

THE NATIONAL EMPLOYMENT POLICY



MINISTRY FOR EDUCATION AND EMPLOYMENT



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EXECUTIVE SUMMARY

The aim of the employment policy is to bring to light labour market frictions that impede the labour market from functioning to its full potential. Indeed, labour market frictions have negative repercussions on the rate of growth of an economy. However, the economic perspective is only one part of the equation. One would also have to take into account the social aspect of employment. Putting both the economic and social aspects of employment into perspective, the employment policy provides a comprehensive set of initiatives and measures that will enhance the concept of making work pay.

Over the past years, there was a surge in the Maltese employment ratio for the age cohort (20-64) which was mainly driven by an increase in female labour market participation. However, despite the rise in the volume of the Maltese workforce, there remains a deficit in the skills base of Malta as opposed to the EU28. Consequently, this employment policy proposes various initiatives to upgrade the skills of the Maltese workforce which would contribute to more productive jobs. In turn, this would lead to the convergence in the standard of living of Malta with the EU28.

Labour market initiatives comprising both demand and supply-side schemes are proposed in order to reduce labour market frictions. Various initiatives promoting female employment are being proposed within this employment policy. Initiatives targeted at addressing the barriers hindering the active involvement of women and flexibility measures would lead to a higher influx of females into the labour market.

The role of youths in the Maltese economy is becoming ever more imperative not only due to the declining working age population of Malta but primarily because of their potential to bring innovative ideas and positive energy in their workplace. Accordingly, the employment policy proposes various initiatives aimed at engaging youths into the labour market. In line with an ageing population, this policy document targets older persons. Through various schemes and initiatives, the employment policy aims to extend the number of years spent in employment by older persons.

The policy document also addresses labour market participation of persons with disability. Measures including co-operatives, supported employment and sheltered employment amongst others provide a safe environment where persons with disability can contribute to society.

Various programmes within the employment policy are aimed towards the Gozitan labour market. These initiatives are meant to counter the double insularity nature of the Gozitan economy and promote the development of the labour market of Gozo.

01

MALTA'S LABOUR MARKET OVERVIEW

1.0 Overview

This section provides an overview on the main historical developments of the Maltese economy that left their mark on the labour market. Malta's economic development can be divided into two time periods, namely, 1990 to 2000 period and post-2000.

1.1 Period 1 [1990-2000]

Back in 1987, a newly elected government led to a shift in economic philosophy that promoted liberalisation, expansionary fiscal policy and a transition towards a service oriented economy. The economic openness of Malta, namely the economy's exposure to foreign trade grew from 70.0 per cent of GDP in the 80s to more than 90.0 per cent of GDP in the 90's (European Commission, 2014a). The employment share in the services sector expanded from 33.9 per cent in 1985 to 45.4 per cent by the year 2000. Conversely, employment across direct production sectors dropped from 40.8 per cent to 28.7 per cent over the same period. Public sector employment grew by circa 7,000 employees between 1985 and 2000 (COS, 1989:2000).

During this period (1990-2000), the Maltese economy was sheltered from foreign competition through trade protectionism measures. In turn, this philosophy fuelled demand-driven growth as domestic consumption levels grew substantially. As shown in diagram 1.1, real GDP growth per capita grew by an annual average of 4.0 per cent over the decade under consideration (1990-2000).

EMPLOYMENT RATIO VS GDP PER CAPITA

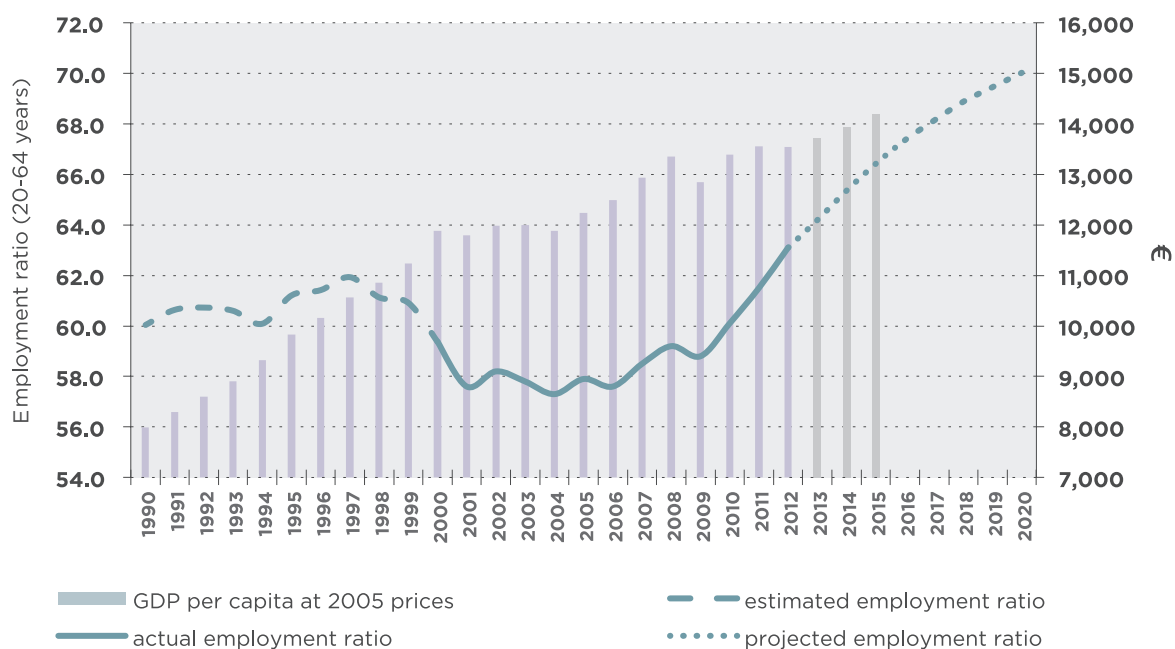


Figure 1.1 Employment ratio & GDP per capita historical development

The previously mentioned developments in the economic structure of Malta left a positive mark on the domestic labour market. This is substantiated by the registered growth in the employment ratio¹ for the 20-64 year cohort from 60.0 to 62.0 per cent between 1990 and 1997 (European Commission, 2014b). Yet, the rate of growth in employment was not sustainable over the longer-term as a slowdown in government's expansionary fiscal policy regime, coupled with an anticipated economic restructuring triggered a deceleration in the rate of growth of employment. This was also instigated by a rise in the working age population.

1.2 Period 2 [2000-2012]

Malta's second attempt to become a member of the European Union resulted in rapid economic restructuring to adhere to the Acquis rules. Amongst other changes, economic restructuring led to the transition from a protectionist philosophy towards a more liberalised economic structure. As a result of this, the manufacturing sector shed a net of 4,000 jobs over a span of five years (2000-2005), (Eurostat, 2014a).

Concurrently, the Maltese economy was heavily impacted by both an international economic slowdown (between 2001 and 2002). Moreover, contractionary fiscal measures to meet the Maastricht Criteria contributed to the slowdown as well. Between 1997 and 2004, Malta's fiscal deficit averaged an annual figure of 7.2 per cent of GDP. This was eventually reduced to an annual average of 3.2 per cent between 2005 and 2012 (Eurostat, 2014b).

As seen in figure 1.1, per capita GDP growth between 2000 and 2012 fell to 1.1 per cent from 4.0 per cent witnessed over the previous decade (European Commission 2014a). Inevitably, the restructuring process also had an impact on the domestic labour market. Indeed, the hit taken in local consumption over the first half of the decade was a shortcoming that had left the Maltese economy unable to make a recovery in the employment ratio.

The next diagram (diagram 1.2) illustrates the trends in labour hours worked in Malta and the EU28. As shown, the volume of hours worked in the EU grew until the recession of 2008. Going forward, hours

¹ Employment ratio represents the number of employed persons as a ratio of the working age population.

worked dropped and settled in line with 2001 levels. In Malta, labour hours worked, dropped to their lowest level in 2004 in line with the drop in employment ratio witnessed during the same period. The drop in labour hours was partly driven by early retirement schemes of males across the age cohort of 45-64 years as part of the restructuring process to curb down debt and deficit ratios to meet the Maastricht Criteria.

Upon becoming members of the EU, labour hours worked in Malta increased consistently. This was also a result of Government's fiscal initiatives to boost female participation in the labour market back in 2005. Results indicate that the boost in the supply of labour in Malta from 2004 onwards was mainly attributable to higher female participation rates. During the period 2005 and 2012, three out of every four net jobs created in the market were taken up by females (Eurostat, 2014a).

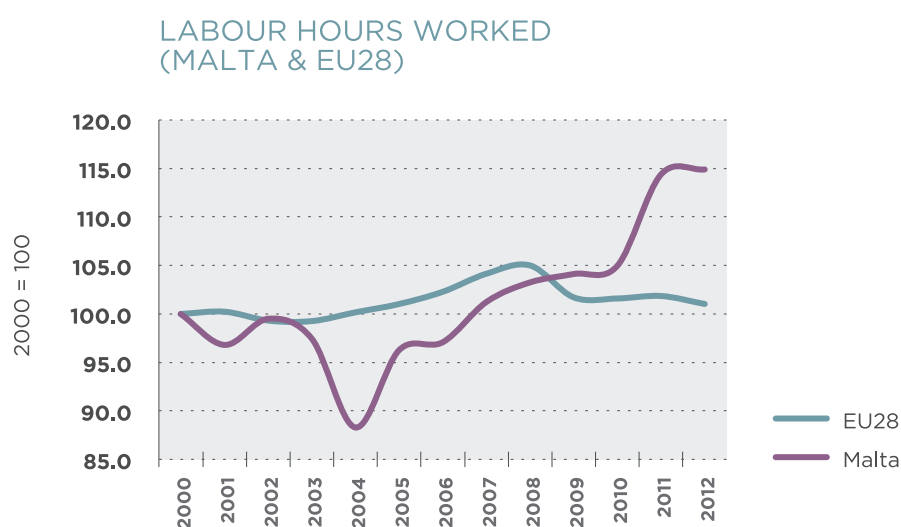


Figure 1.2 Labour Hours Worked – Malta & EU28

1.3 Economic Outlook [2013-2020]

Over the coming years, the local labour market is expected to continue on its growth path. Growth is expected to be primarily driven from higher female (58.0 per cent by 2020) and old age (41.5 per cent by 2020) participation in the labour market. Such labour market developments are expected to raise the aggregate employment ratio to a minimum of 70.0 per cent by 2020.

As explained throughout this policy document, a new measures and initiatives will be introduced to drive Malta's employment ratio towards the 2020 targets established by the EU. Moreover, new policy initiatives will focus on increasing the productivity levels of the present and future generations. Higher productivity is required to increase the rate of per capita real GDP growth. European Commission forecasts portray that up to 2015, per capita real GDP in Malta is expected to increase by an annual average of 1.7 per cent (European Commission, 2014a). This rate of growth is not high enough to close the gap between Malta's standard of living and that of the EU28. The following section analyses Malta's investment and productivity levels as opposed to other EU member states.

1.4 The Maltese Economy – A Case of Under investment

In contrast to other EU Member States, Malta witnessed the third largest increase in the employment ratio (20-64 cohort) between 2000 and 2012². Concurrently, the average increase in the employment

ratio within the same age cohort in the EU28 was 2.0 percentage points (Eurostat, 2014a). Despite Malta's positive performance in employment creation and number of hours worked, the economy's investment levels are low relative to the economy's level of development.

Mainstream economic theory underlines that the achievement of economic growth is attributable to a country's extent of investment in human capital³, physical capital (productive assets) and technology. Empirical evidence substantiates this, showing that accumulation of physical capital fuels economic growth. However, in line with the diminishing marginal returns principle, the return on capital invested in terms of output diminishes with each and every unit of investment made. Consequently, developed economies with large stocks of capital generate lower output to an extra unit invested as opposed to less developed economies with lower levels of capital accumulated. In turn, this explains the reason behind higher investment rates of less developed economies as opposed to developed economies. Diagram 1.3 substantiates this understanding.

From diagram (1.3), it is clearly evident that the level of investment in productive assets⁴ (e.g. plant and machinery, transport equipment, software, etc.) is inversely related to the stock of physical capital per capita. As highlighted earlier, the higher the return on physical capital, the more attractive it is for an economy to invest in more capital.

Between 2002 and 2012, Malta's average annual investment rate as a percentage of GDP was circa 14.0 per cent, while the physical capital stock per capita was equivalent to €24,000. On the other hand, while the EU's average annual investment rate was on the same level of Malta's, the corresponding value of the stock of physical capital per capita was of €70,700 - nearly three times as much as Malta's physical capital stock per capita (European Commission, 2014c). This clearly substantiates the degree of underinvestment in Malta. Using the line of best fit as an approximation, Malta's investment rate as a percentage of GDP should be at least circa four to five percentage points higher than the average recorded between 2002 and 2012. In absolute terms, this translates to an additional €280.0 to €350.0 million of investment per annum.

At current levels of investment, the Maltese economy will take long to converge with the standard of living of the EU28. Indeed, a lack of physical capital accumulation reflects into low growth rates in both productivity and GDP.

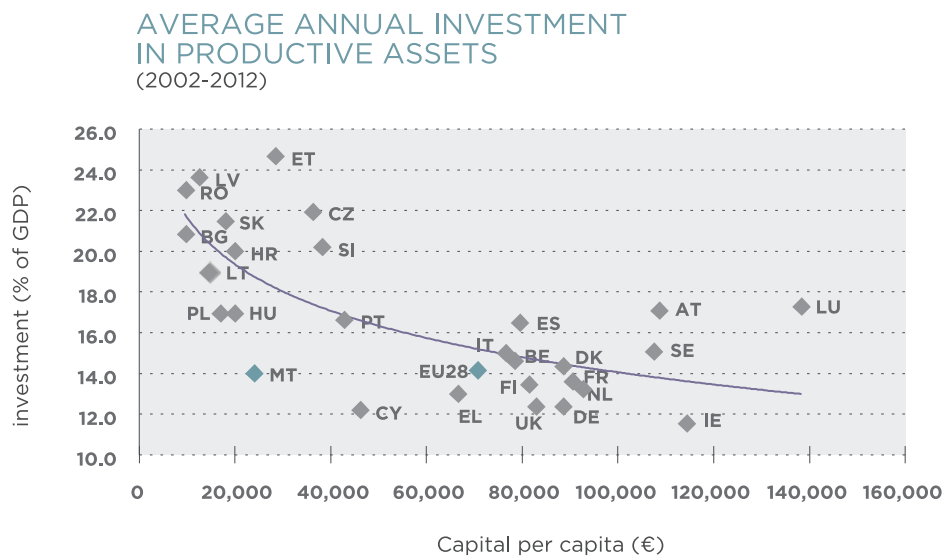


Figure 1.3 Investment rate (as per cent of GDP) & per capita Capital (€)

² Malta was only surpassed by Bulgaria and Germany.
³ Human capital is the stock of competencies, knowledge, social and personality attributes, including creativity, cognitive abilities, embodied in the ability to perform labour so as to produce economic value.
⁴ Investment in household dwellings is excluded.

As illustrated in diagram 1.4, the amount of invested capital per person employed in Malta peaked in 2010. Thereafter, capital per person employed dropped to 2006 levels (European Commission, 2014c). The registered drop in capital per person employed arises from the fact that the amount of annual investment is barely countering the effect of depreciation on capital. Moreover, as the volume of persons employed increases, capital per person employed drops accordingly. In contrast to European counterparts, Malta is the only Member State with a diminishing stock of capital per person employed in the recent past.

Underinvestment in capital is attributed to various factors that include weak foreign direct investment, declining labour productivity, rising labour costs, increase in costs of other factors of production as well as limited human capital resources.

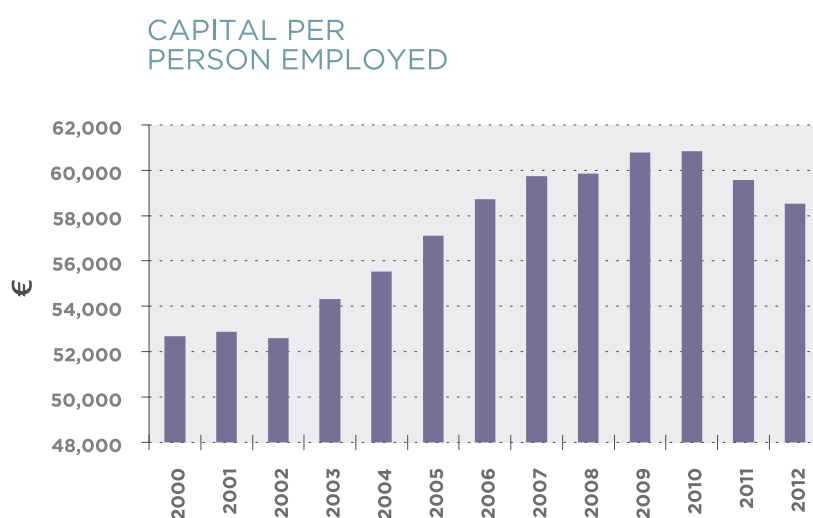


Figure 1.4 Capital per person employed in Malta

1.5 Labour Productivity

In simple terms, labour productivity can be defined as the value of goods and services produced by one hour of labour input. Intrinsically, labour productivity is measured as the amount of real GDP produced by an hour of labour work. As highlighted earlier, labour productivity is a function of investment in technology, physical and human capital.

The graphical representation (diagram 1.5) underlines the inverse relationship between average labour productivity and capital per person employed. In line with mainstream economic theory, the marginal output of an additional labour hour at high levels of capital is low (diminishing marginal returns). Malta's labour productivity throughout the period under review (2002-2012) was lower than the average of the EU28 (European Commission, 2014d). Figure 1.5 puts Malta on a par with economies with levels of capital per person employed three to four times the size of Malta's. Indeed, the sluggish average labour productivity of Malta shows that the gains in output from an additional labour hour worked are below the gains witnessed by other Member States to an equivalent additional labour hour of work.

