

the full funding rate of 85% has been altered whereby a 50% flat rate is now applicable for such small projects. However, whilst this was a much welcomed simplification, the lower co-financing rate led to a reduction in the amount of funds committed. The success of this PA must also be considered in light of the fact that there are a large number of beneficiaries falling under PA 4 which gives rise to increased fragmentation of projects under this axis. Furthermore, the limited and non-technical capacity of Beneficiaries, especially the non-governmental/voluntary organisations that have to implement such projects, also restricts the effective implementation of these projects.

As mentioned in previous EEN reports and reiterated here, the recent economic recession was shallower and shorter lived in Malta than in other EU member states. As a result, ERDF and Cohesion Fund were not required to offset national budget constraints. The same can be said with respect to a credit crunch. However, the Joint European Resources for Micro to Medium Enterprises (JEREMIE) scheme²⁵ did address a long-term structural lacuna particularly with respect to the strong dependence of the local economy on a risk-averse banking sector which led to limited access to finance for SMEs.

During the 2007-2013 programming period, Malta also participated in five European Territorial Cooperation Programmes funded by ERDF but does not manage any of these: (i) the Italia-Malta programme; (ii) the Med programme; (iii) INTERREG IVC; (iv) Interact II; and (v) ESPON.

Policy implementation

Main points from the previous report:

- The number of projects implemented continued to increase in 2011 to 88 from 74 a year earlier. The number of operations under Aid Schemes also increased from 448 in 2010 to 634 in 2011, with 160 of these reported to have been completed.
- The amount of funds committed grew by merely 2.1% amounting to approximately EUR 609 million, or 71% of the total funds allocated under OP I.
- Total disbursements increased by EUR 81.8 million; EUR 62.6 million reflecting disbursements under PAs that make use of ERDF, whereas EUR 19.2 million attributable to Cohesion Fund. The lowest level of disbursements related to PA 3 (Developing the TEN-T network) and PA 4 (Mitigation and adaptation to climate change).
- The total public share verified by the MA amounted to EUR 87.2 million in 2011, which were then certified to the EC by the Certifying Authority (CA). This brought the total certified amount by the end of 2011 up to EUR 183.8 million, representing 21.5% of total OP I allocation.
- Reasons for delays in implementation include the time-consuming project selection process, compounded by the fragmentation of projects received, bottlenecks in public procurement, and delays arising from complex planning and environmental permitting processes.
- A number of initiatives have been introduced in 2011 both with respect to speeding up the project selection process as well as increasing the efficiency of public procurement.

²⁵ This refers to the First Loss Portfolio Guarantee (FLPG) Scheme

Developments since the 2012 report

The number of projects approved continued to increase in 2012 reaching 110 from 88 a year earlier. Four of these relate to PA 2, two to PA 3 (one major project), 16 under PA 4, and two under PA 5 (one major project)²⁶. Out of the 110 projects, 101 are mainstream projects²⁷ amounting to a total of EUR 700.2 million and 9 are Aid Schemes with a total commitment of EUR 54.9 million. Total funds committed by the end of 2012, therefore, amount to EUR 754.9 million, or 88.1% of the total allocated, representing an increase of 24% over a year earlier²⁸. The progress ratio²⁹ of almost all PAs exceeds 90% (with 100% registered for PA 2, 3 and 5³⁰) except for PA 4 wherein total committed to allocated funds amounted to merely 36.6% in 2012³¹. The poor performance of the latter is mainly due to the shift from PA 4 (ERDF) to PA 5 (Cohesion Fund) of the National Flood Relief Project (NFRP). On the other hand, the greatest improvement was registered with respect to PA 3 whose progress ratio increased from 46.6% in 2011 to 100% in 2012; this was mainly attributable to commitments under “Cohesion Fund 125”, related to the improvement of the TEN-T road infrastructure (phase II), as well as the refurbishment and upgrading of the Deep Water Quay (“Cohesion Fund 260”).

On a regional basis, by the end of 2012, 9.7% of committed public funds under OP I were earmarked for Gozo.³² Particular attention has been given to tourism and cultural projects under the priority theme “territorial development” wherein Gozo benefits from one-fourth of total funds committed to this sub-category. One-fifth of total funds relating to energy infrastructure and 12% with respect to roads are also dedicated to Gozo.

Overall contracting and disbursements also increased in 2012. A 22% increase was registered for the former, increasing to EUR 486.8 million in 2012. Total disbursements under OP I increased by 50.4% in 2012 (y.o.y) mainly reflecting a sharp increase in payments for projects under PA 3 (Cohesion Fund)³³. This increase reflects steady progress in activities on the ground especially with regard to the roads Major Project. Total payments under Cohesion Fund (PA 3 and PA 5) by 2012 amounted to 38% of total Cohesion Fund allocation with the increase in payments experienced under PA 5 mainly reflecting the shift in the NFRP from PA 4. Disbursements under the ERDF axes more than doubled in 2012 over 2011 levels. Total payments (as a % of allocated funds) under ERDF amounted to 36% in 2012 though disbursements under PA 4 remain particularly low at 16.3% of total allocated funds.

This increase was also registered in the certification of funds which grew by 41.7%³⁴ in 2012 over 2011. This may reflect the new procedures that were introduced in 2011 (reported in the 2012 EEN) on speeding up the certification process whereby the CA is now carrying out checks

²⁶ Two projects were later withdrawn.

²⁷ 90 ERDF projects, including TA and JEREMIE, and 11 Cohesion Fund (3 of which pending approval by the Commission).

²⁸ Refer to Annex Table E.

²⁹ This shows the ratio of committed to allocated funds.

³⁰ Commitment for PA 5 is 99.9%.

³¹ Three large projects were approved in 2013 raising the percentage of committed to allocated funds under PA 4 to 70.0%.

³² Details of the commitments of community funds can be found in Annex Table F.

³³ Refer to Annex Table H.

³⁴ Refer to Annex Table I.

concurrently with the MA; this is expected to accelerate the time lag between verification by the MA and certification by the CA. Total certified public eligible funds under both ERDF and Cohesion Fund amounted to EUR 260.5 million in 2012 representing 30.4% of allocated funds.

Procurement continued to present the challenges reported in the most part in previous EEN reports. These include, among others:

- a) the time-consuming project selection process accentuated by the fragmentation and quality of submissions received (including for Aid Schemes), as well as the availability of members of the Committee and limited staff capacity and expertise at the Intermediate Beneficiaries (IBs);
- b) bottlenecks in procurement resulting from its centralisation, albeit providing quality assurance, including delays in the vetting process prior to launch, delays due to the non-compliance of presented bids with the Instructions to Tenderers (ITT), delays in vetting the evaluation report, delays due to appeals and lengthy preparation of contracts, as well as delays due to incomplete documentation at payment stage³⁵; and
- c) delays arising from the complex planning and environmental permitting processes particularly with respect to large scale infrastructural projects that require a number of studies and consultation and that are accentuated by Malta's territorial profile.

The MA took steps to mitigate these challenges. Firstly, it continued to monitor the capacity within its own structures and those of its main stakeholders resulting in a net increase of 4 full time employees at the MA as well as other changes occurring in the horizontal units. It also organised a number of training activities with the scope of strengthening the administrative capacity within key horizontal stakeholder organisations, including new beneficiaries. Moreover it met up with the IBs in order to provide practical assistance on the best way to deal with "problematic" cases and provided further guidance through MA circulars and internal notes. On a positive note, information campaigns have led to the improvement witnessed in 2012 in the overall quality of bids by a good number of bidders. In addition, the strengthening of the MA's administrative capacity is an essential requisite in enhancing the momentum of implementation.

Payments were also delayed where revenue-generating projects are concerned due to the uncertainty in interpreting Article 55. As mentioned earlier, the MA obtained legal clarification from the EC to exempt small EE and RES projects from the funding-gap methodology. However, state aid rules still weigh heavily on the implementation of larger projects involving electricity production that are being subject to greater scrutiny and possible rejection from funding. This leads to greater uncertainty and is another major cause of delays in implementation.

Total payments (as a % of allocated funds) are relatively low, standing at 37.2% in 2012³⁶. Certified expenditure³⁷, at 30.4%, is one of the lowest in the EU³⁸. Notwithstanding this, the

³⁵ This is mainly true of PA 4 due to the large number of voluntary organisations involved in such operations and their inexperience with respect to processes involved in managing an EU project. In addition, households are also eligible to benefit from funds under this PA, who often provide incomplete documentation making the processing of payments even lengthier.

³⁶ Refer to Annex Table H.

³⁷ Also as a % of allocated funds.

³⁸ Refer to Annex Table I.

ratios are particularly low for merely two of the PAs under review, namely PA 3 and PA 4 and it is for these two axes that concerns over expenditure plans may arise.

PA 3 mainly relates to TEN-T projects. These are particularly challenging for a small member state like Malta where traffic diversions resulting from the re-construction of arterial roads are somewhat difficult. In addition, the small surface area and great heritage of the Maltese islands can cause bottlenecks, as has occurred in works related to the Marsa Road Phase I project, where works were stopped following archaeological findings in the area concerned. The smallness of the island also raises the need for greater public consultation particularly since arterial roads are often in proximity of residential areas. This occurred in the case of the Kappara junction where a grade separation junction is envisaged but which was heavily contested by local residents³⁹. In addition to the above, the low level of disbursements of this PA is attributable to the lengthy process involved in invoicing projects under this axis wherein road works involve a long certification process. Of particular concern is the completion of “Cohesion Fund 125” (second phase of the TEN-T project) and “Cohesion Fund 260” (the refurbishment and upgrading of the deep water quay in the Valletta port) that are substantially large projects and which are still at infancy stage.