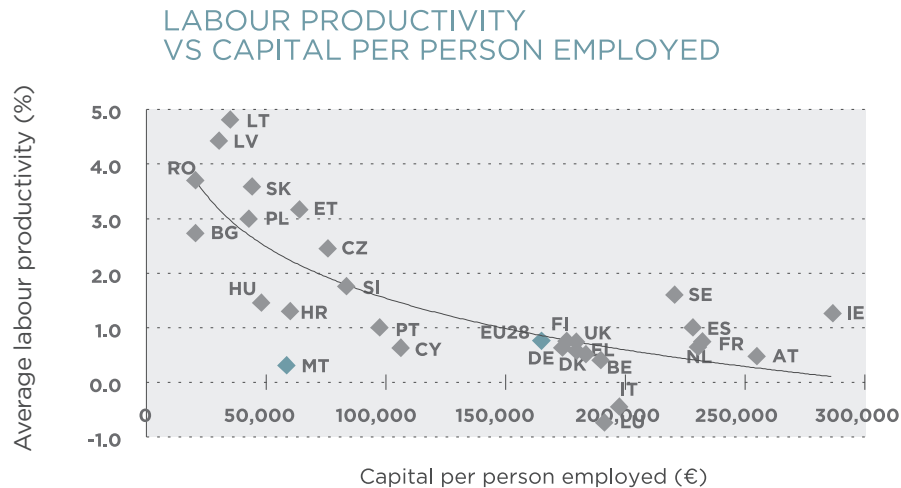


Figure 1.5 Labour Productivity & Capital per employee

Malta's weak labour productivity is also reflected in figure 1.6 below. As shown, despite the gains in labour hours worked up to 2004, productivity per hour of labour in Malta has been consistently falling thereafter. As described earlier, additional inflows of labour hours did not produce commensurate gains in output. Productivity per hour of labour worked in Malta dropped by ten percentage points between 2004 and 2012. When comparing years 2000 and 2012, productivity grew by six percentage points, eight percentage points below the EU28 average (Author's calculations).

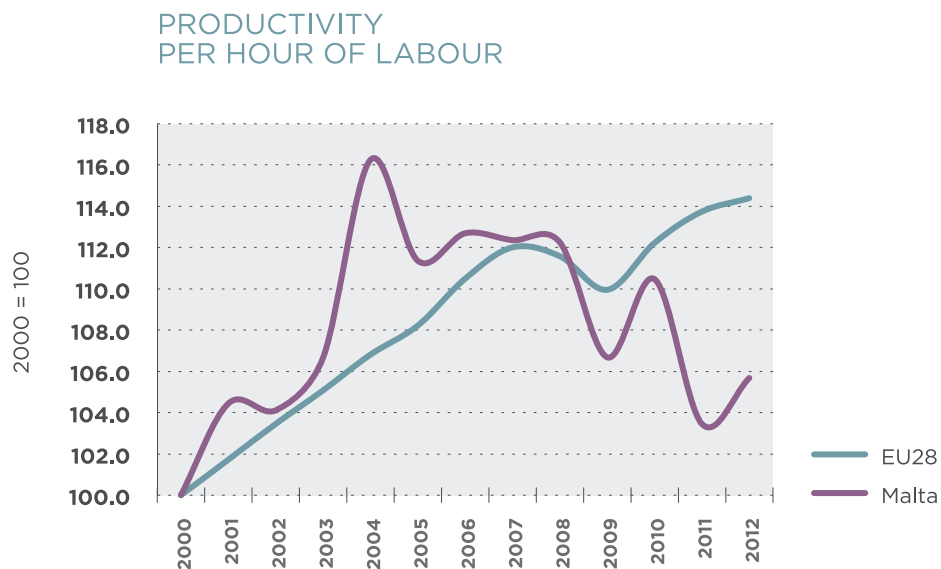


Figure 1.6 Productivity per Labour Hour – Malta & EU28

1.6 Rising Nominal Unit Labour Cost

Nominal unit labour cost is another significant labour market indicator. The nominal unit labour cost is defined as labour cost incurred in producing one unit of output. As shown in figure 1.7, Malta's nominal unit labour cost or the labour production cost of a 'unit' increased by 40.0 percentage points over a span of twelve years. This contrasts with the increase experienced in the EU28 of 27.0 percentage points (European Commission, 2014d).

Rising nominal unit labour cost coupled with a diminishing productivity per labour hour leaves Malta in a state of deteriorating competitiveness in contrast to its European counterparts. Failure to address this limitation will translate into a wider gap between the standard of living for Malta and other European Member States.

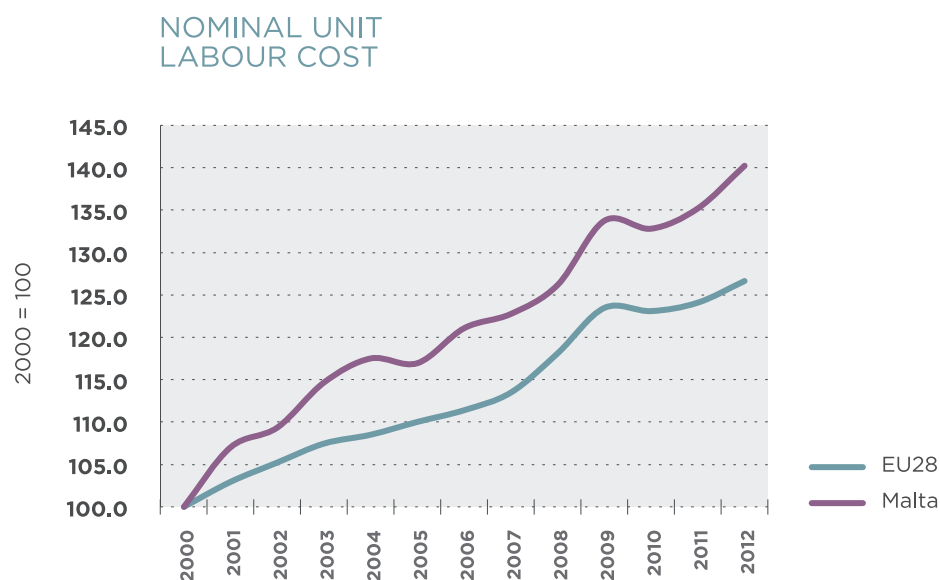


Figure 1.7 Nominal Unit Labour Cost – Malta & EU28

1.7 Standard of Living Indicators

Earned income is the largest source of welfare for most households (Eurostat, 2014c). The following diagram (1.8) compares the rate of growth of wages in Malta and the EU28 after adjusting for inflation. The real wage rate is an appropriate measure of one's standard of living as it measures the purchasing power of an individual. As portrayed in diagram 1.8, the trend in the real wage growth of Malta was positive up to 2009. Indeed, by 2012, the growth of real wages in Malta backtracked to 2004 and 2005 levels. Conversely, real wage growth in the EU28 was moderate and at a sustained pace. Between 2000 and 2012, the average increase in real wages across the EU28 was of nine percentage points, one percentage point higher than Malta.

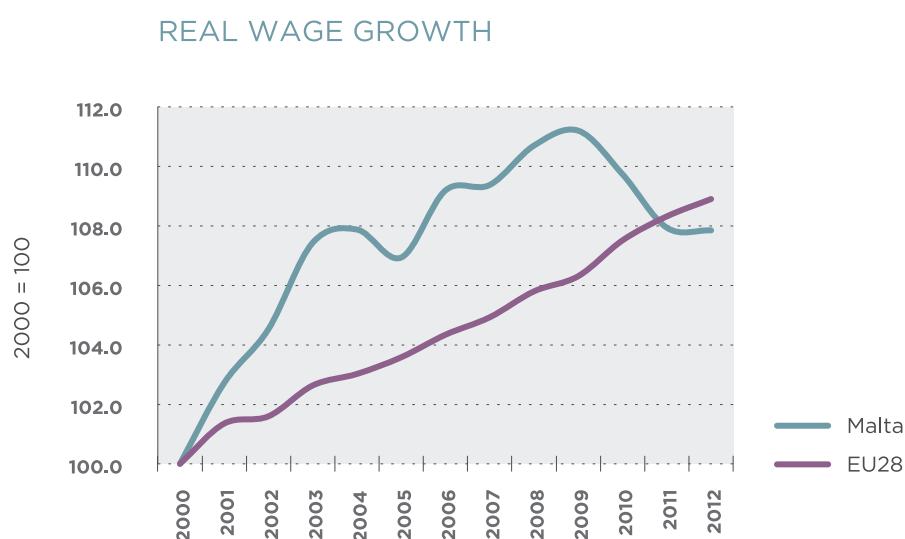


Figure 1.8 Real Wage Growth – Malta & EU28

An equally relevant indicator of an economy's well being is GDP per capita in Purchasing Power Standard (PPS). PPS adjusts for price differentials between countries in order to assure level pricing across the board. In 2000, Malta's GDP per capita in PPS was estimated to be circa 87.0 per cent of the EU28 average. Over the years, Malta's GDP per capita (PPS) as a ratio of the European average declined to nearly 78.0 per cent by 2007 (Eurostat, 2014d). This reflects different speeds of economic growth between Malta and the EU28. Indeed, the trend portrayed in figure 1.9 substantiates that GDP per capita in Malta grew at a lower rate than that of the EU28. In turn, this translates into a lower standard of living for Malta when compared to the average of the EU28.

Malta's GDP per capita as a ratio of the EU28 recovered strongly during the recessionary period. Between the year 2008 and 2010, Malta managed to recover back to 2000 levels. Yet, when Europe started to recover in 2011, the ratio of Malta's per capita GDP as a share of the EU28 dropped. This shows that Malta's economic growth is struggling to surpass the European average. Over the years 2011 and 2012, Malta lost two percentage points in per capita GDP as a share of the EU28.

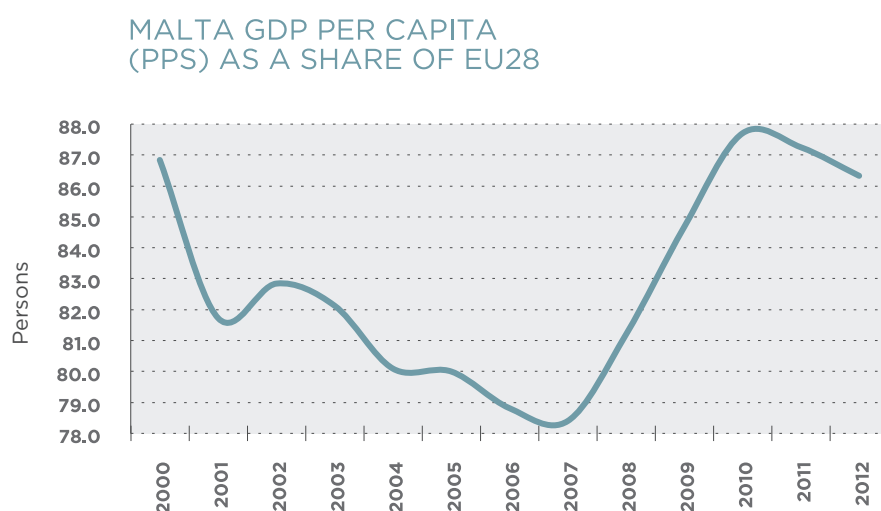


Figure 1.9 Per Capita GDP in PPS (Malta as a share of the EU28) in per cent

Figure 1.10 compares the performance of the Maltese economy with Member States that joined the EU after the year 2004. Back in 2004 Cyprus and Slovenia were the only Member States under consideration with a higher GDP per capita than Malta's. Countries such as Bulgaria, Estonia, Latvia, Lithuania and Poland have experienced an increase in GDP per capita between 2004 and 2012 of 11.4 percentage points, 9.7 percentage points, 13.5 percentage points, 16.3 percentage points and 12.4 percentage points respectively (Author's calculations). Indeed, these Member States had registered a high level of capital accumulation per capita as well. This is evidence that high rates of capital accumulation do in fact drive per capita GDP growth in the case of less developed Member States.

As seen in figure 1.10, it is alarming that Malta's lack of adequate economic growth has widened the discrepancy in GDP per capita. What is worse is that Malta's advantage in PPS per capita relative to less developed Member States has narrowed considerably over the years. Between 2004 and 2012, New Member States' average GDP per capita increased from 74.0 per cent of Malta's GDP per capita in 2004 to 80.0 per cent in 2012. In the near future, failure to address this issue will lead to the eventuality of our economy falling further behind developed Member States and less developed Member States surpassing the Maltese economy.

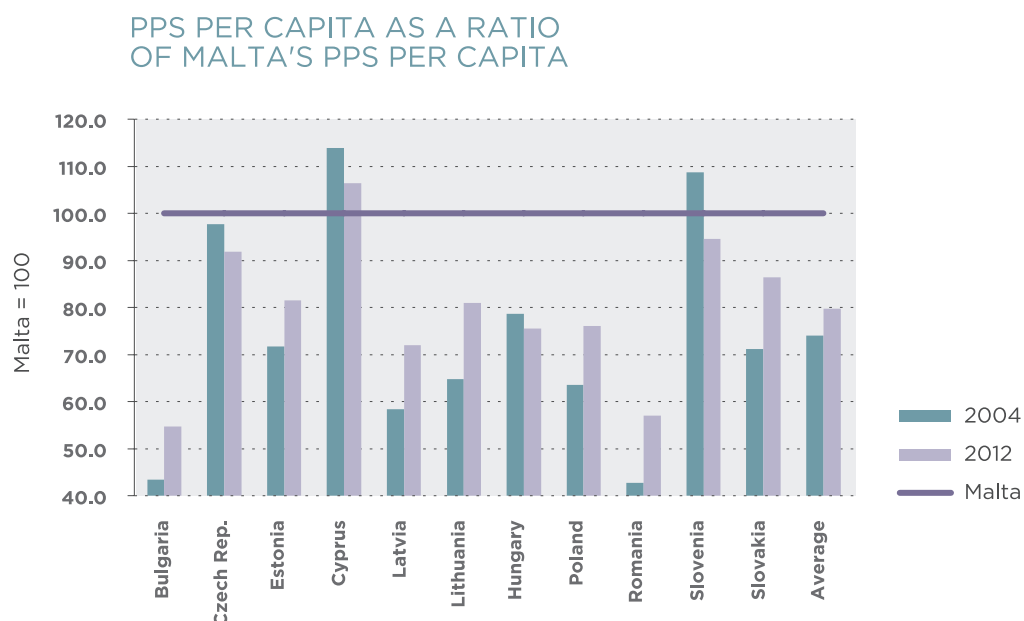


Figure 1.10 Per Capita GDP in PPS: Malta = 100

Key Points – Chapter 1

- Over the coming years, growth in the local labour market will be mainly driven from higher female (58.0 per cent by 2020) and old age (41.5 per cent by 2020) participation in the labour market.
- Malta's aggregate employment ratio is expected to increase to a minimum of 70.0 per cent by 2020. Despite registering higher labour hours worked, Malta's labour productivity per hour has been consistently falling over the years.
- European Commission forecasts portray that up to 2015, per capita real GDP in Malta is expected to increase by an annual average of 1.7 per cent.
- Rising nominal unit labour cost coupled with a diminishing productivity per labour hour leave Malta in a state of deteriorating competitiveness in contrast to its European counterparts. Failure to address this limitation will translate into a wider gap between the standard of living for Malta and other European Member States.

02

LABOUR DEMAND

2.0 Overview

Labour demand is derived in its nature and occurs as a consequence of demand for specific goods and services from consumers or firms. Demand for labour is part of the input equation of a firm to produce a specific good/service and is a function of wages that reflect the productivity of workers.

AVERAGE WAGE AND EMPLOYMENT BY NACE

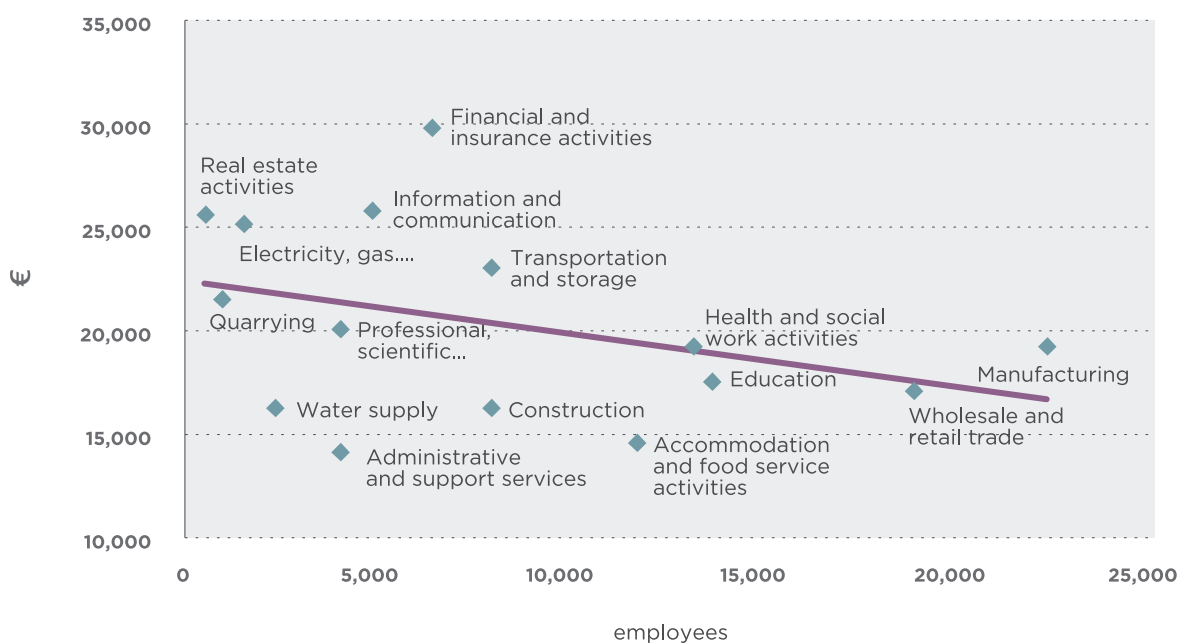


Figure 2.1 Relationship between average wage and employment by Nace

Mainstream economic theory shows that as the number of workers employed in a firm rises, whilst keeping machinery (capital) unchanged, productivity suffers as a result of diminishing marginal returns. This concept is observable in diagram 2.1 showing that labour intensive industries pay lower wages as opposed to industries employing fewer employees. As shown, the manufacturing industry that employs circa 20,000 employees pays an average wage of €19,000. In contrast, the information and communication sector that employs circa 5,000 employees pays an average wage of €26,000 (NSO, 2014).

2.1 Labour Demand Developments

The following analysis focuses on labour demand in terms of the total gainfully occupied indicator. As shown in figure 2.2, labour demand in Malta has been consistently rising since 2004 with the exception of 2009 as a result of the impact of the global recession. The number of total gainfully occupied persons grew from 137,979 in 2004 to 152,306 by 2012 (+10.4 per cent) (NSO, 2012; 2013).

From the same figure (2.2), it transpires that the Maltese labour market was back on track just a year after the 2009 slump. Such a rapid bounce-back effect of the gainfully occupied was triggered by policy measures that mitigated the hit endured by local companies. Moreover, the scarcity of skilled labour within the Maltese labour market allows for minimum flexibility in terms of hiring and firing capabilities.

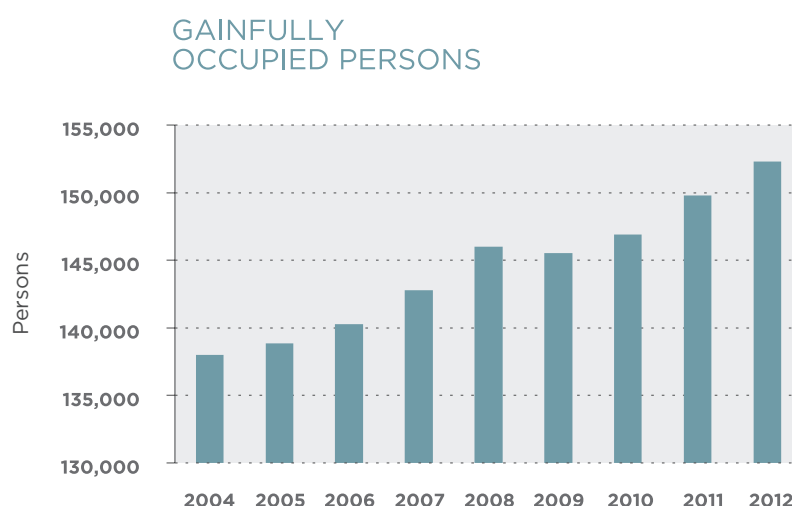


Figure 2.2 Gainfully occupied persons

Notwithstanding the overall positive trend witnessed in local demand for labour, developments within the labour market of Malta vary across sectors. In line with table 2.1, it transpires that during the 2008 – 2012 period notable changes took place across various industries. National Statistics Office (NSO) data for the gainfully occupied population indicates that for the period under consideration, out of 80 NACEs,⁵ 32 NACEs suffered a net decline of 6,647 full-time jobs, while 48 NACEs registered a net increase of 12,967 full-time jobs. It should be mentioned that the top 10 NACEs registering job losses accounted for 83.7 per cent of net total decrease. On the other hand, the top 10 NACEs which registered a gain in employment accounted for 63.4 per cent of the additions. The NACEs recording declines shrank from 18.4 per cent to 14.4 per cent in employment share. Conversely, sectors recording employment gains expanded from a share of 30.1 per cent to 34.3 per cent (NSO 2013).

⁵ Nomenclature Generale des Activites Economiques - (NACES). This is the industrial classification applied by the statistical office of Europe (EUROSTAT).

Top 10 - Losses	Jobs	Top 10 - Gainers	Jobs
Construction of buildings	-1,029	Residential care activities	1,268
Repair and installation of machinery and equipment	-1,001	Gambling and betting activities	1,128
Accommodation	-889	Education	950
Manufacture of computer, electronic and optical products	-739	Activities of head offices; management consultancy activities	915
Crop and animal production, hunting and related service activities	-655	Land transport and transport via pipelines	868
Air transport	-325	Computer programming, consultancy and related activities	697
Water collection, treatment and supply	-320	Legal and accounting activities	671
Manufacture of furniture	-230	Security and investigation activities	609
Telecommunications	-204	Retail trade, except of motor vehicles and motorcycles	561
Manufacture of electrical equipment	-169	Wholesale trade, except of motor vehicles and motorcycles	559

Table 2.1 Major employment developments by Nace

As shown in table 2.1 above, construction and repair and installation of equipment and machinery lost more than 2,000 jobs between 2008 and 2012. Following the surge in construction activity during the mid-2000s, this sector is currently undergoing some restructuring reflecting subdued demand. The decline in repair and installation of equipment and machinery is attributable to the fact that prices of certain manufactured goods have dropped substantially, therefore lowering cost of replacement. The loss in employment within the accommodation sector was also considerably large. Despite registering an increase in the number of arrivals and volume of nights over prior years, the hotel industry still shrank in terms of employment. This is a direct consequence of the increase in the cost structure and the reduction in profitability levels of this sector.

On the other hand, the increase in employment levels was mainly driven by two factors, namely, demographic related services and continued growth in demand for services that requires both highly and lowly skilled workers. The main driver of demand for labour was the residential care sector. This is correlated with the ageing demography phenomenon which is generating its own labour demand. The upward trend in employment within this sector is expected to persist over the coming years.

Demand for highly skilled labour across various sectors registered healthy gains. Sectors such as gaming and betting activities, management consultancy, computer programming and consultancy, and legal and accounting activities employed an additional 3,400 workers during the period under review.

Labour demand across low and medium skilled jobs increased as well. The increase in sales or service workers was mainly underpinned by the wholesale, retail, security services and land transport. In total, these sectors contributed to an increase of 2,600 workers. The education sector alone generated 950 jobs, of which 548 were learning support assistants (MFIN 2009, 2010).

2.2 Labour Demand - Public Sector

In Malta, the public sector remains one of the biggest employers. According to Eurostat statistics, Malta's public sector administration is the third largest in size in Europe as a ratio of total population. Still, from figure 2.3 it transpires that during the past decade the public sector shrank in size by almost 6,000 employees, from 46,700 in 2004 to 40,900 in 2012 (NSO, 2012; 2013).

PUBLIC SECTOR EMPLOYMENT

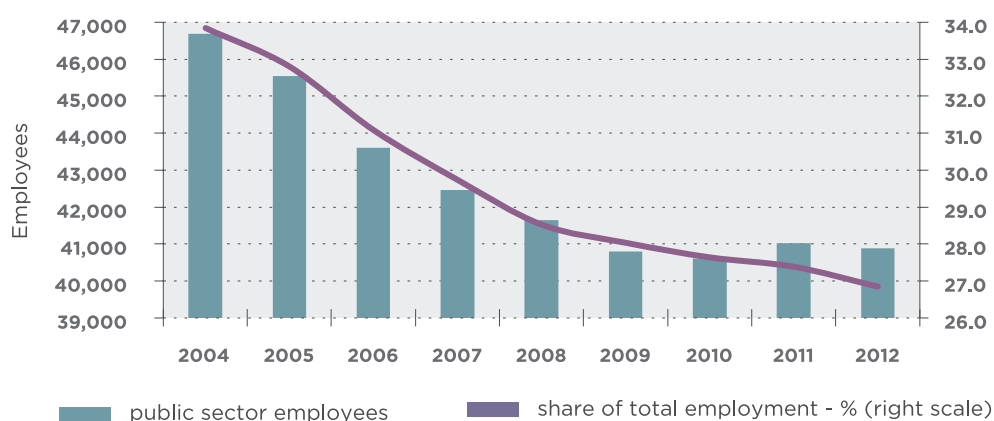


Figure 2.3 Public sector employment - Public administration, Education, Health and Social work

As shown in figure 2.3 above, the absolute number of employees in the public sector stabilised around the 41,000 mark over the past five years. Nevertheless, the share of public employment continues to decrease as the economy continues to generate more jobs in the private sector. Public sector activity is getting narrower in scope and more focused in three particular sectors, namely, public administration, education, health and social work (see figure 2.4). The absolute number of employees in these three sectors has roughly increased by around 2,000 employees between 2004 and 2012. While in 2004 the above mentioned sectors accounted for 59.0 per cent of all public sector employment, their share increased to 73.0 per cent, i.e. +14.0 percentage points by 2012 (NSO, 2012; 2013)

PUBLIC SECTOR EMPLOYMENT IN PUBLIC ADMINISTRATION, EDUCATION, HEALTH AND SOCIAL WORK

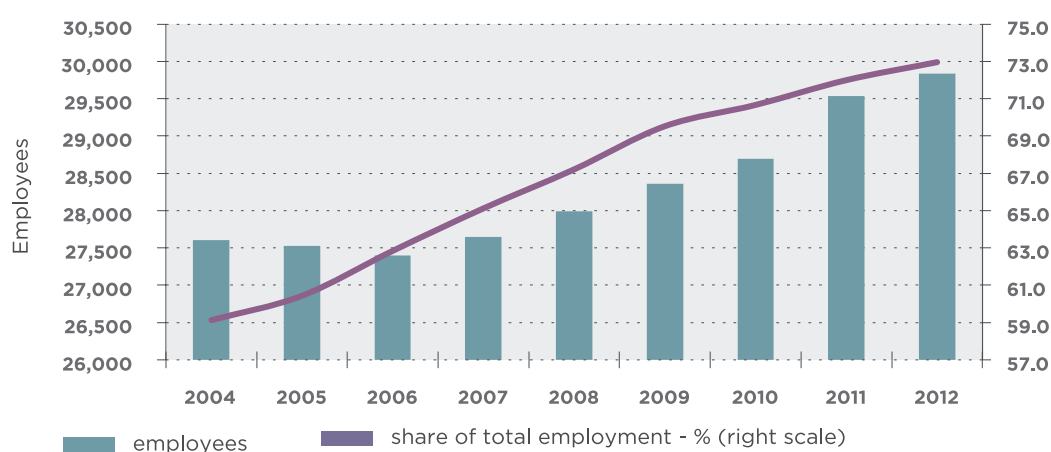


Figure 2.4 Public Sector Employment - Public administration, Education, Health and Social work

2.3 Segmented Labour Market

As already implied in the preceding chapter, the Maltese labour market is still undergoing an adjustment process to come to terms with the benefits and challenges brought about by the European single market. At the start of the past decade, corrections were more visible through redundancies whilst presently labour market adjustments are more subtle yet still meaningful.

As illustrated in figure 2.5, prior to 2004 and soon after, demand for labour in Malta was weak. Employment growth as measured by the 3-year moving average growth oscillated between -0.5 per cent and 0.5 per cent until 2005. With the exception of the recessionary period of 2009, employment growth during the recent past was satisfactory. Labour demand between 2008 and 2012 increased by an annual average of 1.7 per cent, that is 6 times more than the 2000 and 2005 period when the annual average increase was a mere 0.3 per cent (European Commission, 2013b; 2014d).

Contrary to the positive trend registered in employment, figure 2.4 shows that real wage growth was negative over the past few years. Diverging trends in employment and real wage growth suggest that despite registering higher employment levels, competition and cost pressures are influencing wages. Indeed, in the absence of productivity enhancements, real wages will not recover.

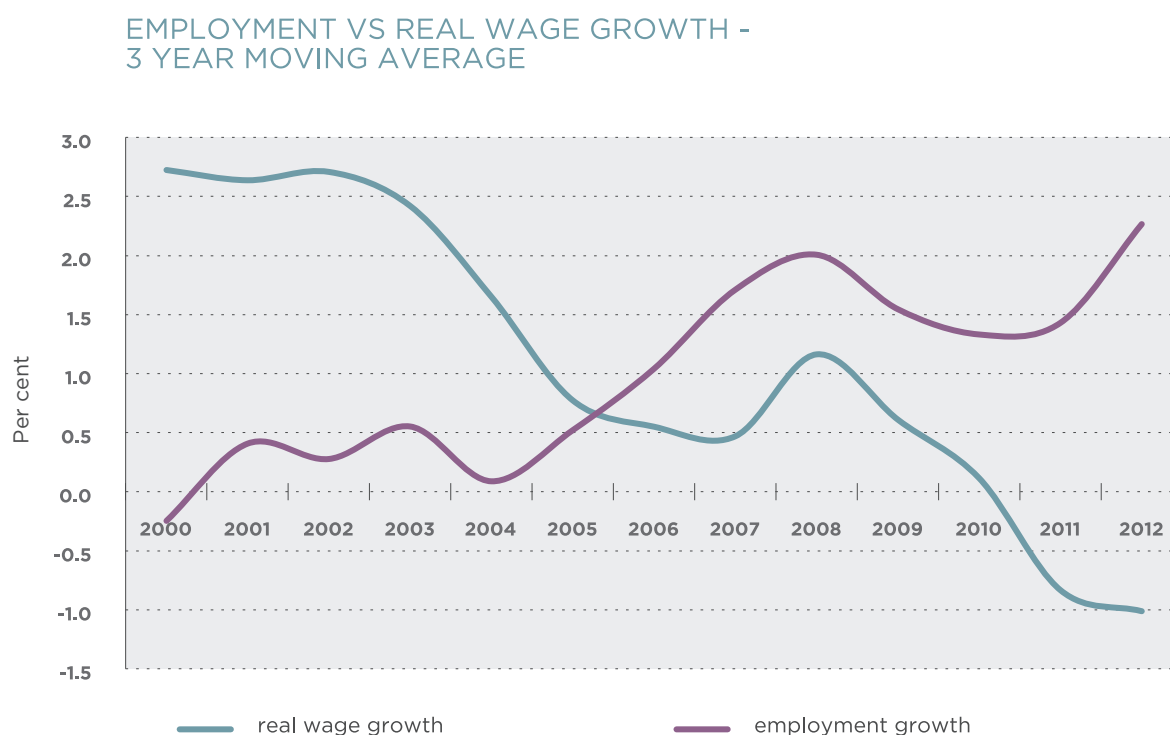


Figure 2.5 Diverging trends between Employment and Real wage growth

The Maltese economy is characterised by different sectors at different stages of development. In turn this leads to an economy that is not fully synchronized. Consequently, different sectors face different benefits and challenges. Indeed, relatively small and skills oriented sectors have benefitted disproportionately at the expense of other sectors requiring medium-to-lowly skilled workers.

Figure 2.6 substantiates the uneven distribution of growth across different sectors. As shown, sectors including agriculture, fisheries, quarrying, manufacturing, transportation etc. registered higher losses in GVA of -11.2 percentage points as opposed to employment (-3.5 percentage points). This explains

why wages paid by these sectors have dropped accordingly. Conversely, other sectors that include financial and insurance activities, information and communication etc. registered more pronounced gains in GVA (+11.2 percentage points) rather than employment (+3.5 percentage points). As a result of this, wages for these sectors have grown (Eurostat 2014a; 2014c).

UNEVEN GROWTH BETWEEN ECONOMIC SECTORS

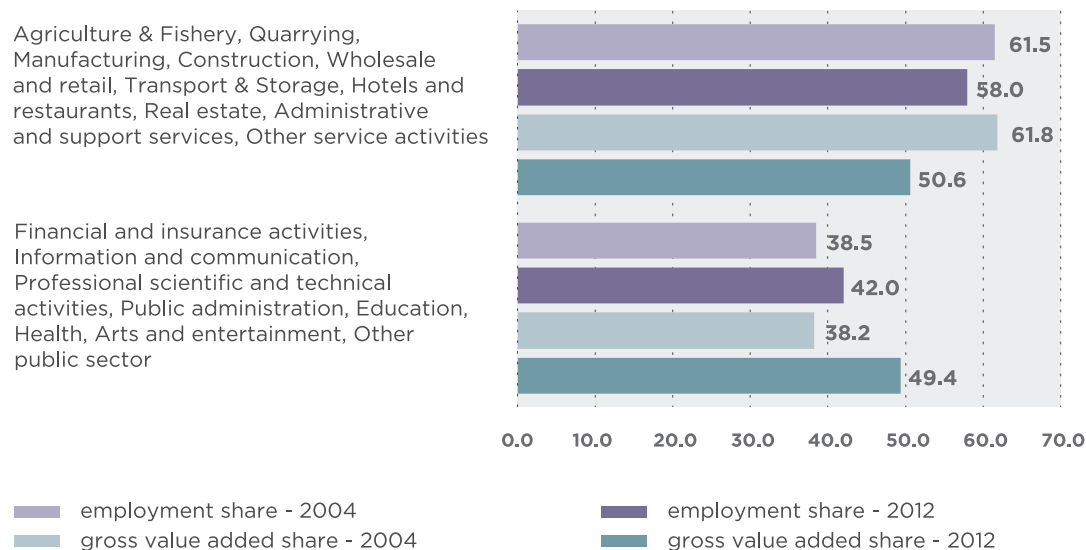


Figure 2.6 Uneven distribution of GDP and employment growth between sectors

As shown in figure 2.7, wage dispersion has increased over the years. Wage dispersion measures the standard deviation of wages from the average wage, i.e. the distance of wages from the mean. The effects of the single market are quite evident from the developments of the wage dispersion indicator. Following Malta's accession into the European Union, various high-skill sectors such as financial services and remote gaming companies have relocated to Malta. Due to the high value added nature of operations, these companies pay much higher wages than the average. As a result of this wage, dispersion increased by 8.0 points over the years up to 2013 (Author's Calculations).