Adhering to expenditure plans is a source of greater concern for PA 4 than PA 3 particularly due to the relatively low rate of commitment (*vis-à-vis* allocation) to date. Part of the reason for the low commitment rate reported in the 2012 AIR is due to the shift of the NFRP from PA 4 to PA 5, following revisions to OP I approved in November 2012, thereby freeing funds under PA 4. The rate of committed funds also declined due to the lower co-financing rate applicable to small EE and RES projects as explained earlier. However, information published by the MA following the submission of AIR 2012⁴⁰ indicates that three projects valued at EUR 42.5 million in total were committed during 2013. This implies a ratio of total committed to allocated funds of 70% for PA 4, compared to 36.6% reported in the 2012 AIR.

It is to be noted that while these two axes present the greatest implementation challenges in the upcoming years, they are also the two PAs that have registered the highest rate of growth with respect to payments made since 2011.

Concerns are also warranted for PA 2 for which disbursements have also been relatively low. Severe delays were registered in the implementation of significantly large projects under this axis (“ERDF 39, 33 and 32”) which may prove costly to Malta’s N+3/2 commitments.

With respect to FEIs, the First Loss Portfolio Guarantee (FLPG) scheme under the JEREMIE initiative⁴¹ continued to be implemented extremely successfully in 2012. This scheme, which commenced in April 2011, aims to build up a portfolio of EUR 51.04 million in eligible loans. By June 2013, 602 loan agreements were signed between the Financial Intermediary, Bank of Valletta (BoV), and the beneficiaries for a total investment of EUR 83.5 million (including

³⁹ The Malta Environment and Planning Authority (MEPA) approved the Kappara Junction project in August 2013, with works expected to start in 2014;
<http://www.maltatoday.com.mt/en/newsdetails/news/national/Kappara-junction-project-approved-20130801>

⁴⁰ List of approved projects can be found on the MA’s website:
http://www.ppcd.gov.mt/projects_07_13

⁴¹ This is the only FEI implemented under OP I.

customer contribution) representing EUR 48.6 million (or 95%) of the JEREMIE portfolio. The success of the first tranche of the JEREMIE allocation was so evident, that a decision was made to top the fund up by an additional EUR 2 million⁴².

Though implementation has gathered momentum in the last year, disbursements until the end of 2012 still amount to less than half of the committed values. Therefore the following suggestions are being made by the authors of this paper to address these bottlenecks and speed up implementation:

1. In order to speed up project selection, it is important that detailed information sessions are continued so as to ensure quality of project proposals while at the same time ensuring that project selection decisions are undertaken in a timely manner;
2. While maintaining quality, it is important that administrative procedures, especially related to payments, are undertaken in the most efficient and effective manner so as to reduce the administrative burdens on applicants whilst at the same time ensuring transparency;
3. Given the evident bottlenecks in procurement procedures, which continued to persist notwithstanding having decreased during the programming period, specific actions need to be undertaken to address these obstacles.

Although it is necessary to take the steps described above, the smallness of the country does give rise to limitations that are difficult to overcome. Limited human resource capacity, as well as greater restrictions with respect to planning and environmental considerations, for instance, will necessarily always prevail in Malta.

Achievements of the programmes so far

Main points from the previous country report:

- *Enterprise support and RTDI* - PA 1 registers the second fastest progress ratio to date. By the end of 2011, 22 operations were implemented, including one FEI. The objectives of the projects range from upgrading research and testing facilities, upgrading and embellishing industrial estates, setting up enterprise infrastructure and facilitating access to finance.
- *Transport and telecommunications* - Achievements registered under this PA are minimal mainly due to the large scale of the projects and lengthy certification process involved. Progress was, however, registered in relation to one major road project under phase I of the TEN-T road network project, as well as two non-major maritime projects.
- *Environment and energy* - By the end of 2011, 18 operations were approved under the focus area of energy, including the major project "ERDF 120" NFRP. On the environment platform, the aim is to continue upgrading the country's infrastructure, particularly in the areas of solid and liquid waste management. Three projects have been approved in this regard.

⁴² Details of the FLPG scheme are taken from a recent article that updates information contained in the 2012 AIR. This can be found at: <http://www.maltatoday.com.mt/en/businessdetails/business/businessnews/Additional-2-million-for-BOV-s-Jeremie-scheme-for-SMEs-20130919>

- *Territorial development* - Territorial development encompasses tourism and cultural development, targeted under PA 2, as well as urban regeneration, addressed under PA 6. By the end of 2011, 17 projects were implemented and two completed under PA 2 with particular emphasis on the upgrading of cultural heritage trails and sites. With respect to PA 6, a total of 25 operations have been implemented. Sixteen of these operations address the area of education, social and health-related infrastructure; four relate to internal mobility; three to e-accessibility; one targets environmental monitoring and one urban regeneration.

Developments since the 2012 report

The large part of Community Funds, by the end of 2012, was used for projects related to environment and risk prevention. This is followed by road transport, tourism and culture, and social infrastructure.⁴³ A summary of the main achievements reaped under each priority theme is provided in Table 1. One table is completed for Malta, which is one convergence objective region at NUTS II level. Details of these achievements are provided subsequently.

⁴³ Refer to Annex Table F.

Table 1- Achievements gauged by the main indicators in OP I by policy area

Policy area	Main indicators	Actual outcomes and results
Enterprise support including ICT	<ul style="list-style-type: none"> - No. of SMEs receiving grants (PA1); - No. of SMEs benefitting from JEREMIE FEI (PA1). 	<ul style="list-style-type: none"> - A total of 356 SMEs received grants compared to a targeted 450. This reflects the various aid schemes that aim to support their growth in various aspects including innovation and internationalisation, among others. - The FLPG scheme was successful in reducing the risk averseness of Malta's banking system thereby facilitating access to finance. Through this scheme, 533 SMEs benefitted compared to a target of 500. In addition, 95% of the total loan portfolio (EUR 48.6 million) was committed resulting in EUR 83.5 million in total investment.
RTDI	<ul style="list-style-type: none"> - No. of RTD projects (PA 1); - No. of cooperation project enterprises-research institutions (PA 1). 	<p>The 10 projects completed at the UoM allow for the University to upgrade its facilities thereby allowing it to address modern teaching and research activities as well as provide assistance to the local manufacturing industry by means of research collaborations.</p> <ul style="list-style-type: none"> - 11 RTD projects have been undertaken compared to a target of 15; - 28 collaborations were undertaken between industry and academia exceeding the target of 10.
Transport	Km of reconstructed (TEN-T) roads (PA 3)	9.31km of the targeted 20km have been completed by 2012 which mainly reflects progress with respect to "CF 117" (TEN-T phase I).
Environment and energy	<p><i>Environment and risk prevention (PA 5):</i></p> <ul style="list-style-type: none"> - % decrease in national sewerage effluent discharge; - No. of landfills rehabilitated. <p><i>Energy (PA 4):</i> Total annual electricity generated from small scale PV and micro-wind installations (MWh p.a.)</p>	<p><i>Environment and risk prevention:</i></p> <p>(i) "CF 116", Malta SSTI, has the ability to treat 80% of the sewage generated (or 60,000 m3/day). This allowed for the status of coastal waters in the South of Malta to be raised to Class 1 from Class 3 making Malta the first Mediterranean country to treat all wastewater prior to being discharged into the sea.</p> <p>(ii) Three landfills have been rehabilitated namely Maghtab, Marsascala and Qortin through "CF 118". This has positive implications on the level of emissions generated.</p> <p><i>Energy:</i> A total of 30 operations, in the form of PVs and SWHs, were approved by 2012. This investment allowed for 16,816MWh p.a. of electricity generated by RES in 2012 exceeding the target set of 14,000MWh p.a.</p>
Territorial development (urban areas, tourism, rural development, cultural heritage, health, public security, local development)	<p><i>Urban regeneration PA6:</i></p> <ul style="list-style-type: none"> - No. of projects ensuring sustainability and improving the attractiveness of towns and cities. <p><i>Tourism and Culture PA2:</i></p> <ul style="list-style-type: none"> - No. of assisted tourism and cultural projects. <p><i>Health-related infrastructure (PA 6):</i></p> <ul style="list-style-type: none"> - No. of health projects. <p><i>Education-related infrastructure (PA 6):</i></p> <ul style="list-style-type: none"> - No. of students benefitting from upgraded and modernised facilities and/or services p.a. 	<p><i>Urban regeneration:</i> One project was implemented to create a stronger community within the Cottonera area (meeting the target set). The importance of targeting Cottonera stems from the fact that 38.6% of dwellings are dilapidated resulting in low rental values which in turn discourage owners from maintaining the property in good condition.</p> <p><i>Tourism and Culture:</i> 20 tourism and cultural projects have been assisted, meeting the target set. Various fragmented projects have been undertaken in this regard with the greatest amount of financing devoted towards the restoration and rehabilitation of historical fortifications in Malta and Gozo.</p> <p><i>Health-related infrastructure</i> Two health-related projects are being implemented (meeting the target set), namely the upgrading of operating theatres at the Gozo General Hospital and the setting up of a radiology unit ("ERDF 068") and the Mater Dei Oncology Hospital ("ERDF 196").</p> <p><i>Education-related infrastructure</i> The target of 50,000 students p.a. has been exceeded in 2012 when 56,364 students began to benefit from upgraded educational facilities and/or services. These reflect projects at the UoM, MCAST, ETC as well as state post-secondary and secondary schools.</p>

Enterprise environment⁴⁴

By the end of 2012, 14.2% of total funds were committed towards this priority theme. RTDI activities were awarded more than half of this amount (7.5%), followed by innovation support for SMEs (3.8%), ICT (2.4%), with other investments amounting to 0.7% of total funds committed⁴⁵. Total payments to date under PA 1 amount to over 50% of total funds allocated.