WAGE DISPERSION

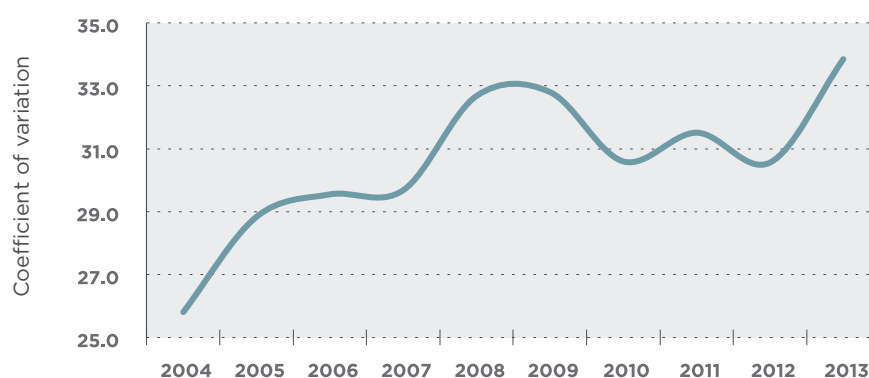


Figure 2.7 Wage dispersion

2.4 Labour Demand Flexibility

One of the most desired characteristics of the labour market is flexibility. Market rigidity at times may lead to deterioration in labour market segmentation where tiers become more evident as people at the core benefit at the expense of others residing in the periphery. Rigidity may also dampen demand for labour as the cost to employ may be high.

Rosenberg (1989) identifies four types of labour market flexibility, namely:

- i) Wage flexibility – wage responsiveness to economic fluctuations;
- ii) Numerical flexibility – number of hours worked in response to demand needs;
- iii) Functional flexibility – internal mobility within the firm;
- iv) Work time flexibility – ability to set work schedules;

With respect to both wage and numerical flexibility, the Maltese labour market is becoming more flexible. As explained earlier, notwithstanding the mandatory cost of living adjustment, throughout the past years there has been great wage moderation across a number of sectors where productivity increased at a negligible pace. This was evidenced from the fall in the average real wage. On the other hand, the sustained increase in the nominal unit labour cost was more attributed to a fall in productivity rather than other factors. As illustrated in figure 2.8, a declining share of full-time employment translates into a rising share of part-time employment. This is evidence of an increasing numerical flexibility. Between 2004 and 2012, the share of non full-timers increased from 6.7 per cent to 11.3 per cent (Eurostat, 2014a).

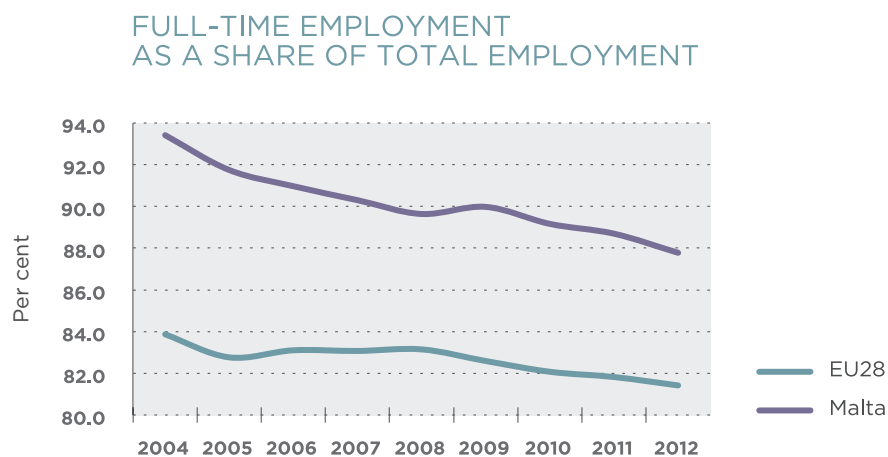


Figure 2.8 Full-time employment as a percentage of total employment

The increase in part-time employment does not only reflect greater demand for flexibility from businesses but also represents the willingness of workers to work on part-time basis. As illustrated in figure 2.9, the involuntary part-time rate in Malta decreased over the years from circa 20.0 per cent in 2004 to 16.0 per cent in 2012 (Eurostat, 2014a). This contrasts with the surge in involuntary part-time in the European Union. Involuntary part-time represents under utilisation of resources (underemployment) and as such a loss of economic growth relative to its potential. The issue of underemployment will be referred to later on in this document.

INVOLUNTARY PART-TIME (% OF PART-TIMERS)

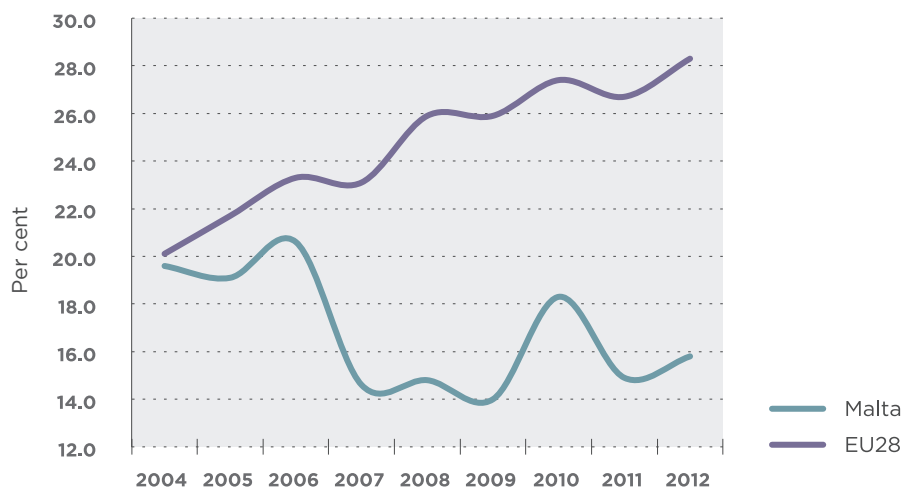


Figure 2.9 Involuntary part-time as a percentage of total part-time employment - Malta & EU28

On a positive note, the increase in numerical flexibility in the Maltese labour market did not trigger a surge in temporary employment. The share of employees on temporary contracts in Malta increased by just two percentage points between 2008 and 2012 reaching 6.0 per cent in 2012. This is less than half the EU's share of workers on temporary contracts which stood at 13.0 per cent in 2012 (Eurostat, 2014a).

Functional and work time types of flexibility are more management oriented. Malta's labour market is intrinsically quite functionally flexible given the high presence of micro, small and medium enterprises. A high degree of flexibility is essential if small firms are to remain competitive.

Work time flexibility is more challenging to achieve. The European Working Conditions Survey for 2010 (EWCO, 2010) shows how working hours in Malta remain very rigid (see figure 2.10). Nearly, 73.0 per cent of workers report that their hours of work are not flexible at all. This contrasts with the other Member States. In Finland for instance, half of the workers have flexible work conditions. The European average fixed working hours of work was 61.9 per cent – 10 percentage points more favourable to Malta's figure. Although work time flexibility in Malta has improved, it remains a big challenge. This issue shall be treated in more detail further on in the document.

SHARE OF WORKERS WITH FIXED HOURS OF WORK

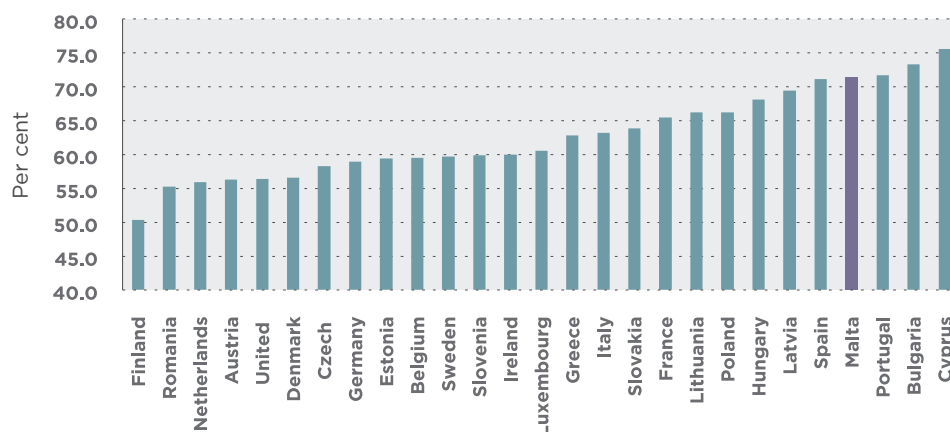


Figure 2.10 Share of workers with fixed hours of work in the EU

2.5 Labour Market Imperfections

This sections highlights labour market frictions arising from skills mismatches and staff retention issues and their extent across European Member States. The following diagrams (2.11 and 2.12) portray the percentage of employers having difficulties in finding appropriate candidates within the labour market to fill up vacancies requiring both skilled and unskilled individuals.

As seen in figure 2.11, more than half (55.0 per cent) of the employers seeking candidates for high-skill positions in Malta have reported difficulty in recruiting appropriate candidates for the said roles. Indeed, this ranks Malta in the third position out of 27 EU Member States behind Cyprus (59.0 per cent), Bulgaria (58.0 per cent) and Luxembourg (58.0 per cent). This implies that the pool of skilled human resources in Malta is limited in contrast to labour demand (ECS, 2009).

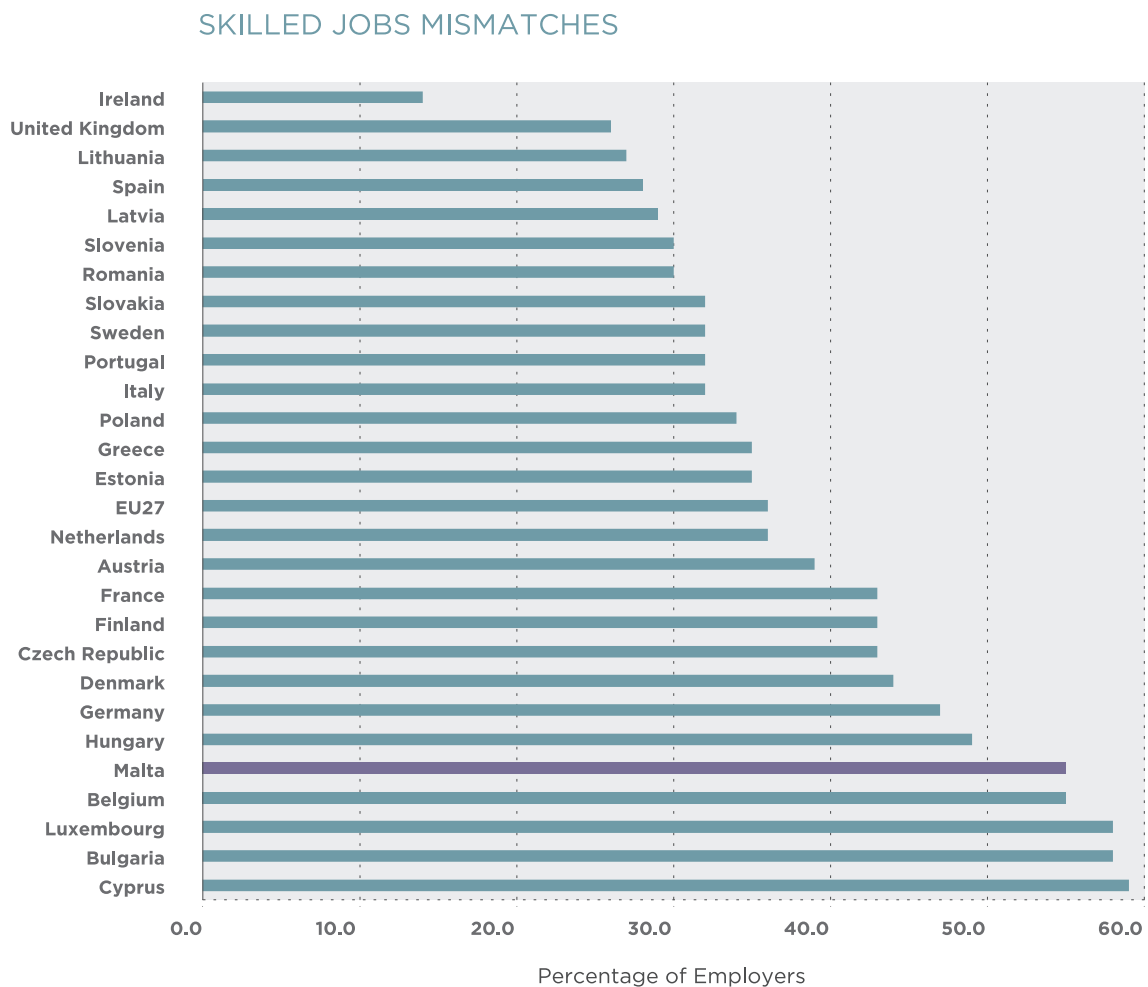


Figure 2.11 Percentage of employers finding difficulty in filling up vacancies requiring high skills

This conclusion holds also when it comes to unskilled positions. However, in the case of vacancies requiring low levels of skill, 20.0 per cent of employers reported difficulty in recruiting for lowly skilled positions. As shown in figure 2.12 below, Malta ranks third out of 27 European Member States behind Cyprus (27.0 per cent) and Belgium (22.0 per cent) and in line with Slovenia (20.0 per cent) and Portugal (20.0 per cent), (ECS,2009).

UNSKILLED JOBS MISMATCHES

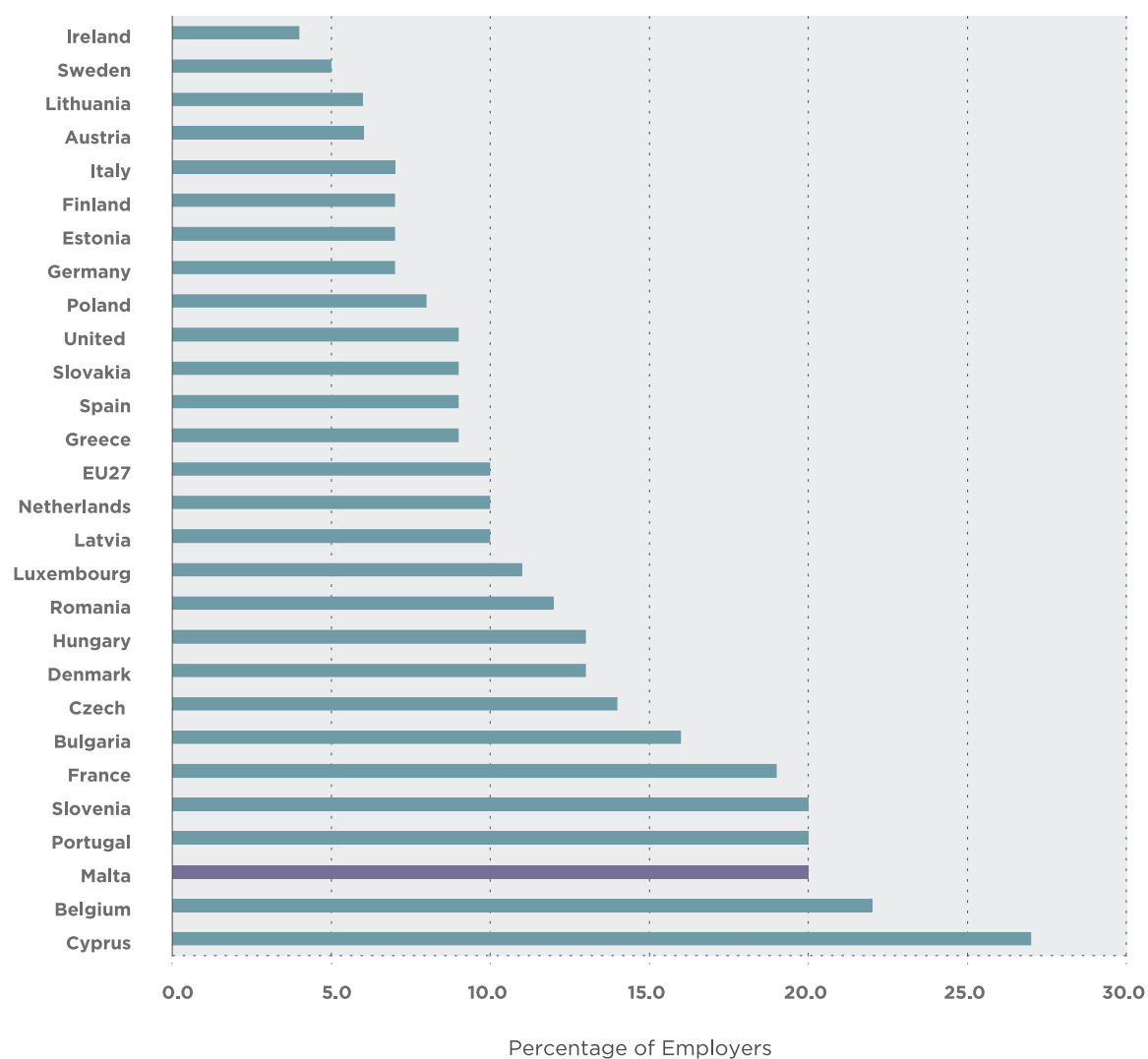


Figure 2.12 Percentage of employers finding difficulty in filling up vacancies requiring low skills

Key Points – Chapter 2

- National Statistics Office (NSO) data for the gainfully occupied population indicates that between 2008 and 2012, 32 NACEs out of a total of 80 NACEs suffered a net decline of 6,647 full-time jobs, while 48 NACEs registered a net increase of 12,967 full-time jobs. Top 10 NACEs registering job losses accounted for 83.7 per cent of net total decrease. On the other hand, the top 10 NACEs which registered a gain in employment accounted for 63.4 per cent of the additions.
- In Malta, the public sector remains one of the biggest employers. According to Eurostat statistics, Malta's public sector administration is the third largest in size as a ratio of total population. During the past decade the public sector shrank in size by almost 6,000 employees, from 46,700 in 2004 to 40,900 in 2012.
- Diverging trends in employment and real wage growth have been recorded between 2000 and 2013. Despite registering increasing employment levels, productivity shortfalls lead to a declining real wage. Wage dispersion in Malta has increased over the years.
- With respect to wage flexibility in Malta, there has been great wage moderation across a number of sectors where productivity increased at a negligible pace. As regards numerical flexibility, the share of part-time employment is rapidly increasing.
- More than half (55.0 per cent) of the employers seeking candidates for high-skill positions in Malta have reported difficulty in recruiting appropriate candidates for the said roles. Indeed, this ranks Malta in the third position out of 27 EU Member States behind Cyprus (59.0 per cent), Bulgaria (58.0 per cent) and Luxembourg (58.0 per cent).
- In the case of vacancies requiring low levels of skill, 20.0 per cent of employers reported difficulty in recruiting for lowly skilled positions. Malta ranks third out of 27 European Member States behind Cyprus (27.0 per cent) and Belgium (22.0 per cent) and in line with Slovenia (20.0 per cent) and Portugal (20.0 per cent).