Ten out of the twelve projects completed were managed by the University of Malta (UoM) which allowed it to upgrade its facilities and increase its capacity to address modern teaching and research activities. The “*number of RTDi projects*” undertaken by 2012 amount to 11 compared to a target of 15. Furthermore, it allowed for the provision of assistance to the local manufacturing industry by means of research collaborations with industry. To date, 28 such collaborations have been engaged in, thereby already exceeding the target set of 10. In addition, benefits to industry will also be reaped through the provision of better trained S&T graduates.

Aid schemes were also implemented under this PA with 65 grant agreements signed in 2012 bringing the total public eligible value contracted to EUR 21.0 million from EUR 18.2 million in 2011. Disbursements are still, however, low mainly due to the large number of inexperienced beneficiaries, some of whom failing to provide the requested documentation⁴⁶. The aim of these schemes ranges from supporting the growth of SMEs, assisting them in developing innovative processes, products or services, assisting them to improve their environmental performance, investing in ICT projects, R&D grants, as well as providing assistance to firms so as to expand into new international markets. These schemes are particularly important in light of the fact that SMEs in Malta lack performance in research and innovation and in environmental performance as registered in the Small Business Act (SBA) Fact Sheet (2012)⁴⁷. The “*number of SMEs receiving grants*” total 356 compared to a targeted 450.

It is important to note, however, that the “*number of (non-SME) enterprises assisted*” has reaped no achievement to date⁴⁸. The importance of targeted assistance towards larger enterprises in Malta is not to be neglected given that a number of products and services provided by these could be lost if aid is not offered. Large companies in Malta face higher costs of doing business in the single market⁴⁹, and therefore need to be further assisted so as to preserve their existence, also due to the relatively large number of people they employ. Stricter state aid rules enforcement in the next programming period could also jeopardise this assistance in the future.

⁴⁴ Mapped to PA 1 – Enhancing Knowledge and Innovation.

⁴⁵ Refer to Annex Table G.

⁴⁶ The administration of schemes that target a large number of beneficiaries, as in the case of PA 1 and PA 4, becomes more difficult.

⁴⁷ EC (2012), “SBA Fact Sheet 2012, Malta”, DG Enterprise and Industry; http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2012/malta_en.pdf

⁴⁸ This indicator is one of the four indicators introduced following the approved changes to OP I in May 2012.

⁴⁹ Malta’s difficulties stem from its small size, insularity and peripherality that make trade relatively more costly.

The FLPG scheme⁵⁰, representing the only FEI implemented in this OP, has been successful in providing better access to finance for SMEs. As mentioned earlier, by June 2013, 95% of the total loan portfolio (EUR 48.6 million) was committed resulting in EUR 83.5 million in total investment. This reflected 602 transactions and involved 533 SMEs. These figures are reflected in two new indicators⁵¹, namely:

- “number of SMEs benefitting from JEREMIE FEI”: achievement = 533⁵²; target = 500;
- “Investment induced through JEREMIE FEI”: achievement = EUR 27.08 million⁵³; target = EUR 40 million.

Given the success of the first tranche of the JEREMIE allocation, a decision was made to top the fund up by an additional EUR 2 million. This implies that the achievements registered are likely to be even more positive with the targets set expected to be achieved in due time.

The projects implemented are in line with the objectives set out at the start of the programming period and are also mirrored in the targets chosen. However, while RTDI projects appear to be well funded, PA 1 is one of the least funded of the PAs and one for which there appears to be a strong demand by SMEs. Indeed a number of schemes managed by the IB have been discontinued due to the full absorption of funds. The need for more funds to be directed towards enterprise support in the next programming period is also highlighted by the Malta Business Bureau (MBB) which refers to the shortage of funding to private enterprise in the current programming period.⁵⁴

Human Resources (ERDF only)

No projects have been implemented, with the help of ERDF, to address human resource development programmes as these are addressed through ESF. Various education and childcare infrastructural developments have, however, been designed and implemented. These are discussed within the territorial development policy area.

Transport⁵⁵

By the end of 2012, 24.4% of total funds under OP I have been committed towards this policy area⁵⁶. In the absence of railways in Malta, 66.8% of these funds address road infrastructure whereas the remaining funds target other transport, namely marine⁵⁷. Contracted amounts add up to EUR 63.7 million – approximately 44% of total committed funds under PA 3. This mainly reflects progress under “Cohesion Fund 117” (TEN-T phase I) though disbursements are still

⁵⁰ This is being implemented under the JEREMIE initiative. The amount earmarked for this instrument is EUR 10 million with BoV (financial intermediary) entrusted with creating a portfolio of EUR 51.04 million in eligible loans.

⁵¹ These were introduced with the approval of the OP changes in May 2012.

⁵² This result is taken from a newspaper article published on the 19th September 2013 wherein more recent data is available.

⁵³ No updated information is provided on actual disbursements though we expect it to be higher to date.

⁵⁴

<http://www.mbb.org.mt/Articles/Article.aspx?Section=newsroom&ArticleId=3462&Article=An+opportunity+to+stimulate+economic+growth>

⁵⁵ Mapped to PA 3 – Developing the TEN-T.

⁵⁶ All funds allocated to this PA (EUR 145 million) had been committed by end 2012.

⁵⁷ Refer to Annex Table G.

substantially low for this PA. Progress in 2012 was also registered with respect to the refurbishment of works on the Marsaxlokk and Valletta breakwaters (“Cohesion Fund 124”) and the continuation of works on the Cirkewwa Ferry Terminal (“Cohesion Fund 198”) both of which expected to be completed by 2013. All works related to the latter project are expected to be completed by 2013.

These projects reflect the achievements registered with respect to the three output indicators:

- “Km of roads upgraded” (core): 9.31km completed compared to a target of 20;
- “Sq.m. of new/refurbished infrastructure”: 17,375 sq. m. completed vis-à-vis a target of 76,200 sq.m.;
- “Construction of new sea passenger terminal”: 1 terminal constructed meeting the target set.

The specific development objective set out for this PA in OP I is to optimise the connectivity of the Maltese Islands both domestically and internationally with the aim of improving journey time reliability and road safety as well improving maritime accessibility. The result indicators that have been established to monitor the achievements with respect to the first objective aim to assess (i) the reduction in journey time; and (ii) the reduction in traffic accidents in the areas of intervention by 10% from 193 estimated accidents in 2005. Though these address the objective set, attributing improvements in these indicators to these specific projects may, in some cases, not be justifiable. In addition, adverse effects could be created through, for instance, better road quality including the increased use of private vehicles which may increase traffic congestion and emissions. The same can be argued with respect to the achievements related to maritime accessibility namely (i) increase in cargo per annum by 2% compared to the 2004 level of 6.2 million cargo tonnes, and (ii) increase in sea passengers by 2.5% per annum compared to the 2004 level of 3.8 million passengers. The recent recession, for instance, led to adverse implications on the level of external trade to and from Malta which could be construed as the success or failure of such investments if a similar downturn were to occur again in the future.

Environment and energy⁵⁸

By the end of 2012, 32.7% of total funds under OP I have been committed to this policy area.

Environment

The main operational objectives, in line with national strategies, refer to the need to address solid and liquid waste, water issues particularly in terms of the network of supply, as well as addressing flood relief to minimise the effects of storm water. The financial allocation for PA 5 amounts to EUR 189.3 million under the Cohesion Fund with EUR 189.1 million having been committed. The last of these projects is “Cohesion Fund 119”, the Mechanical and Biological plant in the north of Malta, which is still pending approval by the EC. One project, namely the Malta South Sewage Treatment Infrastructure (SSTI) (“Cohesion Fund 116”) has been completed to date amounting to EUR 68.0 million.

In terms of solid waste management, two “*solid waste treatment plants [are being] constructed*” while three “*landfills [have been] rehabilitated*” namely Magħtab, Marsascula and Qortin through “Cohesion Fund 118”⁵⁹. The latter project also allowed for the “*rehabilitation of 15,000 sq.m.*” representing a 5% achievement of the target of 300,000m² expected to be rehabilitated through this project. “*Total RES recovered from waste (GWhrs/annum)*” by 2012 amounted to 5.82 GWh/annum compared to a target of 17 GWh/annum mainly through “Cohesion Fund 116”⁶⁰ which also allowed for the creation of 18 new jobs.

In terms of the focus area water and wastewater, the national commitment to achieve the management of waste effluent within the parameters mandated by environmental principles and targets under the Water Framework Directive was achieved in 2011. In fact, the target of reaching an overall 100% decrease in untreated sewage effluent discharge into the sea was achieved through the completion of “Cohesion Fund 116” *Malta SSTI* which has the ability to *treat 80% of the sewage generated* (or 60,000 m³/day) with the remaining sewage treated through the wastewater treatment plants co-financed under the pre accession and Italian protocol. This also raised the *status of coastal waters in the South of Malta* from Class 3 to Class 1. Thanks to this project, Malta has become the first Mediterranean country to treat all wastewater prior to being discharged into the sea. Progress was also achieved on the *m³ of increased rain water harvested*, amounting to 50,000 m³ compared to 100,000 m³ targeted.

Within the context of climate change, risk prevention is becoming a higher priority for the Government. Malta’s topography contributes to the phenomenon of flash flooding on the occurrence of heavy storms which frequently leads to heavy damage to the physical environment, economic disruption and occasionally, to loss of human life. This concern will be addressed through “Cohesion Fund 120” NFRP. It directly addresses the core indicator “*number of Storm Water Management (risk prevention) Projects*” with the target of 1 being achieved. In addition, the “*frequency of flooding within areas of intervention*” is targeted to be reduced to 1 every 5 years following the completion of this project.

⁵⁸ Mapped to PA 4 (Climate change and resource efficiency) and PA 5 (Safeguarding the environment and risk prevention).

⁵⁹ Rehabilitation and Restoration of Closed Landfills.

⁶⁰ Malta SSTI.

The main objectives of this PA are expected to be met by the projects undertaken.

Energy

By the end of 2012, a total of 31 operations had been approved under PA 4 consisting of 30 projects, three of which approved in 2013, and one aid scheme. During 2013, an additional three projects were approved, raising the progress ratio⁶¹ from 36.6% in 2012 to 70.0% as at September 2013. Total funds committed amount to EUR 84.7 million; broadly in line with commitments as at end of 2011 notwithstanding the fact that “ERDF 120”, valued at EUR 52.8 million, was shifted to PA 5.

PA 4 was particularly successful in penetrating the domestic sector with a number of households benefitting substantially from the promotion of renewable energy sources through “ERDF 088” which is the largest project, in monetary value, implemented till 2012⁶². It is also that for which the largest amount of disbursements have been generated which gave rise to over EUR 10 million in private funding leverage. The success of this project led to a new scheme launched in 2013 (“ERDF 288”), committing a further EUR 21.4 million for this purpose.

All the projects completed to date involve the installation of renewable energy sources (RESs), namely photovoltaic (PV) panels and solar water heaters (SWHs), generating electricity from solar energy. Their success is considered important given Malta’s current dependence on fossil fuel and policy emphasis, also in line with EU 2020, to invest in RESs. The aid scheme in place also provides an opportunity to business to invest in EE and RES measures, which, following its success was topped up by a further EUR 3.4 million in March 2012 to a total of EUR 18.4 million. The focus on Gozo is also substantial under this PA with 9 projects being fully implemented on Malta’s sister island while another 3 having a Gozitan component. The latter are congruent with the stance to develop the island as an eco-region. These allowed for progress registered by a number of indicators. With respect to electricity generation, the “*total annual electricity generated from small scale PV and micro-wind installations (MWh/annum)*” amounted to 16,816 MWh/annum in 2012 exceeding the target set of 14,000MWh p.a. A similar output target also registers the “*annual penetration rate of installed PV and micro-wind (kWp/annum)*” which, in 2012, generating 11,211 kWp (p.a.) surpassing the target of 9,000 kWp/annum to be reached by 2013⁶³. In addition, 1,415 sq. m. of SWHs were installed (compared to a target of 1,500 sq. m.)⁶⁴ while “*total energy savings per year (MWh/annum)*” reached 7,776MWh by the end of 2012 compared to a target of 40,000MWh p.a.

The emphasis on investing in RES schemes addressed objectives set in this regard though indicators that aim to address other objectives show no achievements to date. This may change in the coming year when new projects implemented, particularly the rendering plant for animal waste and the further polishing of reclaimed water, are expected to provide positive results on reductions in emissions as well as indicators related to Malta’s water and waste resources.

⁶¹ % of committed to allocated funds.

⁶² Excluding “ERDF 120” that was shifted to PA5.

⁶³ The target actually stipulates 1,500 kWp/annum. However by 2013, it is expected to rise to 9,000 kWp/annum (in the 6th year of implementation). Therefore the MA aims to achieve 1,500 additional kW power each year until 2013 where in total this would amount to 9,000 kWp.

⁶⁴ This reflects 566 SWHs installed through “ERDF 088” at an average of 2.5 sq. m. each.

Territorial development⁶⁵

By the end of 2012, 27.0% of total funds under OP I had been committed to this policy area.

Promoting Sustainable Tourism

PA 2 is one of two priority axes for which all funds allocated have been committed. This amounts to a total of 20 projects and one aid scheme. Delays have been registered for three significantly large projects (“ERDF 39, 33 and 32”) directly impacting on Malta’s N+3/2 commitments⁶⁶. Three projects have been completed by September 2013 amounting to a total value of EUR 2.8 million. The projects currently being implemented add up to EUR 116.8 million including an aid scheme worth EUR 8.9 million.

OP I describes the specific objective of PA 2 as that of promoting a sustainable and competitive tourism industry able to achieve its potential for growth and re-affirm its central role in Malta’s economic activity. The operational objectives of this PA include support to upgrade the tourism product, particularly cultural assets. Furthermore, the promotion of the Maltese Islands as a prime and diverse tourist destination beyond sun and sea niche segments is to be sought while improving the competitiveness of tourism and cultural operators.

The first objective is largely addressed by numerous projects aimed at embellishing Malta’s tourism product. These include the newly approved projects concerning the restorations and embellishments of Fort St Elmo (“ERDF 244”), Fort St Angelo (“ERDF 245”), as well as Cittadella (“ERDF 246”) and Victoria (“ERDF 249”) in Gozo. These, as well as various others, allowed for 20 “*tourism and cultural projects [to have been] assisted*” by 2012 meeting the target set. In addition, the aid scheme currently in place (“ERDF 135”) addresses the last objective, namely that of strengthening Malta’s competitive advantage in tourism. This is registered by progress in two other indicators namely the “*number of projects implemented by enterprises*”, amounting to 104 compared to a target of 110, as well as the “*number of enterprises adopting new products and processes*” which, by the end of 2012, amounted to 53 compared to a target of 90.

However, the objective that targets the promotion of Malta as a tourist destination beyond sun and sea niche segments has not been targeted extensively. OP I aims to target seven niche segments including: (i) leisure and tour operator business, (ii) cultural tourism, (iii) meetings, incentives, conferences and exhibitions, (iv) the language learning segment, (v) sports, in particular diving tourism, (vi) Gozo-based tourism and (vii) other growth niche markets, including health tourism, film production, cruise and stay, short breaks and vacation ownership. While a number of these segments are growing⁶⁷ little has been done directly through this PA.

It is important, however, to acknowledge that the improvements registered under other PAs are also contributing positively to this PA. For instance, the improved quality of bathing waters,

⁶⁵ Mapped to PA 2 “Promoting Sustainable Tourism” and PA 6 “Urban Regeneration and Improving the Quality of Life”.

⁶⁶ In particular two projects, “ERDF 39” “Restoration and Rehabilitation of Historic Fortifications of Malta and Gozo” and “ERDF 32” “Archaeological Heritage Conservation Project” have experienced delays in disbursements due to the fragmented procurement of the former project with over 60 contracts making up this project as well as delays arising from the reissue of tenders and appeals as well as delays on the ground caused by the contractors awarded the tenders.

⁶⁷ Particularly language learning, diving, film production, cruise liner tourism, and vacation ownership.

registered under PA 5, not only allows Malta to be marketed as a premium quality island for bathing but also enhances its potential for diving, among other sea-based activities. Funding appears to be adequate to achieve the objectives set. However, the bottlenecks encountered during the implementation stage need to be addressed in order to ensure their full absorption.

Urban Regeneration and Improving the Quality of Life

PA 6 encompasses a number of areas namely education-, social- and health- related infrastructure, e-accessibility, environmental monitoring, internal mobility and urban regeneration. A total of 24 operations are implemented under this PA. Fourteen projects have been completed by September 2013, valued at EUR 29.6 million, whilst the remaining ten operations are valued at EUR 105.6 million. The vast majority of projects implemented relate to education-, social- and health- related infrastructure and, as a result, eight out of a total of 18 indicators gauge achievements in this area.

Education-infrastructure includes investments at the ETC, MCAST, Junior College (state post-secondary school), the UoM as well as a number of other state secondary schools. One project is still ongoing within this sub-category which concerns the construction of the Institutes of Applied Science and Business and Commerce at MCAST, including equipping them with modern teaching resources. As a result, 7 “learning and training facilities [have been] constructed” amounting to 7,402 sq. m.⁶⁸, and 148 “existing learning and training facilities [have been] refurbished” amounting to 15,014 sq.m.⁶⁹. In addition, 56,364 students are now “benefitting from upgraded and modernised facilities/services p.a.” exceeding the target of 50,000.

Health-related infrastructural developments have also helped to improve the quality of life of Maltese citizens. Two “[health] projects” are currently being implemented; one in Gozo – the upgrading of operating theatres at the Gozo General Hospital and the setting up of a radiology unit which will reduce the need for Gozitans to travel to the general hospital in Malta for certain treatment; and another major project in Malta – the Mater Dei Oncology Hospital which will offer advanced cancer treatment modalities and a new palliative care unit. As a result, five “new services [will be] offered in the health sector”⁷⁰ while 100% “of total patients [within intervention areas] [are expected to make use of] new/upgraded equipment/services”⁷¹. While all targets related to health have been attained, it is not clear within the OP, as well as the AIR, what is meant by “intervention areas” in the second indicator as well as which five new services have been offered in the health sector as indicated by the third indicator.

Social-related investment is addressed by two interventions, namely “ERDF 72” “Construction and Equipping of an Independent Living Centre” as well as the aid scheme that provides assistance to enterprise in setting up child care centres. No indicator has been developed in order to monitor progress under this sub-category.

Achievements with respect to *e-accessibility* were obtained through a number of projects including the development of a Maltese Speech Engine (“ERDF 114”), as well as “ERDF 109” which relates to the Digitisation Strategy and Framework for the National Library of Malta. 65

⁶⁸ This compares to a target of 6 learning and training facilities and 20,000 sq. m.

⁶⁹ This compares to a target of 110 learning and training facilities and 18,200 sq. m.

⁷⁰ This compares to a target of 3.

⁷¹ This compares to a target of 60%.

“new e-services for the public and the business community” were developed (compared to a target of 72) with the “increase in the use of e-services” registered at 8.2% compared to a target of 26% over the estimated number of 80,545 users. These projects allow technology to be accessible by more people that will lead to greater usage by civil society, including disabled persons.