03

LABOUR SUPPLY

3.0 Overview

Supply of labour is the total amount of persons who are willing and able to render labour market services on the market. Labour Supply includes full-time and part-time gainfully occupied persons and registered unemployed. Over the last decade, the Maltese labour market underwent significant structural changes including a substantial increase in female employment ratio, a rise in skilled labour, shortages of local skilled and unskilled labour and an increasing presence of foreign workers.

3.1 Labour Market Developments

The following analysis assesses the performance of the Maltese labour market over the past years. For the sake of the analysis, the employment ratio indicator is considered as a measure of performance. This indicator portrays the share of persons in employment as a ratio of the working age population (20-64 years). The population encompassing labour supply includes both employed persons earning a wage or profit in the case of self-employed as well as any persons who are registered as unemployed with the Employment and Training Corporation (ETC). In line with ETC definition, unemployment encompasses a person who is registered with ETC that is willing and able to work and is actively looking for a job. The Labour Force Survey (LFS) definition of unemployment varies slightly taking into account persons who were not in employment during the reference week, were actively looking for employment over the past four weeks and are available to commence working immediately or within two weeks. Under the LFS definition, persons actively looking for employment may not be necessarily registered with ETC.

In order to determine the level of development within the Maltese Labour market, this analysis takes into account a time-series that spans across the years 2000 to 2012. There onwards, estimates based on previous developments to the Maltese labour market project the expected trend in employment ratio until 2020. On a side note, it must be highlighted that permanent pro-employment policies such as tax-credits had not been active in Malta before 2005.

3.2 Employment Ratio by Gender

3.2.1 Employment Ratio – Males

The subsequent figure (3.1) illustrates the trajectory of the male (20-64 cohort) employment ratio in Malta over the years. The diagram shows that as a whole, the male employment ratio has been on a rapid descent since 2001, turning positive from 2010 onwards (Eurostat, 2014a). Indeed, the employment ratio of males dropped from 81.6 per cent in 2000 to 77.1 per cent in 2009. The negative trend witnessed between 2000 and 2009 is a dual effect of higher male involvement in education thereby temporarily reducing male participation in the labour market, as well as early retirement schemes arising from the privatisation of a number of public entities.

As portrayed by the same figure (3.1), the male employment ratio recovered rapidly post 2009. The employment ratio for males in 2011 was 2.7 percentage points below that for the year 2000 and was roughly in line with the employment ratio for 2006 which stood at 79.2 per cent. The employment ratio for males is expected to continue recovering gradually over the coming years reaching 81.7 per cent by 2020. At this level, the male employment ratio will sit in line with 2000 levels.

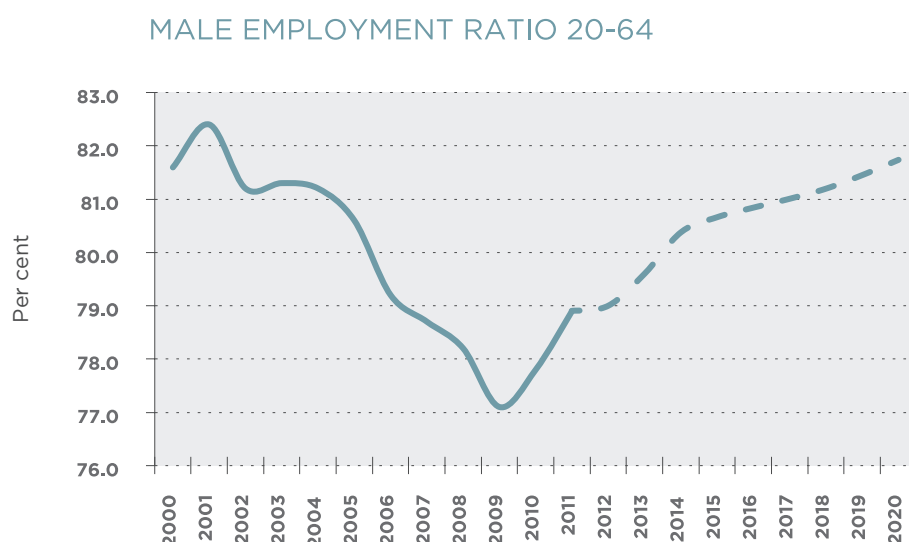


Figure 3.1 Male Employment Ratio (20-64)

3.2.2 Employment Ratio – Females

The trend in the ratio of female employment (20-64) has increased substantially since mid-2000s. This was driven by measures such as tax credits and other incentives to encourage female participation in the labour market. Measures were mainly focused towards the activation of women who were raising children. As a result of such incentive schemes, the opportunity cost of not working for women, especially those in hold of a qualification increased accordingly. The end result of these measures was a consistent rise in female participation in the labour market from circa 33.5 per cent in 2000 to around 43.4 per cent in 2012 (Eurostat, 2014a). As shown in diagram 3.2, female participation in the Maltese labour market is expected to reach circa 58.0 per cent by 2020.

As a result of these measures, young parents who were attracted towards the labour market shifted child rearing duties towards grandparents which contributed to high levels of inactivity amongst older females.

FEMALE EMPLOYMENT RATIO 20-64

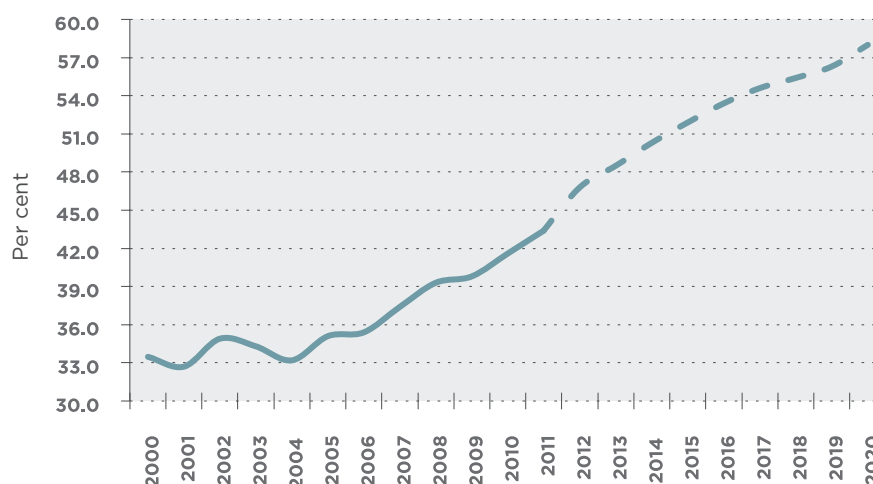


Figure 3.2 Female Employment Ratio (20-64)

3.2.3 Total Employment Ratio

In line with figure 3.3, the total employment ratio comprising both males and females increased gradually from 57.5 per cent in 2000 to 61.5 per cent in 2012 (Eurostat, 2014a). Indeed, the positive trend reflects the contribution of more females entering the labour market that more than countered the drop in the employment ratio of males. Projections indicate a total employment ratio (20-64 years) of at least 70.0 per cent by 2020. However, it should be highlighted that the list of schemes and initiatives presented in this report are expected to contribute towards a more rapid convergence process between Malta's employment ratio and the EU 2020 target.

TOTAL EMPLOYMENT RATIO (20-64 COHORT)

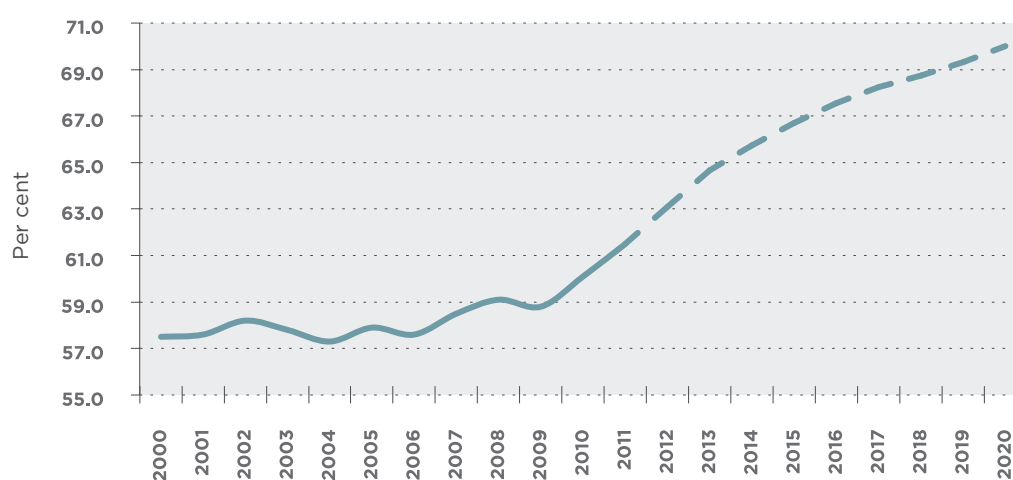


Figure 3.3 Total Employment Ratio (20-64)

3.3 A Declining Working Age Population

Besides looking at the employment ratio of Malta, the working age population has to be taken into consideration as well. Fluctuations in the working age population are purely related to demographic trends. In Malta, an ageing demography is constantly reducing the working age population. As shown in figure 3.4, the working age population of Malta is expected to drop from around 262,000 in 2010 to circa 256,000 by 2020. A shrinking working age population translates into a lower pool of human resources and skills to meet an increasing demand. As a result of this, it is ever more pertinent to maximize the skills of a shrinking workforce in order to attract top sectors and maximize per capita Gross Value Added.

From a technical perspective it should be noted that a decreasing working age population triggers a lower denominator for the calculation of the employment ratio. As a result, this artificially raises the employment ratio. It is estimated that a diminishing working age population will contribute marginally (by 0.9 percentage points) to much larger expected gains in the employment ratio by 2020 (based on NSO figures).

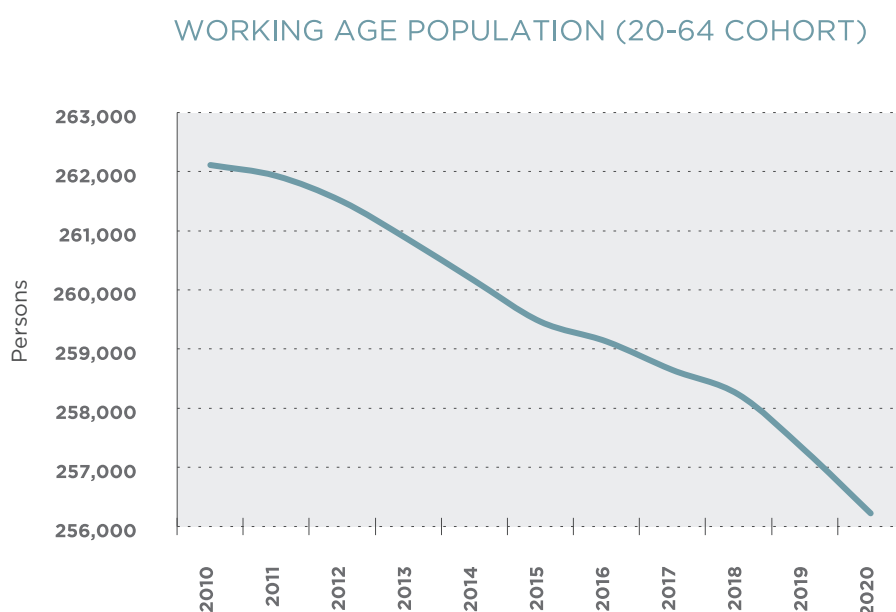


Figure 3.4 Working Age Population (20-64 cohort)

3.4 Convergence of Gender Labour Market Participation

The following diagram (3.5) portrays the contrast in the gender mix of the Maltese labour market as opposed to the average of the EU28. As evident, 71.1 per cent of the Maltese labour market was comprised from males in 2004. Over the years, the share of females out of the total labour market grew from 28.9 per cent in 2004 to 36.6 per cent by 2012. In contrast, the gender mix of the European workforce was historically more balanced. On average, the share of males and females to the total workforce of the EU was at 55.0 per cent and 45.0 per cent respectively. A convergence pattern in the gender mix of the Maltese labour force can be observed in figure 3.5 (Eurostat, 2014a). By 2020, the share of females in the Maltese labour market is expected to be at 39.7 per cent whilst that for males is expected to be at 60.3 per cent.

WORKFORCE GENDER IMBALANCE - MALTA VS EU28

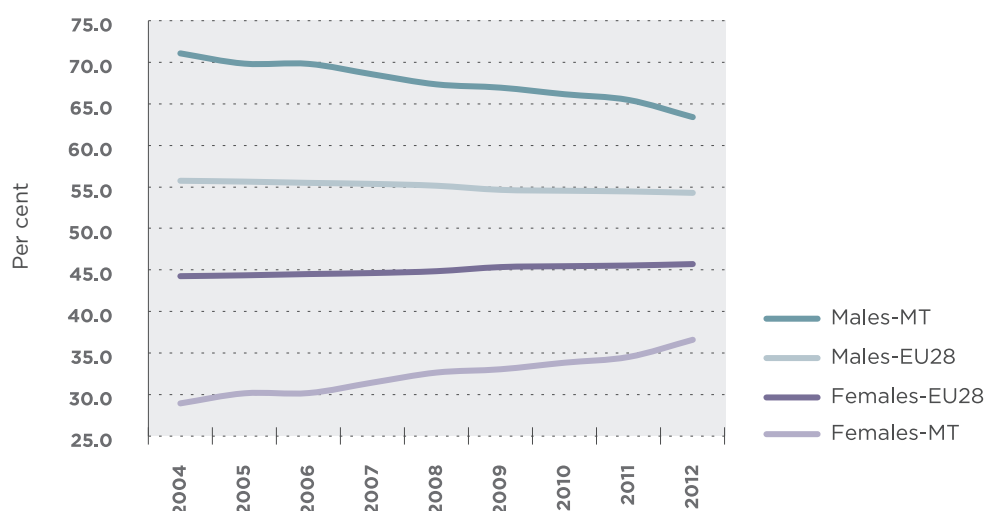


Figure 3.5 Workforce Gender Imbalance - Malta & EU28

3.5 Job Creation by Type of Occupation

During the past decade, the Maltese economy experienced a faster transition towards a services oriented economy. As a result of this, the Maltese labour market witnessed a surge in services related occupations. Figure 3.6 presents the net change in occupations between 2004 and 2012. The diagram can be split into two categories – traditional occupations and technical/professional occupations. As shown, the Maltese economy has stabilised in terms of jobs created across traditional sectors such as agriculture and fisheries, crafts, manual and elementary work amongst others. On the contrary, 18,464 occupations have been generated across technical and skills-oriented occupations. This substantiates an increasing thirst for a skilled labour market, hence the necessity to enhance the skills of the workforce. Moreover, a surge in commercial activity drove an increase in service and shop and market sales workers of 9,168 between 2004 and 2012 (based on ETC data).

NET CHANGE IN OCCUPATIONS 2012/2004



Figure 3.6 Net Change in Occupations (2004-2012)

3.6 Share of Foreigners Employed in Malta

One of the conditions implied by Malta's entry into the EU is free movement of resources between Member States. As shown in figure 3.7, the flow of foreigners (both EU citizens and third country nationals) taking up jobs in Malta has been constantly increasing over time. All third country nationals require working permits in order to be eligible for work in Malta. In the case of EU citizens, working permits were required by Croatians, Romanians and Bulgarians until 2013. From 2014, only Croatian nationals require permits to work in Malta. In line with figure 3.7, both EU citizens and third country national workers have increased over time. Following a slowdown in 2008 and 2009, the share of EU citizens working in Malta as opposed to third country nationals increased exponentially (based on ETC data).