With respect to *internal mobility*, four projects have been implemented to date focusing on the upgrading of roads as well as better accessibility and encouraging the use of non-car forms of transportation. By the end of 2012, 7.2 “km of roads [were] upgraded” with their “road surface condition” meeting the target set of 1.0-1.5 compared to the baseline of 4.66. In addition two “projects [have been implemented so as to] promote modal shift” namely “ERDF 183”⁷² and “ERDF 256”⁷³. The latter is also expected to “increase the % use of non-car modes” through a more efficient public transport system though no achievement has been registered to date⁷⁴. This may relate to difficulties encountered following the privatisation of Malta’s public transport system.

Environmental monitoring is addressed by one project, “ERDF 156” “Developing National Environmental Monitoring Infrastructure and Capacity”. Preparations are underway to enable the national monitoring programmes for water and noise to commence while those on soil, air, (part of) water and radiation were being implemented.

Lastly, “ERDF 104” “Stronger Cottonera Communities - the Citizen's right to accessibility and mobility” is the only *urban regeneration* project implemented that aims to “ensure sustainability and improve the attractiveness of towns and cities”.

OP I outlines the specific development objective of PA 6 as that of safeguarding and valorising the country’s urban heritage. Furthermore, it aims to promote an overall improvement in the quality of life through better accessibility, enhanced education, social and health systems and increased environmental monitoring capacity. Although the vast majority of projects aim to address investments in health, social and education sectors, all the objectives set out at the start of the programming period have been addressed.

General considerations

The expenditure financed is, in the most part, leading to the intended effects being reaped. The most effective have been those addressing major environmental concerns in Malta particularly with respect to the quality of bathing water, as well as emissions generated from landfills through the major projects implemented under PA 5. The quality of bathing water, apart from achieving its intended positive effects on the marine environment, is also beneficial for the tourism industry wherein various sea-related activities are engaged in. Tourism is also specifically addressed in interventions under PA 2 that aim to, in the most part, carry out embellishment and restoration projects of Malta’s historical patrimony.

Enterprise support was also very effective particularly given the large take-up of aid schemes by numerous SMEs. In particular, the FEI addressed a lacuna in Malta’s banking system, which is highly risk averse. However, more targeted interventions to assist larger companies that also

⁷² “Vertical connection: Better accessibility through innovation and cleaner transport”.

⁷³ “MODUS: Encouraging modal shift in land transportation”.

⁷⁴ The estimated number of users in 2005, reflecting the baseline figure for this indicator, relates to number of bus tickets sold amounting to 29,745,124.

face challenges in Malta could have been undertaken within PA 1– particularly due to their relatively high costs of doing business. In addition, the amount of funds directly earmarked for enterprises is low; this is also evident from the high take up of these funds. Indeed there has been a call for more funds to be earmarked for the private sector in the next programming period.⁷⁵ It is, however, important to note that enterprises' competitiveness was improved not only through PA 1, which also included measures aimed at increasing the rate of RTDi and co-operation with academia, but also through PA 4 that included numerous schemes aimed at reducing the energy bill through greater investment in renewable energy sources and energy efficiency schemes, while also containing an environmental objective. Quality of life, an overarching objective of the OP, is mainly addressed within PA 5 where a project addressing risk prevention related to flash flooding in Malta is also being implemented, as well as PA 6 through projects aimed at education-, social- and health- related infrastructural developments, e-accessibility, environmental monitoring and urban regeneration.

In general, the Maltese authorities are broadly on track to achieve the targets set. Difficulties in implementation have, however, stalled this particularly with respect to PA 4 where revenue-generating projects related to RES are now subject to a lower fixed funding rate agreed upon with the EC, therefore freeing previously committed funds. Difficulties were also encountered with respect to PA 2 where delays have been registered for three significantly large projects due to re-issuing of tenders and appeals as well as due to delays on the ground caused by the contractors awarded the tenders. PA 3 has also proven to be considerably challenging due to the lengthy certification process involved in invoicing projects related to road works.

The AIRs are substantially well written in order to assess the achievements reaped. However, the chapters concerning achievements by PA do not follow a standard approach and therefore more information can be extracted on achievements pertaining to some PAs as opposed to others. In addition, mapping of achievements to projects is not explained within the AIR but has to be inferred by the expert. It is also difficult to assess whether achievements relate to ongoing or completed projects since even in this case differences apply between PAs. The full list of projects, including their completion dates, is however accessible from the MA's website.

The indicators themselves are, in some cases, difficult to assess and attribute to specific projects and it is often unclear whether these are being double counted. A clear example lies within PA 1 where the same enterprise could be seen to feature in one or more indicators which specifically deal with the number of SMEs. Some indicators – particularly result indicators – are also difficult to comprehend as well as to assess their causality. Indicators under PA 3, for instance, aim to assess the reduction in journey time as well as the reduction in traffic accidents in the areas of intervention. While it would be interesting to gauge improvements in these, it is very difficult to attribute these improvements merely to the projects being undertaken.

⁷⁵ Malta Business Bureau

3. Effects of intervention

Main points from the previous country report:

- Acceleration in payments that took place in 2011, up by 63% over a year earlier and amounting to approximately 1.3% of Malta's GDP, had positive effects on Malta's economy from a short-term cyclical perspective in counter-acting the slowdown in economic activity.
- However, the longer-term effects of project implementation can only be assessed upon completion of certain projects. In the case of various road infrastructure and health projects, for instance, projects take long to be completed. In addition, the benefits reaped out of RTDI infrastructural projects can only be assessed once research projects are carried out.
- In other cases, initiatives have greater effects on the local economy than what is actually seen at face value. This applies to renewable energy schemes as well as enterprise support.
- The EU's Structural and Cohesion funds are also helping Malta to meet other major long-term challenges including increased competition resulting from globalisation, energy security, as well as addressing climate change pressures.

Developments since the 2012 report

Malta's wider objectives are identified in numerous policy documents including, among others, Malta's NSRF, NRP, OPs, and its Sustainable Development Strategy. These specify the need for:

- Convergence to the EU average, in terms of GDP/capita;
- Increased investment (especially from the private sector);
- Increased expenditure in R&D;
- An increase in Malta's employment rate, especially through the creation of human capital;
- A reduction in the rate of early school leavers;
- An improvement in Malta's competitiveness and;
- Environmental amelioration.

No formal evaluation has yet been completed in order to gauge Malta's achievements of these objectives through OP I. Therefore, expert opinion will be utilised in order to assess the contribution of this OP to the various objectives, backed by numerical evidence where possible.

- a) Malta's *GDP/capita* (in PPS) has increased from 78% in 2007 to 86% in 2012⁷⁶. Though this is a remarkable improvement it cannot be strictly tied to the long-term dynamic effects of projects implemented under OP I also given that a number of projects are yet to be

⁷⁶ Source: Eurostat;

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00114>

completed. Much of this improvement stemmed from the fact that Malta proved to be relatively more resilient than other EU member states during the recessionary period⁷⁷.

- b) *Investment* generated by OP I in Malta during the period 2007-2012 is estimated to amount to approximately 5% of total Gross Fixed Capital Formation (GFCF)⁷⁸. If one were to consider the EUR 83.5 million investment reported to have been undertaken to date through the JEREMIE FEI, this rate would increase by 1 percentage point. This is quite substantial given that Malta's implementation rate (as at 2012) was merely 30.4% and is therefore expected to rise further in the coming years. This investment also had positive effects on Gozo's regional development particularly given that 9.7% of investment under OP I was earmarked towards Malta's sister island. This is particularly important given that the stock of Foreign Direct Investment (FDI) in Gozo is merely 0.4% that of mainland Malta in June 2011⁷⁹.
- c) AIR 2012 reports that *expenditure on R&D* (as a % of GDP), has increased by 0.55% through OP I initiatives resulting in total expenditure in R&D (as a % of GDP) of 0.75% by 2012. This has allowed Malta to already reach its EU 2020 target⁸⁰.
- d) *Employment* was directly generated through OP I initiatives. An estimated 186 direct jobs have been created by 2012 while the MA estimates that total jobs are set to increase to 900 as a result of the funds committed by the end of 2012. This excludes jobs created or safeguarded through the JEREMIE FEI which is estimated to amount to another 1,610 jobs⁸¹. This compares to an average level of employment in Malta (between 2007 and 2012) of 163,800 people and an average level of unemployment of approximately 12,000 people⁸².
- e) *Education* was specifically targeted through infrastructural investments under this OP. This investment has allowed approximately 68% of Malta's total student population to now benefit from upgraded and modernised facilities. Though the indicator reports the upgrading of facilities, a number of these projects relate to a significant improvement including the creation of facilities, which may have contributed to the increased participation of students at post-secondary as well as vocational and tertiary education level. Particular reference is made to UoM that benefitted from numerous projects under OP I and whose student body increased from 9,555 in 2007⁸³ to 10,404⁸⁴ in 2011⁸⁵. In addition

⁷⁷ In fact, much of the convergence occurred in 2009 where GDP/capita (in PPS) increased to 85% from 81% a year earlier.

⁷⁸ This is taken to represent certified expenditure over the period 2007-2012 incremented by 20%, thereby assuming that the average co-financing rate was 65% and, as a result, additional private or national funding was required.

⁷⁹ Finance Minister Tonio Fenech in reply to a Parliamentary Question raised by Anton Refalo as reported in The Times, July 6, 2012.

⁸⁰ Malta's national target is that of expenditure on R&D amounting to 0.67% of GDP by 2020.

⁸¹ Source: EEN (2013).

⁸² Source: Eurostat.

⁸³ Source: NSO; http://www.nso.gov.mt/statdoc/document_file.aspx?id=3127

⁸⁴ Source NCHE Annual Statistics Report 2011 available at: <http://www.ncfhe.org.mt/uploads/filebrowser/statistics%20report%202011.pdf>

⁸⁵ Data pertaining to the rate of Early School Leavers was not reported since changes to the computation for Malta have taken place during the programming period that would distort the effects reported by these interventions.

the extensive investment at MCAST, catering mainly for vocational education, addressed a lacuna in Malta's education system that has allowed for students, who were not keen on pursuing education at graduate level, to still engage in formal schooling, thereby reducing the rate of early school leavers in Malta.

- f) Improvements in Malta's *competitiveness* can be gauged through a number of indicators but one which is specifically relevant to OP I is the upgrading of 16.5 km of road (TEN-T and non TEN-T) compared to a total of 185km of arterial and distributor roads on the Maltese islands. Other projects aimed at improving the treatment of sewage effluent before being discharged into the sea is also expected to have positive implications on the tourism industry as well as the quality of life of residents.
- g) Malta's *environment* was ameliorated mainly through a reduction in emissions. By the end of 2012, OP I is reported to have contributed to a reduction of 12,580 tonnes of CO₂ emissions compared to a baseline of 3,021,000 tonnes⁸⁶. In addition, energy generated from RES also provides positive benefits to the environment with an estimated 22,600 MWh p.a. generated from OP I initiatives by 2012. This amounts to approximately 1% of total electricity consumption compared to a target of 10% to be achieved by 2020 in line with Malta's EU2020 commitments. Consequently further initiatives are required for Malta to attain the stipulated target.

As a result, one can say that interventions under OP I have contributed to addressing Malta's main long-term challenges. The completion and operation of a number of projects within the next two years is expected to result in a greater impact of the Programme on the long term challenges of the local economy.

4. Evaluations and good practice in evaluation

Main points from the previous country report:

- During the 2007-2013 programming period, two evaluations had been carried out till the completion of the 2012 country report, namely the ex-ante and MTEs.
- The Evaluation Plan for 2007-2013 was revised and presented to the OP I MC in November 2011. The changes included:
 - Updating the activities undertaken to incorporate the most recent evaluations.
 - Changes to plans for future evaluations wherein rather than carrying out two separate evaluations, one ex-post evaluation is being carried out that is to analyse the increased competitiveness and improved quality of life resulting from OP I supported initiatives.
 - Minimal revisions to the budget so as to reflect current market prices.
- A number of recommendations made in the MTE were taken on board by the MA. Changes to the OP were in fact proposed to the MC members in November 2011 with an updated version of OP I published in May 2012.

⁸⁶ Source: Eurostat.

- Plans for future evaluations include the drawing up of an ex-post evaluation entitled “Thematic Evaluation: Assessment of the Contribution of OP I Initiatives to Competitiveness and Improvement of Quality of Life”.

Developments since the 2012 report

The strategy for evaluating ERDF and Cohesion Fund within the current programming period was revised in November 2011, as described in the 2012 EEN report. Since then, no changes have been made. Two evaluations have been carried out on OP I during the current programming period, namely the ex-ante and MTE, as reported in the 2010 and 2011 EEN reports. No new studies or evaluations have been completed since the 2012 EEN report⁸⁷.

Given that no evaluations have been completed since the 2012 EEN report, an assessment of the effectiveness of Cohesion policy interventions can only be made with respect to the MTE⁸⁸.

The MTE addresses the outcome and effectiveness of the OP in its entirety, thereby making it difficult to extract information by policy area. A more detailed analysis by theme relates to the relevance of the OP in relation to the socio-economic context and is found in the annex to the MTE document. No mention by policy area is made in the other sections of this evaluation. While there is no evidence that the policy areas have not been addressed in the evaluation, it is not always clear whether the evaluation is addressing each of the policy areas in a sufficient way particularly, with regard to the efficiency and effectiveness aspects.

The main recommendations that emerge from the MTE relate to the following:

1. Speeding up of implementation

This mainly refers to prioritisation of calls focusing on areas that reflect poor performance in indicators, speeding up the project selection process as well as the award of grants. In addition, emphasis was made on the IBs in terms of ensuring quality applications so as to avoid eventual bottlenecks.

2. On relevance

In particular a recommendation was made so that the 10% funding commitment for Gozo should not be tied at Programme level but across ERDF, Cohesion Fund and ESF. In addition emphasis was made on encouraging entities to propose projects in areas of culture and creative industries, supporting science popularisation, as well as strengthening the IP framework.

3. Administrative capacity and efficiency

An essential part of the evaluation focused on the administrative capacity whereby recommendations were made for processes to be simplified. In addition, recommendations were made for the Project Selection Committee (PSC) to be broadened to avoid delays in decisions and for capacity shortfalls to be identified at all elements.

⁸⁷ The findings of these evaluations are summarised in Annex Table K.

⁸⁸ The ex-ante evaluation cannot be used in this respect since it was carried out at the start of the programming period and, therefore, prior to any assessment of Cohesion policy interventions and their effects on policy objectives could be made. Its aim was, in fact, that of assessing the consistency of the Strategy and Priorities chosen with the Community Strategic Guidelines and the NRP.

4. *Public procurement*

Recommendations were made in order to enhance the capacity and capability of the Department of Contracts (DoC) as well as the provision of specialist training to line ministries responsible for submitting tenders so as to ensure quality submissions and avoid delays in the procurement procedures.

5. *Maximising the potential of IT*

Improvement in the IT system in order to facilitate entries and extraction of necessary data in relation to the automation of the Structural Funds Database (SFD), a web-based front-end interface for aid schemes, and the exploitation of a central database and document management system for documents submitted by beneficiaries.

6. *Development permitting*

Conduct of a review in order to assess the outcome of reforms at the MEPA and its impact on EU funded projects.

As described in the 2012 EEN report, the results of the formal evaluations and their recommendations were in part taken on board by the MA. Following the *MTE* the MA immediately started an internal assessment to incorporate a number of these recommendations. As a result, OP changes were proposed to the MC members in November 2011 with an updated version of OP I published in May 2012⁸⁹. Two specific recommendations have been addressed, namely:

1. Changes undertaken to PA 1 to include more initiatives (projects) in support of science popularisation, with the purpose to increase the potential S&T pool and in the long-term strengthen the R&D base for Malta. A new operational objective as well as a new output indicator has also been added wherein the latter refers specifically to the JEREMIE scheme.⁹⁰
2. In order to accelerate the time lag between the verification by the MA and the certification by the CA, the CA started carrying out checks concurrently with the MA. Soon after the MA verifies the expenditure, the CA sends out the results of its verification and asks the MA for clarifications in order to conclude and verify expenditure as soon as possible. This appears to have been successful as certified expenditure increased by 31% in 2012 compared to 2011 thus acceleration expenditure. This in part, however, has also been due to the acceleration of projects but potentially also due to enhanced efficiency in the adopted administrative approaches.

Changes to funding allocations by PA were also proposed by the MA to the MC. However, the only shift in funding allocations which resulted from the *MTE* related to PA 1 wherein, as mentioned above, this PA now includes initiatives in support of science popularisation.

Changes were also embedded into OP I⁹¹ upon completion of the *ex-ante evaluation*. The main recommendations and their implementation within the OP referred to the rationale of the

⁸⁹ PPCD (2012), "Operational Programme I, Cohesion policy 2007-2013: Investing in Competitiveness for a Better Quality of Life", May 2012, Malta.

⁹⁰ No. of SMEs benefiting from JEREMIE and Investment induced through JEREMIE.

⁹¹ PPCD (2012), "OP I, Cohesion policy 2007-2013: Investing in Competitiveness for a Better Quality of Life", May 2012, Malta.

strategy and its consistency with recommendations aimed at ensuring that interventions are targeted towards certain sectors of the economy that were experiencing sluggish growth such as manufacturing. In addition, recommendations were also made to the expected output, results and impact indicators as well as the implementation systems as explained in the 2012 EEN report.

Currently, one thematic ex-post evaluation is being carried out to assess the contribution of OP I to: (a) increase competitiveness, and (b) improve quality of life, as planned through the relevant objectives and targets of the OP. The thematic evaluation is currently underway with a first update expected in 2014 and a final update in 2015. More specifically, the objectives of the evaluation, as outlined in the published tender document⁹² aim to evaluate:

- Competitiveness: an analysis of the contribution of OP I interventions towards sustaining competitiveness (in view of the global economic downturn) and perhaps even increasing Malta's competitiveness;
- Quality of life: the contribution of OP I interventions to the overall improvement of quality of life of the Maltese citizens by specifically assessing the effects of interventions in the following sectors: environment, climate change and energy, educational-, social- and health- infrastructure, as well as e-accessibility.

The evaluation will entail an identification of potential actions (through gaps) where the ERDF and Cohesion Fund could intervene as well as recommend how the actions which are being undertaken could be strengthened in future Programmes. It will also consider the output and result indicators, as well as any monitoring data, in order to make assessments, draw conclusions and draft recommendations and is also expected to include the identification of good practice examples for each suggested theme under this programming period in terms of effectiveness.

Furthermore the evaluation is expected to assess the contribution of OP I initiatives to competitiveness and improved quality of life in relation to the cross-cutting horizontal themes of Equal Opportunities and Environmental Sustainability (including climate change).

No other evaluations are expected to be undertaken on OP I with respect to the current programming period.

As mentioned earlier, the two evaluations completed within the current programming period assessed the OP in its entirety. The MTE focused primarily on progress in terms of expenditure and little, if any, analysis was undertaken by policy area. Therefore, lessons learned by policy objectives are difficult to extract. Comments and recommendations made in the MTE mainly addressed administrative concerns and bottlenecks in implementation and did not consider the quality of interventions. Results are considered reliable though the depth of assessment is limited. This, however, must be considered in light of the fact that the implementation rate was substantially low during the period of time in which the evaluation was being carried out.

⁹² DoC (2012), "Thematic Evaluation: An Evaluation of the Contribution of OP I initiatives to Competitiveness and Improvement of Quality of Life", Advert No. CT144/2012, Office of the Prime Minister (OPM).