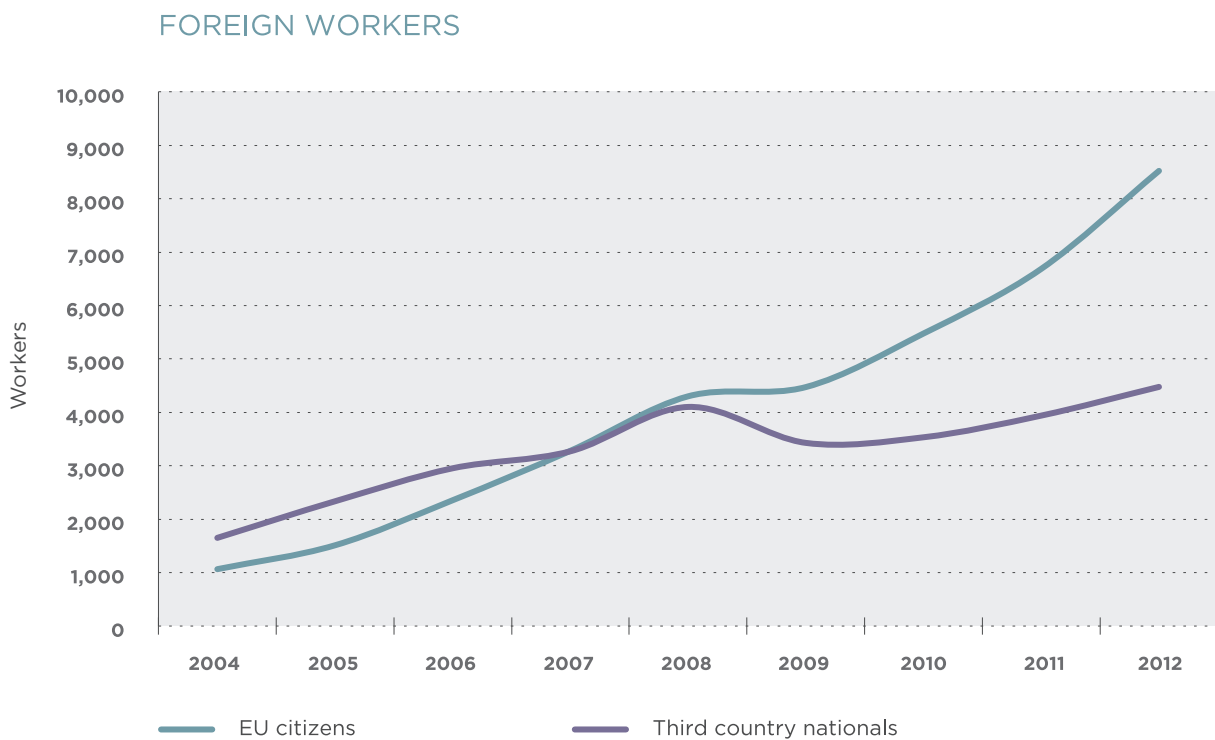


Figure 3.7 Foreign Workers Employed in Malta

Figure 3.8 portrays the annual change of national workers as opposed to foreign workers. As shown below, with the exception of 2007, the flow of foreigners moving into the Maltese labour market between 2005 and 2008 was significant and comparable to the number of nationals. In 2009, the recession had a negative impact on the number of foreigners working in Malta. From 2010 onwards, the change in the volume of foreigners working in Malta grew consistently. In 2012, the annual change of foreigners working in Malta amounting to 2,371 persons exceeded the change in nationals employed of 2,284.

ANNUAL CHANGE



Figure 3.8 Annual Change of Workers – Nationals & Foreigners (2004 – 2012)

As displayed in figure 3.9, the share of foreign workers as a ratio of the total workforce of Malta grew from 1.7 per cent in 2004 to 7.0 per cent in 2012 (based on ETC data).

SHARE OF FOREIGN WORKERS

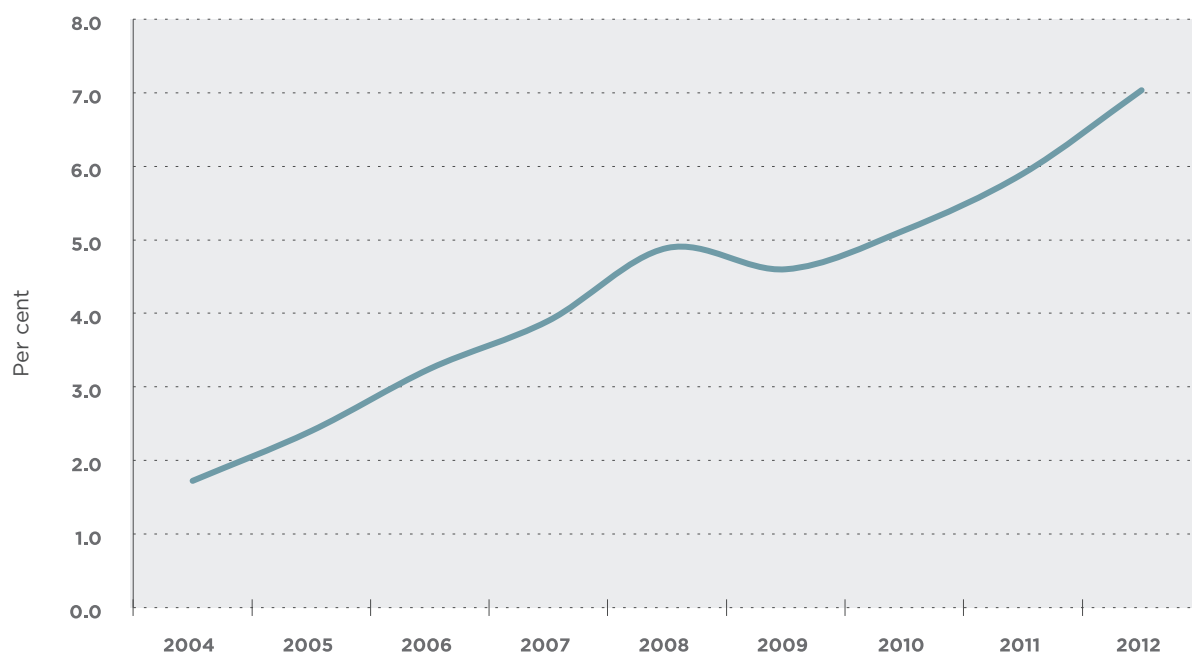


Figure 3.9 Growing Share of Foreign Workers to Workforce

Sectoral distribution of foreign workers employed in Malta can be seen in the next diagram (3.10). The influx of foreign workers is spread across the board. However, a more detailed look at figure 3.10 highlights the fact that an unevenly distributed pattern towards high value added sectors requiring high skills. A case in point would be the remote gaming sector which is included under Arts, Entertainments and Recreation. In this case 33.8 per cent of the workforce employed in this sector is foreign. Moreover, foreign workers also take up positions involving manual work such as construction (7.2 per cent) and accommodation and food service activities (14.8 per cent), (based on ETC data).

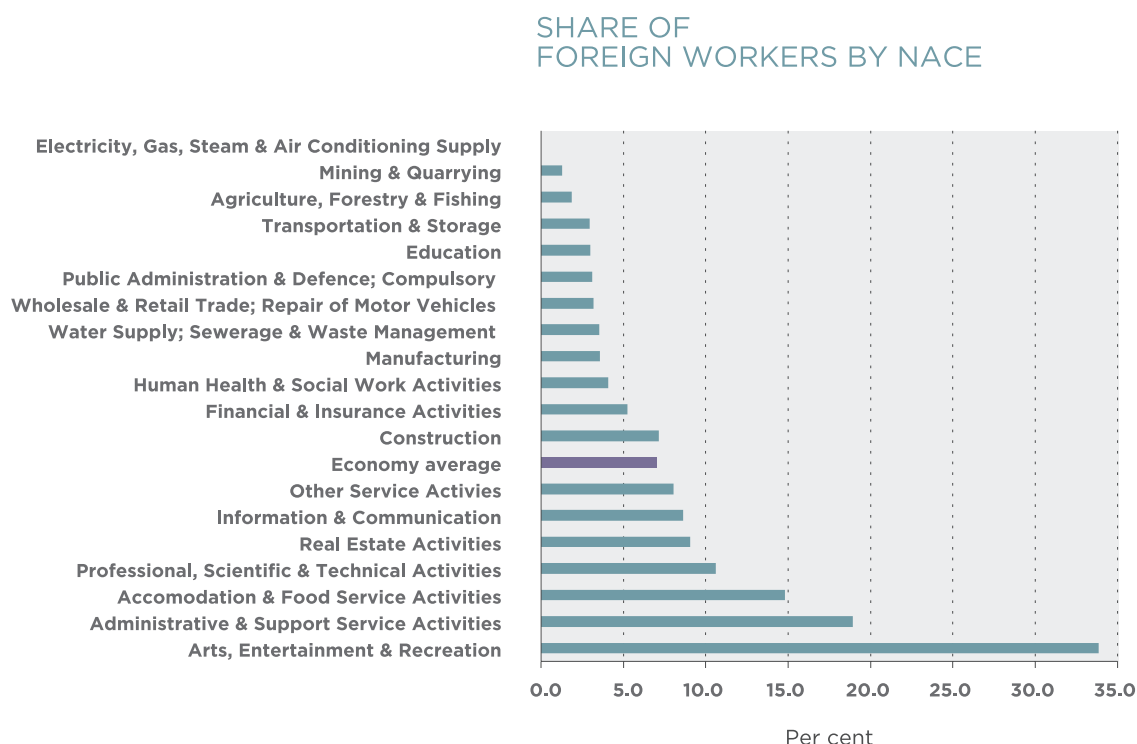


Figure 3.10 *Share of Foreign Workers by Nace Category*

The increasing share of foreigners as a ratio of the total workforce is well reflected in diagram 3.11. Indeed, the national's share of total employment dropped from 98.3 per cent in 2004 to 92.9 per cent by 2012. The most prominent drops by sector were registered across elementary occupations (-8.3 percentage points), crafts and related trade workers (-5.1 percentage points), service workers and shop market sales persons (-6.6 percentage points), and legislators, senior officials and managers (-7.5 percentage points), (based on ETC data).

NATIONALS' SHARE OF TOTAL EMPLOYMENT 2012/2004



Figure 3.11 Share of Nationals to Total Employment (2004-2012)

Figure 3.12 compares the change in employment by ISCO Code between 2004 and 2012. Moreover, the diagram provides detail on job movements involving both nationals and foreigners.

CHANGE IN EMPLOYMENT 2012/2004

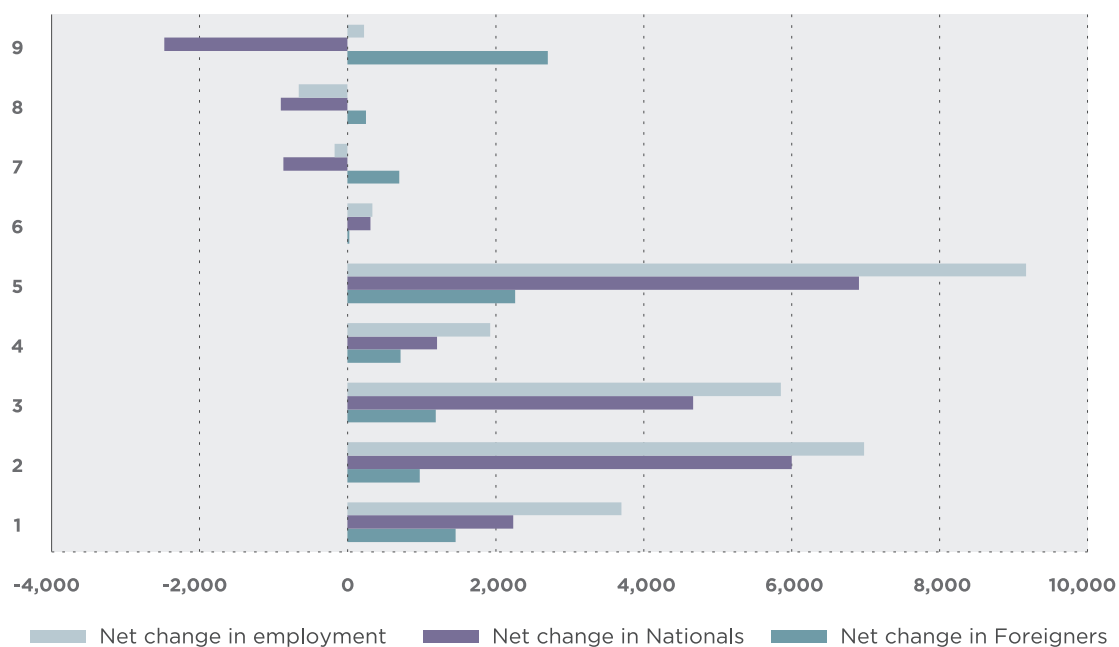


Figure 3.12 Change in Employment - Nationals & Foreigners

From figure 3.12 two conclusions arise. Firstly, it is evident that nationals are moving away from manual occupations (ISCO CODES - 7 to 9). Consequently, low skilled, manual jobs are increasingly being

taken up by foreigners. Secondly, it transpires that 40.0 per cent of high end jobs (ISCO CODE – 1) requiring high levels of skill are taken up by foreigners. Indeed, this reflects a deficit in the skills base of Malta as opposed to demand that is compensated for through an inflow of foreign talent.

3.7 Unemployment level and Work Permits for Foreigners

In line with other Member States, Malta has two measures of unemployment – one based on administrative sources and a second one based on a survey. The official measure applied across the EU is the Labour Force Survey (LFS) unemployment indicator. As illustrated in figure 3.13, the LFS unemployment figure between 2009 and 2012 was stable at around 12,200 persons (Eurostat, 2014a). The ETC unemployment indicator conveys an increase in unemployment between 2011 and 2012. However, this does not reflect shrinking demand for labour. Indeed, the current unemployment benefit system allows candidates to remain on unemployment benefits indefinitely unless they find a suitable job that matches their experience and skills. Consequently, candidates tend to apply for phantom jobs to retain their benefits.



Figure 3.13 Unemployment (LFS & ETC)

The following table illustrates the top 7 occupations by number of work permits granted to third country nationals by ISCO Code. As shown work permits are issued across high-end (managing directors and chief executives and chefs) and manual occupations (cleaners, labourers). The most sought after occupation by third country nationals is that of cleaners with a total 724 work permits issued for this particular role. Managing director and Chief Executive Operations occupations issued to third country nationals totalled 213 work permits.

OCCUPATION (ISCO CODE)	FEMALE	MALE	TOTAL	ISCO
Cleaner (911208)	631	93	724	9
Cleaners and helpers in offices, hotels and other (911200)	191	334	525	9
Chef (343400)	45	252	297	3
Caster, concrete, products (711402)	0	248	248	7
Labourer (931307)	4	231	235	9
Managing directors and chief executives (112000)	46	167	213	1
Nurse (with degree or diploma) (222101)	82	43	125	2

Table 3.1: Work Permits granted to Third Country Nationals by ISCO CODE

It must be noted that the volume of occupations listed in table 3.1 does not include occupations taken up by European citizens. Indeed, this would lead to a higher value of occupations take up by foreigners. Consequently, this substantiates that the increase in unemployment registered by ETC is purely reflecting unwillingness of registered unemployed to take up existing job vacancies.

3.8 Labour Supply by Age and Gender

This section takes into account the gender and age of the current labour supply. As shown in diagram 3.14, the share of employees over 40 years of age accounts for circa 40.0 per cent of the total workforce of Malta. The lowest share of older employees (40+) is registered across Education, Human Health & Social Work Activities, Arts, Entertainment and Recreation and Information & Communication sectors. Conversely, traditional manual sectors such as Mining & Quarrying and Agriculture, Forestry and Fisheries amongst others registered a much higher share of over 40 year old employees (above 60.0 per cent), (based on ETC data).

SHARE OF EMPLOYEES OVER 40+

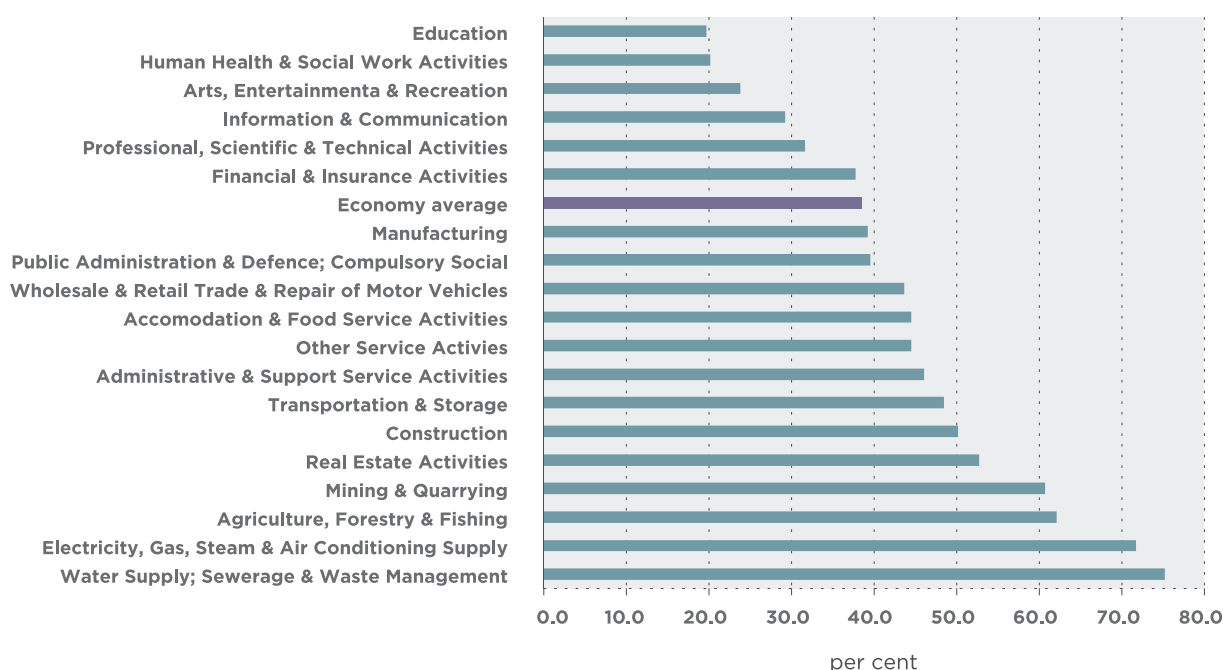


Figure 3.14 Share Of Employees over 40+

In line with figure 3.15, it is clear that the volume of females moving into public sector or expanding private sectors has been constantly rising over the period 2004 to 2012. Indeed, the share of females working in public sector or growing private sector as a ratio of total employment grew from 51.2 per cent in 2004 to 56.2 per cent by 2012. In the case of males, the share remained relatively stable (based on ETC data).