The ex-post evaluation currently being undertaken aims to assess two themes under scrutiny as mentioned earlier, namely competitiveness and improved quality of life, by mapping certain sub-themes to the PAs of OP I. These sub-themes include: (i) enterprise infrastructure, investment and competitiveness of SMEs; (ii) national capacity for research, technological development and innovation, science and technology and ICT; (iii) improvement in tourism product; (iv) transport; (v) climate change and energy; (vi) environment and risk prevention; and (vii) education, social and health infrastructure. As a result, all the policy areas will be assessed within the thematic evaluation with respect to the extent of their capacity in improving Malta's competitiveness and the quality of life of locals. The only policy area not assessed relates to human resources for which no allocation of funds is attributable under OP I. This priority area is strictly dealt with under OP II with the aid of ESF, with infrastructural projects pertaining to the education sector addressed under PA 6 (urban development) and mapped to policy area 5, namely territorial development.

In addition, no example of good practice can be provided given that no new evaluations have been finalised since the 2012 EEN report.

Lastly, in order to improve the effectiveness of evaluations in Malta, the following suggestions are being made:

- Evaluations should be directly contracted by the European Commission rather than the MA in order to ensure independence and transparency of the findings;
- Evaluations should be awarded according to the best economic value rather than the least financial cost so as to ensure the best quality possible;
- Evaluations should target specific policy areas in addition to general considerations of the programme being assessed.

5. Further Remarks - New challenges for policy

Main points from the previous country report:

Additional challenges to those reported in the 2011 EEN report have emerged with respect to the application for projects containing a state aid element. The uncertainty caused by such interruptions is putting many projects, planned to be implemented by the MA, on hold.

- Uncertainty is also generated from the funding gap which is posing challenges at policy implementation stage. Fixed funding rates could stimulate more efficiency through greater certainty and better planning of funding allocations.
- Changes to OP I, particularly with respect to the transfer of funds between PAs, could also cause problems in the programme's implementation particularly since they release funds that have to be committed within a set time frame agreed upon with the EC.
- The work currently being carried out on the new programming period may also hinder progress made in the coming months.

The challenges highlighted in the 2012 EEN report are generally still applicable today. In addition to ongoing hurdles related to administration and bureaucratic procedures, one of the most pressing issues concerning the implementation and take-up of funds relates to state aid conditionalities. The uncertainty generated with respect to the co-financing rate, particularly for

RES or EE projects, has been addressed in 2012. However, the lower co-financing rate implies the need for greater financial involvement by private beneficiaries who may experience difficulties to implement such projects. A balance must, therefore, be struck between the two concerns so as to ensure a successful implementation of useful funds available under OP I within the current and the next programming periods with rules being made clearer and more predictable. This is even more important in light of the fact that Malta is expected to move out of the Convergence objective thereby becoming eligible to tighter state aid rules.

Moving into the transitional regional category also implies a change in the funding gap for the next programming period that would require greater use of national funds. This may further limit the take-up. In order to partially mitigate this problem, the MA could allow for the funding of communication and information activities, aimed at behavioural change, which may be conducive to project effectiveness. This includes issues of a behavioural nature, such as campaigns, which are also considerably important to ensure the success of a project.

The importance of addressing behavioural aspects is also significant when considering specific projects. For instance, though investment in roads infrastructure, which was targeted under PA 3 and PA 6, was greatly needed, it lacked a more holistic strategy to ensure that these PAs contribute towards greater economic and social enhancement. One of the indicators under PA 3, for instance, aims to reduce journey times. While the achievement of this target may also require greater emphasis on the promotion of other modes of transport⁹³, other considerations should also have been made. These include the possibility of increased congestion when roads are embellished since private cars may be opted for. Therefore greater emphasis on greening transportation, also through public campaigns, could have been resorted to.

The next programming period could also benefit from greater emphasis on adaptation to climate change (where the current OP focussed more on mitigation issues), as well as by allocating more funds to enterprise assistance in the form of aid schemes or FEIs. In the case of FEIs, while Malta does not face a problem with respect to asymmetric information – given its small size – FEIs allow for a greater incentive to ensure successful implementation of the project invested in (given the very nature of it having to be repaid) therefore removing the moral hazard drawback occasionally present when offering grants. Also, given the large size of certain projects implemented to address regional disparities between Malta and Gozo, some areas that require smaller interventions may need to be better addressed in the next programming period.

Lastly, the difficulties experienced at implementation stage during the current programming period due to the lack of experience and time of beneficiaries to meet all the requirements imposed by EU funding, could be addressed in the next period by utilising funds under OP I (PA 7) to ensure that technical assistance is available for the whole programming period. This would assist in the project application process both with respect to public and private beneficiaries.

⁹³ One project has been implemented to encourage a model shift in land transportation (“ERDF 256”) though no achievements have been registered to date.

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Interviews

Ms Marilou Micallef (Projects Manager) Planning and Priorities Coordination Department (PPCD)

Annex - Tables

See Excel Tables 1-4:

Excel Table 1 – Regional disparities and trends

Excel Table 2 – Macro-economic developments

Excel Table 3 - Financial allocation by main policy area

Excel Table 4 - Commitments by main policy area (by end-2012)

Annex Table A - MALTA Real GDP 2009-2013q2

	2009	2010	2011	2012	2013q1	2013q2
Real GDP	4,734,603	4,923,988	5,001,504	5,040,691	1,198,008	1,248,322
y.o.y % change	-2.8	4.0	1.6	0.8	1.8	1.7

Annex Table B - EU-27 Real GDP 2009-2013q2

	2009	2010	2011	2012 ⁹⁴	2013q1	2013q2 ⁹⁵
y.o.y % change	-4.5	2.0	1.7	-0.4	-1.5	-0.2

Annex Table C - Regional data: Malta and Gozo GVA 2007-2011

GVA (000s)	2007	2008	2009	2010	2011
MALTA	4,838,156	5,222,377	5,195,423	5,508,123	5,671,835
Malta	4,571,030	4,940,806	4,905,430	5,204,812	5,361,183
Gozo & Comino	256,151	270,396	278,734	291,219	298,457
GVA (y.o.y)		2008	2009	2010	2011
MALTA		7.94%	-0.52%	6.02%	2.97%
Malta		8.09%	-0.72%	6.10%	3.00%
Gozo & Comino		5.56%	3.08%	4.48%	2.49%

⁹⁴ Annual data source: Eurostat

http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_gdp_k&lang=en

⁹⁵ Quarterly data source: Eurostat

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Annex Table D - Allocation of total funds 2011-2012 by Priority Axis

Priority Axis	Allocation (EUR million)		% change
	2011	2012	
1. Enhancing Knowledge and Innovation	120.0	120.0	0.0
2. Promoting Sustainable Tourism	120.0	120.0	0.0
3. Developing the TEN-T	169.0	145.0	-14.2
4. Climate Change and Resource Efficiency	121.0	121.0	0.0
5. Safeguarding the Environment and Risk Prevention	165.3	189.3	14.5
6. Urban Regeneration and Improving the Quality of Life	149.0	149.0	0.0
7. Technical Assistance	12.3	12.3	0.0
Total	856.6	856.6	0.0

Annex Table E - Commitments of total funds by Priority Axis 2011-2012

Priority Axis	Commitment				
	2011 (EUR million)	2012 (EUR million)	% change	Progress Ratio	
				% of allocation	
			2011-2012	2011	2012
1. Enhancing Knowledge and Innovation	108.4	108.1	-0.3	90.3	90.1
2. Promoting Sustainable Tourism	78.5	120.0	52.9	65.4	100
3. Developing the TEN-T	78.7	145.0	84.2	46.6	100
4. Climate Change and Resource Efficiency	85.3	44.3	-48.1	70.5	36.6
5. Safeguarding the Environment and Risk Prevention	104.3	189.1	81.4	63.1	99.9
6. Urban Regeneration and Improving the Quality of Life	141.5	136.1	-3.8	95.0	91.3
7. Technical Assistance	12.3	12.3	0.0	100.0	100.0
Total	609.0	754.9	24.0	71.1	88.1

Annex Table F – Commitments of Community Funds by Region (2012)

Priority theme	Sub-category	Community Funds	Malta	Gozo & Comino
		(EUR million)	(% of total)	(% of total)
1. Enterprise environment	RTDI and linked activities	47.8	97.5	2.5
	Innovation support for SMEs	24.2	97.9	2.1
	ICT and related services	15.1	97.5	2.5
	Other investment in firms	4.3	100.0	0.0
2. Human resources	Education and training	0.0	-	-
	Labour market policies	0.0	-	-
3. Transport	Rail	0.0	-	-
	Road	104.5	88.2	11.8
	Other transport	51.9	100.0	0.0
4. Environment and energy	Energy infrastructure	38.6	79.6	20.4
	Environment and risk prevention	171.5	93.9	6.1
5. Territorial development	Social Infrastructure	65.3	94.5	5.5
	Tourism and culture	101.9	74.4	25.6
	Planning and rehabilitation	6.2	100.0	0.0
	Other	0.0	-	-
6. Technical assistance		10.5	100.0	0.0
TOTAL		641.7	90.3	9.7

Annex Table G – Commitments of Community Funds by Priority Theme (2012)

Priority theme	Sub-category	Community Funds	Priority theme	Sub-category
		(EUR million)	(% of total)	(% of total)
1. Enterprise environment	RTDI and linked activities	47.8	14.2	7.5
	Innovation support for SMEs	24.2		3.8
	ICT and related services	15.1		2.4
	Other investment in firms	4.3		0.7
2. Human resources	Education and training	0.0	0.0	0.0
	Labour market policies	0.0		0.0
3. Transport	Rail	0.0	24.4	0.0
	Road	104.5		16.3
	Other transport	51.9		8.1
4. Environment and energy	Energy infrastructure	38.6	32.7	6.0
	Environment and risk prevention	171.5		26.7
5. Territorial development	Social Infrastructure	65.3	27.0	10.2
	Tourism and culture	101.9		15.9
	Planning and rehabilitation	6.2		1.0
	Other	0.0		0.0
6. Technical assistance		10.5	1.6	1.6
TOTAL		641.7	100.0	100.0

Annex Table H - Payments by Priority Axis 2011-2012

Priority Axis	Payments						
	2011 (EUR million)	2012 (EUR million)	% change	Utilisation Ratio		Disbursement Ratio	
				% of allocation		% of commitment	
			2011-2012	2011	2012	2011	2012
1. Enhancing Knowledge and Innovation	41.9	60.5	44.4	34.9	50.4	38.7	56.0
2. Promoting Sustainable Tourism	27.1	45.1	66.4	22.6	37.6	34.5	37.6
3. Developing the TEN-T	16.6	41.9	152.4	9.8	28.9	21.1	28.9
4. Climate Change and Resource Efficiency	10.9	19.7	80.7	9.0	16.3	12.8	44.5
5. Safeguarding the Environment and Risk Prevention	67.9	85.2	25.5	41.1	45.0	65.1	45.1
6. Urban Regeneration and Improving the Quality of Life	44.6	62.1	39.2	29.9	41.7	31.5	45.6
7. Technical Assistance	2.8	4.1	46.4	22.8	33.3	22.8	33.3
Total	211.9	318.6	50.4	24.7	37.2	34.8	42.2

Annex Table I - Certified expenditure and implementation rates 2011-2012

Priority Axis	2011			2012		
	Total amount of certified eligible expenditure paid by beneficiaries (EUR million)	Corresponding public contribution (EUR million)	Implementation rate (%)	Total amount of certified eligible expenditure paid by beneficiaries (EUR million)	Corresponding public contribution (EUR million)	Implementation rate (%)
1. Enhancing Knowledge and Innovation	34.1	34.1	28.4	48.1	48.1	40.1
2. Promoting Sustainable Tourism	21.4	21.4	17.9	34.1	34.1	28.4
3. Developing the trans-European network for transport	10.5	10.5	6.2	36.5	36.5	25.2
4. Climate Change and Resource Efficiency	8.7	8.7	7.2	15.5	15.5	12.8
5. Safeguarding the environment and Risk Prevention	65.3	65.3	39.5	68.6	68.6	36.2
6. Urban regeneration and improving quality of life	41.7	41.7	28.0	55.0	55.0	36.9
7. Technical Assistance	2.0	2.0	16.2	2.7	2.7	22.0
Total	183.8	183.8	21.5	260.5	260.5	30.4

Annex Table J - Broad policy areas and correspondence with fields of intervention (FOI)

Policy area		Code	Priority themes
1. Enterprise environment	RTDI and linked activities	01	R&TD activities in research centres
		02	R&TD infrastructure and centres of competence in a specific technology
		05	Advanced support services for firms and groups of firms
		07	Investment in firms directly linked to research and innovation (...)
		74	Developing human potential in the field of research and innovation, in particular through post-graduate studies ...
	Innovation support for SMEs	03	Technology transfer and improvement of cooperation networks ...
		04	Assistance to R&TD, particularly in SMEs (including access to R&TD services in research centres)
		06	Assistance to SMEs for the promotion of environmentally-friendly products and production processes (...)
		09	Other measures to stimulate research and innovation and entrepreneurship in SMEs
		14	Services and applications for SMEs (e-commerce, education and training, networking, etc.)
		15	Other measures for improving access to and efficient use of ICT by SMEs
	ICT and related services	11	Information and communication technologies (...)
		12	Information and communication technologies (TEN-ICT)
		13	Services and applications for citizens (e-health, e-government, e-learning, e-inclusion, etc.)
	Other investment in firms	08	Other investment in firms
	2. Human resources	Education and training	62
63			Design and dissemination of innovative and more productive ways of organising work
64			Development of special services for employment, training and support in connection with restructuring of sectors ...
72			Design, introduction and implementing of reforms in education and training systems ...
73			Measures to increase participation in education and training throughout the life-cycle ...
Labour market policies		65	Modernisation and strengthening labour market institutions
		66	Implementing active and preventive measures on the labour market
		67	Measures encouraging active ageing and prolonging working lives
		68	Support for self-employment and business start-up
		69	Measures to improve access to employment and increase sustainable participation and progress of women ...
		70	Specific action to increase migrants' participation in employment ...
		71	Pathways to integration and re-entry into employment for disadvantaged people ...
		80	Promoting the partnerships, pacts and initiatives through the networking of relevant stakeholders
3. Transport	Rail	16	Railways
		17	Railways (TEN-T)

Policy area		Code	Priority themes	
3. Transport	Rail	18	Mobile rail assets	
		19	Mobile rail assets (TEN-T)	
	Road	20	Motorways	
		21	Motorways (TEN-T)	
		22	National roads	
		23	Regional/local roads	
		24	Cycle tracks	
	Other transport	25	Urban transport	
		26	Multimodal transport	
		27	Multimodal transport (TEN-T)	
		28	Intelligent transport systems	
		29	Airports	
		30	Ports	
		31	Inland waterways (regional and local)	
32		Inland waterways (TEN-T)		
4. Environment and energy	Energy infrastructure	33	Electricity	
		34	Electricity (TEN-E)	
		35	Natural gas	
		36	Natural gas (TEN-E)	
		37	Petroleum products	
		38	Petroleum products (TEN-E)	
		39	Renewable energy: wind	
		40	Renewable energy: solar	
		41	Renewable energy: biomass	
		42	Renewable energy: hydroelectric, geothermal and other	
		43	Energy efficiency, co-generation, energy management	
		Environment and risk prevention	44	Management of household and industrial waste
			45	Management and distribution of water (drink water)
	46		Water treatment (waste water)	
	47		Air quality	
	48		Integrated prevention and pollution control	
	49		Mitigation and adaption to climate change	
	50		Rehabilitation of industrial sites and contaminated land	
	51	Promotion of biodiversity and nature protection (including Natura 2000)		
	52	Promotion of clean urban transport		
53	Risk prevention (...)			
54	Other measures to preserve the environment and prevent risks			
5. Territorial development	Social Infrastructure	10	Telephone infrastructure (including broadband networks)	
		75	Education infrastructure	
		76	Health infrastructure	
		77	Childcare infrastructure	
		78	Housing infrastructure	
		79	Other social infrastructure	
	Tourism and culture	55	Promotion of natural assets	
		56	Protection and development of natural heritage	

Policy area		Code	Priority themes
5. Territorial development	Tourism and culture	57	Other assistance to improve tourist services
		58	Protection and preservation of the cultural heritage
		59	Development of cultural infrastructure
		60	Other assistance to improve cultural services
	Planning and rehabilitation	61	Integrated projects for urban and rural regeneration
	Other	82	Compensation of any additional costs due to accessibility deficit and territorial fragmentation
		83	Specific action addressed to compensate additional costs due to size market factors
6. Technical assistance		84	Support to compensate additional costs due to climate conditions and relief difficulties
		81	Mechanisms for improving good policy and programme design, monitoring and evaluation ...
		85	Preparation, implementation, monitoring and inspection
		86	Evaluation and studies; information and communication

Annex Table K - List of Evaluations of OP I undertaken during the Programming Period 2007-2013

Title and date of completion	Policy area and scope (*)	Main objectives and focus (*)	Main findings	Method used(*)	Full reference or link to publication
Ex ante evaluation of the Operational Programme I- Cohesion Policy 2007-2013	9. Multi-area – ex-ante evaluation of OP I	1. assess the arrangements and procedures for managing or administering programmes;	The “ex-ante” evaluation of OP I showed that the ERDF and Cohesion Fund programme is suitable for tackling the main structural problems and is in line with the Lisbon Strategy, the EU and national policy guidelines.	4. Qualitative	n/a
MTE report – Operational Programme I (Cohesion Policy 2007-2013), 7 th April 2011 (KPMG)	9. Multi-area – MTE of OP I	2. To provide an independent review with respect to the progress attained towards the key objectives (relevance, efficiency and effectiveness) of the OPs under review	<p>Relevance - OP I is considered to be a suitable tool for tackling the main structural problems that were highlighted in the strategy document, both in term of its broadness and flexibility.</p> <p>Efficiency - The process leading up to the selection of the application is not a major bottleneck. However, potential issues exist in the actual utilisation of the funds as a result of a relatively low approval ratio and disbursement levels.</p> <p>Effectiveness - There has been a general underperformance in the actual achievement reported by the impact indicators, although these are more likely to be measureable in the longer term.</p>	4. Qualitative	Link to the presentation: http://ppcd.gov.mt/monitoring_committees_all_funds

Note: (*) Legend:

Policy area and scope: 1. RTDI; 2. Enterprise support and ICT; 3. Human Resources (ERDF only); 4. Transport; 5. Environment; 6. Energy; 7. Territorial development (urban areas, tourism, rural development, cultural heritage, health, public security, local development); 8. Capacity and institution building; 9. Multi-area (e.g. evaluations of programmes, MTE); 10. Transversal aspects (e.g. gender or equal opportunities, sustainable development, employment)

Main objective and focus: 1. assess the arrangements and procedures for managing or administering programmes; 2. support monitoring, or check the progress made in implementing programmes, such as many MTEs; 3. assess the outcome or effects of programmes in terms of the results achieved and their contribution to attaining socio-economic policy objectives

Method used: 1. Counterfactual; 2. Cost-benefit analysis; 3. Other quantitative; 4. Qualitative.