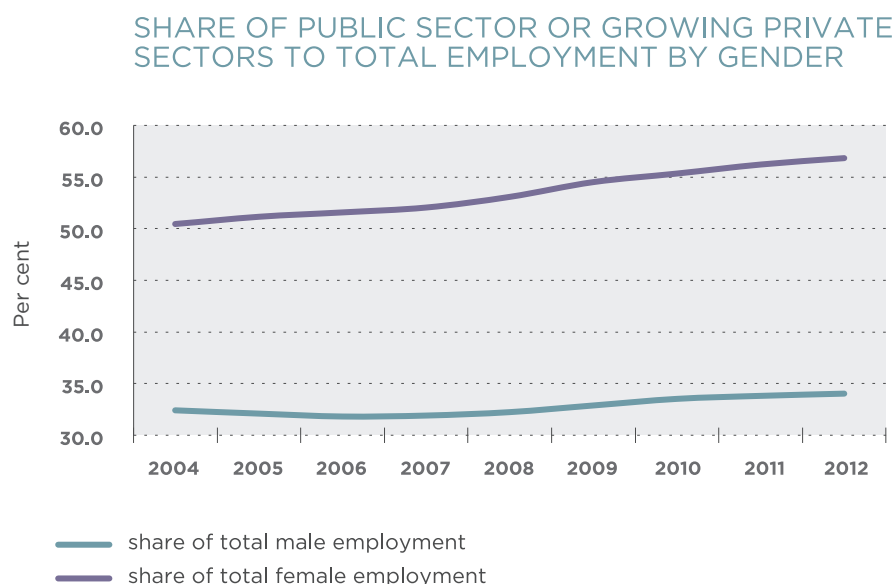


Figure 3.15 *Share Of Public Sector Or Growing Private Sectors To Total Employment By Gender*

The average age across high value added sectors is being driven down as a result of an increasing proportion of younger females moving into growing sectors. This is the case in figure 3.14 with growing sectors such as Information and Communication, Arts, Entertainment and Recreation (includes gaming sector) and financial and insurance activities registering relatively low proportions of over 40+ employees. Conversely, more traditional and manual sectors where the workforce is relatively less flexible are exposed to an ageing workforce.

In reaction to the above, two key points emerge. Firstly, active ageing principals should be specifically targeted towards traditional and manual sectors. Section 10 provides more detail on the promotion of active ageing in Malta. Secondly, talent and know-how from experienced persons should be transferred to the younger generation through active ageing principles. Moreover, ageing individuals should be actively retrained to come up to speed with current processes and contribute to an overall enhancement in the skills base of Malta.

The next diagram (3.16) portrays the share of over 40+ employees working as part-timers and full-timers. As illustrated, more than half of the workers with part-time as their primary job are over 40 years. Moreover, 58.4 per cent of workers employed on part-time basis as their primary jobs are females (based on ETC data). Therefore, this implies that the majority of 40+ female employees would rather work on a part-time basis to supplement the family's income rather than work on a full-time basis. This is in line with what was highlighted earlier that the involuntary rate of part-timers in Malta is low.

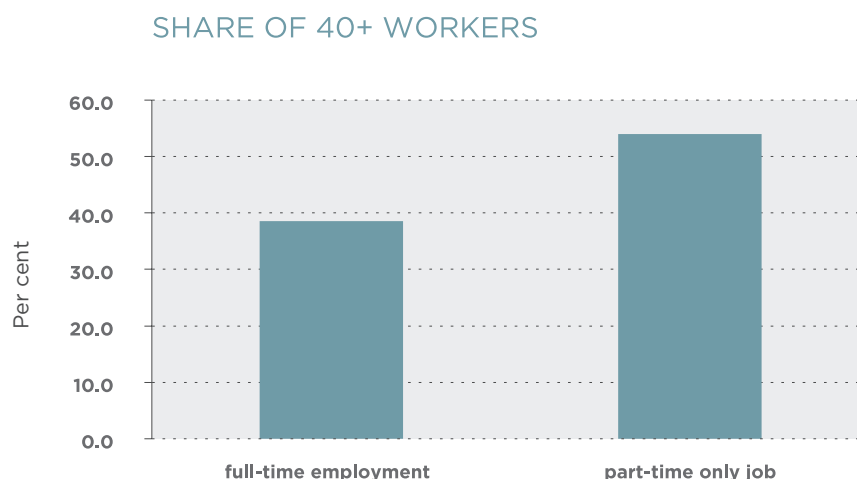


Figure 3.16 *Share of 40+ Workers Employed as Full-timers and Part-timers*

Key Points – Chapter 3

- The total employment ratio of Malta increased gradually from 57.5 per cent in 2000 to 61.5 per cent in 2012. The positive trend reflects the contribution of more females entering the labour market that more than countered the drop in the employment ratio of males. Projections bring out a total employment ratio (20-64 years) of at least 70.0 per cent by 2020.
- In Malta, an ageing demography is constantly reducing the working age population. The working age population of Malta is expected to drop from around 262,000 in 2010 to circa 256,000 by 2020.
- The flow of foreigners (both EU citizens and third country nationals) taking up jobs in Malta has been constantly increasing over time. The national's share of total employment dropped from 98.3 per cent in 2004 to 92.9 per cent by 2012.
- The share of employees over 40 years of age accounts for circa 40.0 per cent of the total workforce of Malta. The lowest share of older employees (40+) is registered across Education, Human Health & Social Work Activities, Arts, Entertainment and Recreation and Information & Communication sectors. Conversely, traditional manual sectors such as Mining & Quarrying and Agriculture, Forestry and Fisheries amongst others registered a much higher share of over 40 year old employees (above 60.0 per cent).
- The volume of females moving into public sector or expanding private sectors has been constantly rising over the period 2004 to 2012. Indeed, the share of females working in public sector or growing private sector as a ratio of total employment grew from 51.2 per cent in 2004 to 56.2 per cent by 2012. In the case of males, the share remained relatively stable.
- The majority of 40+ female employees would rather work on a part-time basis to supplement the family's income rather than work on a full-time basis.

04

INVESTING IN HUMAN CAPITAL

4.0 Overview

As described earlier in this document, conventional economic theory states that countries at different stages of economic development should converge towards a level of standard of living given the right conditions. Convergence theory conjectures that less developed economies are able to grow at a faster rate than developed economies due to higher returns to investments, hence the catch-up process.

GDP data however implies that developed economies continue to register levels of growth in per capita GDP in spite of the presupposition of diminishing marginal returns of physical capital. Inconsistencies between theoretical underpinnings and actual figures show that other factors drive long-term growth of developed economies.

Long-term growth in per capita income is not solely driven by physical capital. Endogenous growth theory assumes that the long-run growth rate of an economy can be sustained by research, development and education which in turn drive innovation. Consequently, a broader view of capital should be taken into account when structuring policies for economic growth.

The level of human capital determines the type of investment attracted by a country. A high quality level of human capital attracts high value-added sectors that drive high rates of economic growth. This was certainly the case in Singapore as focus on the development of the country's skill base attracted foreign investment requiring advanced levels of human capital (Chellaraj et.al, 2009).

Human capital refers to "the accumulation of acquired and useful abilities of all the inhabitants or members of the society. The acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always costs a real expense, which is capital fixed and realised, as it were in his person. The reward to this 'real expense' is in terms of a higher return, much like that on any other form of capital: the work which he learns to perform, it must be expected, over and above the usual common wages of labour, will replace to him the whole expense of education, with at least the ordinary profits of an equally valuable capital" (Savvides et al., 2009). Formal education, on the job training, experience gained throughout the years, and life-long learning, all contribute to the formation of human capital.

4.1 Human Capital – Physical capital Nexus

In growth accounting, the most frequently applied approach to measure human capital is by regressing the number of school years against individual wages. It has long been proven that years of schooling contribute to a higher rate of return. As illustrated in figure 4.1, in 2012 the average wage for a person with an educational level of ISCED 2 or below was €11,000. Those with ISCED 3-4 levels enjoyed a wage premium of €2,700, while tertiary educated workers had a premium equivalent to two-thirds of the workers' wage with basic educational attainment. According to the Mincerian equation⁶, the wage of an individual is influenced positively by the number of years in education and work experience. At a country level, the average years of education enhance the quality of labour which in turn is a function of the production equation. Thus, output is a function of both labour hours and human capital quality. Indeed, the higher the level of human capital the higher the hourly production of an economy.

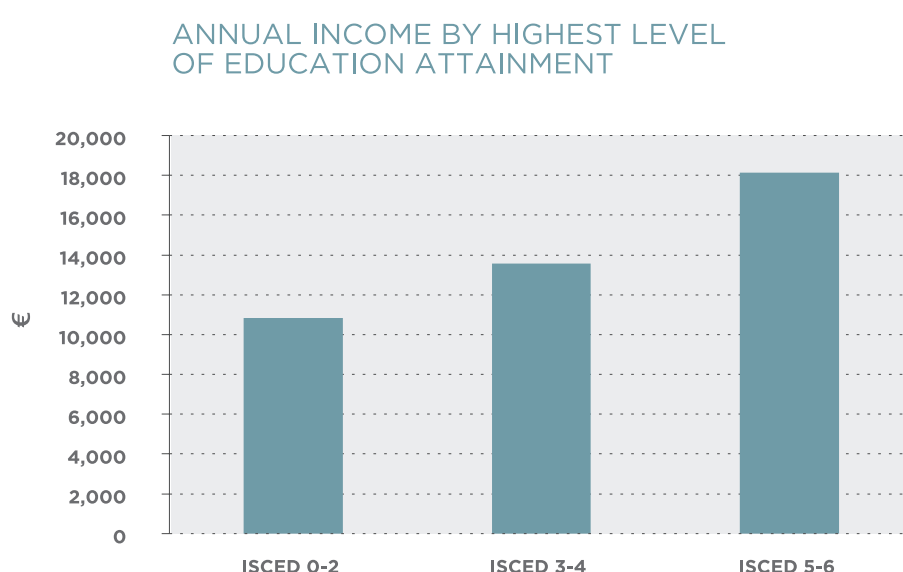


Figure 4.1 Annual Remuneration by Level of Education

To date, only a limited number of countries estimate their stock of human capital on a regular basis. Studies show that on average the ratio of human capital to output ratio stands at circa 10 i.e. the stock of human capital is ten times the value of annual GDP (Liu, 2013). On the other hand, the ratio of physical capital to output in the EU28 stands at 3 times (European Commission, 2014c). Seminal economists agree that human capital can enhance the productive aspect of physical capital as well. This implies that more knowledgeable workers are able to utilise capital goods more productively therefore yielding higher returns to investment in physical capital. Bazo and Moreno (2007) argue that a significant part of the effect of human capital is directed through an increase in the investment rate for physical capital. Indeed, a country requires high quality infrastructure to support a high quality of human capital and eventually drive economic growth.

In a nutshell, human capital translates into a wage premium at the micro level. At the macro level, human capital does not only translate into more productivity but also boosts the rate of return on capital. Hence, developed economies compensate for lower rates of investment in physical capital through a high quality human capital base that drives higher returns to investment and consequently economic growth.

Congruent with growth theory, endogenous growth that is lead by growth in human capital drives indefinite growth of mature economies. On the other hand, it is also pertinent to note that a high level of human capital should be supported by the accumulation of physical capital over and above the rate of depreciation and population growth of a particular country. In the absence of an ongoing balanced investment in physical and human capital, increasing returns to investment would not be sustainable over the long-term.

⁶ $\ln h = B_0 + B_1 \text{Educ} + B_2 \text{Exp} + B_3 \text{Exp}^2$: where the log of human capital which is an aggregate form of earnings is influenced by the number of school years (Educ) and work experience (Exp)

4.2 Malta's Human Capital

To date there are no numbers on the level of Malta's human capital stock. Nevertheless, for the sake of this document, different proxies have been utilised to draw a number of conclusions on Malta's level of human capital in comparison to other Member States.

A country's human capital can be measured in three ways: i) the output approach which takes in consideration the number of students coming out of the education system and the number of schooling years, ii) the income approach which measures the rate of return through education investment and iii) the cost approach which takes into account the aggregate expenditure on human capital of a person (Dae-Bong.K, 2009). Out of the three methods, the output approach is the most straightforward method and as such is one of the most frequently utilised methods in estimating the stock of human capital.

According to Eurostat (2014) figures, Malta has one of the highest rates of workers with a low level of education (equivalent to ISCED 0-2). In line with figure 4.2, Malta has the second highest share of workers in the European Union (44.1 per cent) who at best have an educational attainment of ISCED 2. Moreover, it transpires that among those with an ISCED level 3-4, Malta has the third lowest share of workers amongst Member States. With regards to tertiary educated workers, Malta ranks in the seventh place from the last.

Despite Malta's underperformance in relative terms, current figures represent a substantial improvement over the 71.2 per cent of ISCED 0-2 qualified individuals registered in 2000. This marked improvement is due to a decline of circa 20,000 workers with low qualifications while at the same time some 56,000 better skilled workers joined or up-skilled themselves (Eurostat, 2014a).

WORKFORCE (20-64 YEARS) COMPOSITION BY HIGHEST LEVEL OF EDUCATION ATTAINMENT

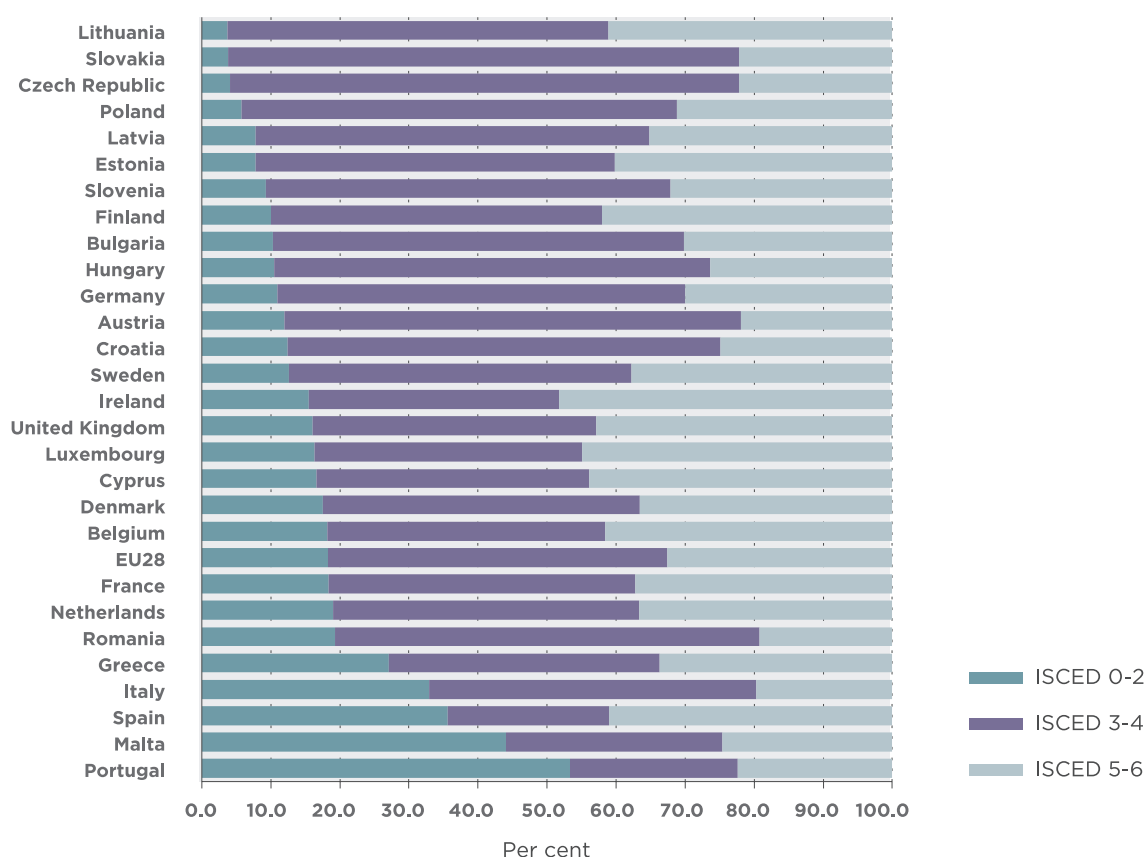


Figure 4.2 Workforce distribution (20-64 years) by Level of Education

The setup of the Malta College for Arts, Science and Technology (MCAST) improved on the low level of education of the Maltese workforce. Indeed, workers with an educational attainment of ISCED 3-4 grew from 15.0 per cent in 2000 to 31.0 per cent by 2013. The same positive performance was registered among the 25-29 age cohort as their share increased by fifteen percentage points during the same period (Eurostat, 2014a).

WORKFORCE (25-29 YEARS) COMPOSITION BY HIGHEST LEVEL OF EDUCATION ATTAINMENT

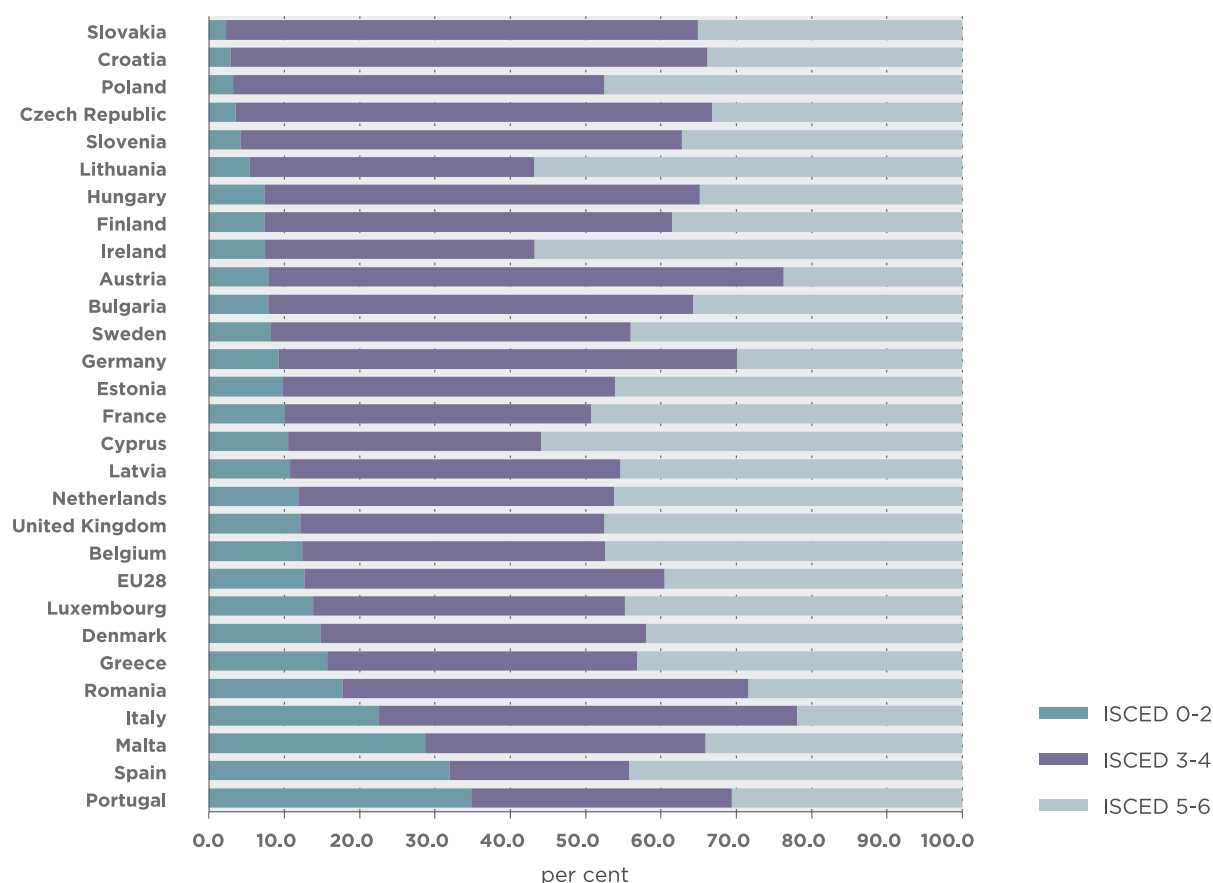


Figure 4.3 Workforce distribution (25-29 years) by Level of Education

One reason behind the low quality of human capital in Malta arises from the high degree of early school leavers. Eurostat numbers clearly reflect this. As illustrated in figure 4.4, on average a Maltese student is expected to spend just 15.2 years in education compared to a European average of 17.6 years. This discrepancy translates into a lower quality of human capital and lower overall productivity of the Maltese workforce. In line with the Mincerian equation, lower years in schooling imply lower productivity and lower wages. Hence, it is no coincidence that affluent Member States have a workforce that spends more years in education (Eurostat, 2014g).

Eastern European Member States face a different kind of challenge when it comes to the quality of human capital. Indeed, these countries suffer from a lack of physical capital accumulation rather than human capital. As highlighted earlier, high quality infrastructure goes hand in hand with a high level of human capital.

AVERAGE YEARS OF SCHOOLING

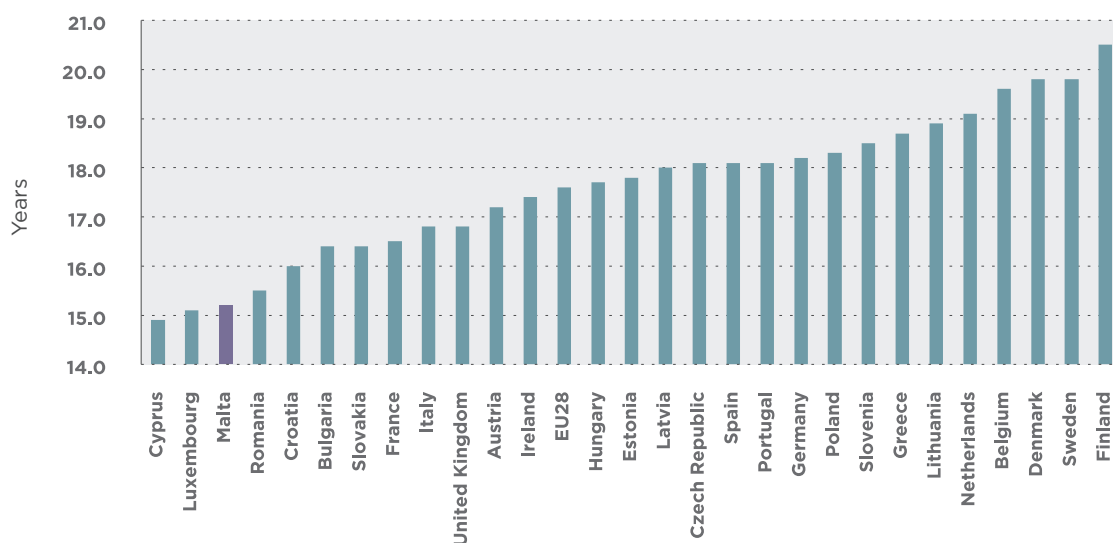


Figure 4.4 Average Years of Schooling

The following exercise (table 4.1) compares the performance of Maltese students with other Member States. Indeed, it transpires that Maltese students are among the worst performers when compared to their European peers. When the PISA score and the TIMSS and PIRLS scores for reading, mathematics and science are averaged into one mark, Maltese students end at the bottom of the league. With respect to Finnish students which are the highest achievers (100 is a normalised benchmark), Maltese students scored nearly 84.0 per cent in PISA and 71.0 per cent in TIMSS and PIRLS. This raises serious concerns on the quality of Malta's human capital (Pisa, 2009; TIMSS and PIRLS, 2011).

Average Score (Reading, Mathematics, Science; Max=100)

PISA - 2009		TIMSS & PIRLS - 2011			
Finland	100.0	Portugal	90.1	Finland	100.0
Netherlands	95.4	Slovakia	89.8	United Kingdom	93.2
Estonia	94.5	Austria	89.5	Denmark	92.7
Germany	93.8	Latvia	89.5	Netherlands	92.1
Belgium	93.7	Italy	89.4	Portugal	90.6
Poland	92.2	Spain	89.0	Germany	90.1
United Kingdom	92.0	Luxembourg	88.6	Hungary	90.1
Denmark	91.8	Lithuania	88.0	Ireland	90.1
Slovenia	91.7	Croatia	87.2	Czech Republic	89.5
France	91.4	Greece	87.0	Lithuania	88.0
Ireland	91.4	Malta	83.8	Slovakia	87.4
Hungary	91.2	Bulgaria	79.5	Italy	87.4
Sweden	91.1	Romania	78.4	Sweden	86.9
Czech Republic	90.2			Austria	85.9
				Croatia	85.9
				Slovenia	85.9
				Belgium	84.8
				Poland	79.1
				Romania	78.5
				Spain	78.0
				Malta	70.7

Table 4.1: Average Score (PISA, TIMSS & PIRLS)

4.3 Towards a High-Quality Human Capital

A high quality workforce is required to attract high-value added activities and consequently drive higher economic growth and standards of living. Moreover, as displayed in figure 4.5, there is a strong positive correlation between the level of physical capital and expenditure on training per worker (in PPS). As shown by the same diagram, developed countries with high levels of physical capital counter the law of diminishing marginal returns by focusing on training and enhancement of skills. Higher skills in turn lead to higher productivity of physical capital.

This section looks at various initiatives aimed at enhancing the quality of the Maltese workforce as a whole. More initiatives intended to enhance the quality of human capital are addressed later on in the document.

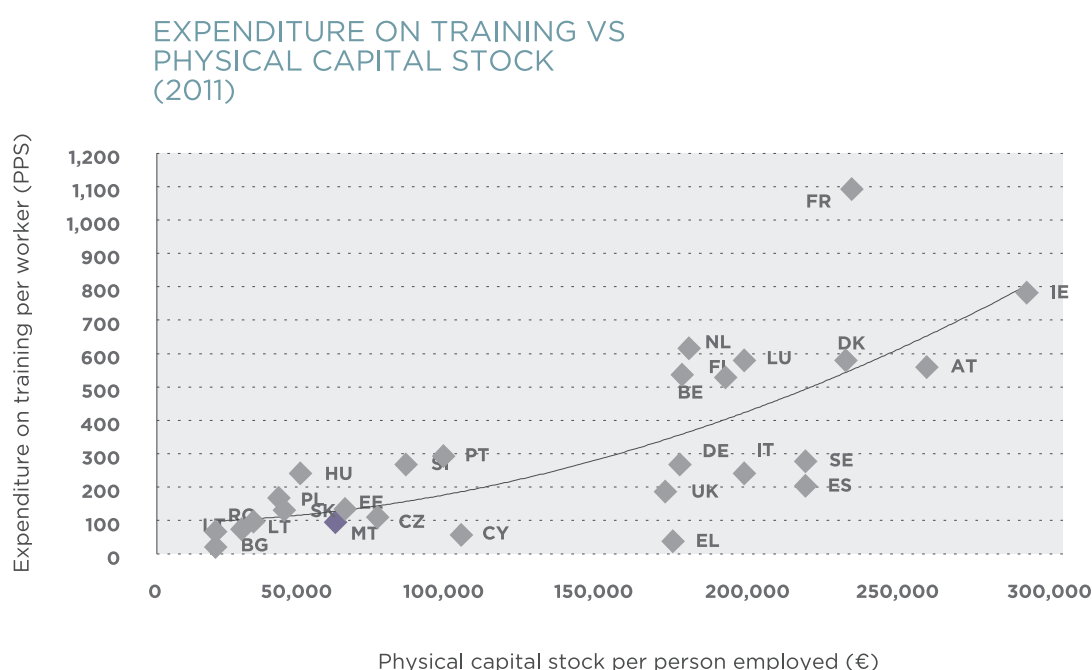


Figure 4.5 Expenditure on Training and Physical Capital Stock (2011)

4.4 Education-oriented Initiatives

4.4.1 Education Strategy – (2014-2024)

The Education Strategy aligns all sectoral education strategies and policies. It has four broad but measurable targets in line with European and world benchmarks that will set the education agenda in Malta for the next decade (2014-2024). The aim of the Education strategy is to:

- Reduce the gaps in educational outcomes, decrease the number of low achievers and raise the bar in literacy, numeracy, and science and technology competence;
- Support educational achievement of children at-risk-of-poverty and from low socio-economic status, and reduce the relatively high incidence of early school-leavers;
- Raise levels of student retention and attainment in further, vocational, and tertiary education and training;
- Increase participation in lifelong learning and adult learning.

4.4.2 Prevention of Early School Leavers

Malta's rate of Early School Leavers (ESL) in 2013 was 20.6 per cent, the second highest in the EU. The EU average for the same year was 12.0 per cent. The Strategic Plan for the Prevention of Early School Leaving in Malta aims at enabling Malta to reach its target of reducing the rate of early school leavers to 10.0 per cent by 2020. The Strategic Plan is based on a governance model that will ensure effective implementation of strategic actions and their monitoring for effectiveness. It envisages the setting up of an inter-ministerial committee, an ESL Unit and a number of ESL working groups that will bring together stakeholders from the public and the private sector as well as from civil society.

The Strategic Actions themselves are then based on three pillars, Prevention, Intervention and Compensation.

Prevention measures are meant to make the school experience more meaningful, addressing the students' different learning needs in the quest to ensure their personal fulfillment. These measures include enabling teachers to engage with diversity in the classroom, developing new teaching and learning technologies, the introduction of vocational education in the mainstream curriculum and the involvement of parents.

Intervention measures are meant to address the needs of students at risk of becoming ESL as early as possible. These measures include the development of early warning systems, the consolidation of support networks for students at risk and the provision of alternative learning programmes for students with learning difficulties.

Compensation measures are intended to reintegrate early school leavers into the education system through second chance education such as the foundation courses offered by MCAST and ITS and initiatives taken as part of the Youth Guarantee Scheme.

The prevention of early school-leavers initiative will ensure that after completing compulsory studies, students who leave education are in possession of a basic set of skills. The acquired skills will facilitate the transition towards vocational education through the Malta College for Arts, Science and Technology (MCAST).

4.4.3 Lifelong Learning Strategy (2020)

The aim of the lifelong learning strategy is to support and facilitate personalised and supportive learning procedures for all adults in Malta. As a result of lifelong learning processes, the strategy is conducive to economic development, social and civic participation and individual accomplishment. The lifelong learning strategy is aimed at:

- Encouraging participation in lifelong learning of Maltese adults by fostering desire for learning amongst low-skilled individuals as well as those in work who wish to enhance their skills set.
- Implementing learning methods and environments conducive to learning flexibility, accessibility and relevance.
- Enhancing the skills set leading to professional development, employment and active citizenship.
- Developing support structures for adult learning that includes guidance and professional qualifications for personnel offering guidance and counselling.
- Improving governance in the lifelong learning sector, exploring structural, institutional, fiscal, legal, political and administrative measures available.

4.5 Skills-oriented Initiatives

4.5.1 New Skills for New Jobs

Malta published a report on skills for the first time in 2009. This was carried out in collaboration with CEDEFOP⁷. Various EU Member States are embracing scientific approaches to forecast prospective emerging sectors and corresponding skills required.

In line with the above, a new agenda titled 'New Skills for New Jobs' will be implemented. The aim of this initiative is to identify emerging trends at sectoral level and anticipate the corresponding skills that are required. Moreover, this initiative will enhance the matching process between skills and labour market requirements and therefore bridge the gap between education and work. In order to monitor and react to developments in demand for skills, a Skills Council shall be established under the National Commission for Further and Higher Education. The council shall be composed from the social partners and industry leading experts. The aim of this Council is to regularly meet, discuss and update the training strategy in line with latest developments. This proposition was already approved by the social partners, Government and opposition. In tandem, an employability index⁸ will highlight mismatches between education and the labour market. Moreover, an employability audit will serve to better align educational content with labour market requirements. In turn, this is expected to improve the relevance of career guidance.

4.5.2 Nurturing Entrepreneurial Skills

Various initiatives supporting entrepreneurship amongst students will be introduced by MCAST. The initiatives are aimed at creating real tangible avenues for students to setup their business idea. MCAST will be cooperating with the business community in order to support and setup systematically start-ups within the centre. Acquisition of entrepreneurial skills by students will contribute towards autonomous, participative and responsible members of society.

The University of Malta's new Centre for Entrepreneurship & Business Incubation (CEBI) has been setup to put knowledge-intensive entrepreneurship at the top of the University of Malta's outreach agenda. Its aims are to promote the development of a knowledge-intensive, entrepreneurial culture in Malta, with the wider aim of fostering the socio-economic development of the Maltese Islands. The Centre is currently targeting knowledge-intensive sectors such as science, technology, engineering, and creative media at the University of Malta and in the wider Maltese context.

Training on product development, business management and other business related topics will be part of a programme focused on candidates inclined towards setting up their own business. The aim of this initiative is to stimulate successful business start-ups that grow into larger businesses and create more high quality jobs.

4.5.3 Apprenticeship and Traineeships

Jobs+, MCAST and ETC will be rolling out new apprenticeship and traineeship schemes providing work exposure for students. There is commitment for ongoing dialogue between social partners and industry stakeholders to come up with appropriate Vocational and Education Training (VET) that meet industry expectations. In total, 83 companies spanning from various economic sectors (manufacturing, gaming and tourism amongst others) are already on board this initiative. Moreover, MEDE in collaboration with CEDEFOP to raise the quality bar of apprenticeships and traineeships.

Good quality apprenticeships and traineeships have historically proven as highly relevant in engaging participants into employment. On average, circa 80.0 per cent of apprentices usually find employment with the same sponsor whilst others venture through their own business start-ups. In the case of traineeships, results for the 2011 Euro barometer show that 84.0 per cent of respondents who had completed a traineeship course stated that the course was helpful to secure a permanent job.

⁷ CEDEFOP is the EU's vocational, educational and training arm.

⁸ The employability index measures the relevance of a particular area of study to the labour market.

4.5.4 Green Jobs

Green Jobs are top priority both at the EU level and in Malta. In the EU, more than 20 million European jobs are related to the environment. In line with 2020 targets, the EU is committed to lower greenhouse gas emissions by 20.0 per cent and concurrently raise the market share of renewable energy by 20.0 per cent. Consequently, green jobs in the EU are expected to increase as Member States focus on a greener future. A total of EUR 105 billion was allocated to the cohesion funds by the Commission in 2009 to invest in green technologies and innovations.

Besides an increasing demand for scientists, researchers, engineers and other highly skilled occupations, green solutions will also involve other occupations within the transport and construction industries to name a few. In order to exploit this untapped sector, there will be ongoing discussions and cooperation between the public and private sector of Malta to establish the right framework both in terms of infrastructure and skills

4.5.5 Digital Jobs

By 2020, Europe is forecasted to have a shortage of up to 900,000 ICT professionals. This reflects a growing demand for ICT jobs of 3.0 per cent per year and a contemporaneous drop in computer sciences of 10.0 per cent between 2006 and 2010.

In reaction to the above, the Commission launched the Grand Coalition for Digital Jobs, a partnership involving many stakeholders including business and education providers, public and private participants to attract people into the world of ICT and retrain unemployed persons with the necessary skills to operate within this sector. The aim of this initiative is to raise supply of ICT skilled individuals by 2015 in order to meet excess demand.

Along these lines, Malta launched the e-Skills Malta Foundation on the 13th February 2014. The Foundation gathers various representatives from Education and MITA alongside key institutions that include Malta Enterprise, Malta Communications Authority, the Lotteries and Gaming Authority, the ETC and the Chamber of Commerce, Enterprise and Industry.

The role of the Foundation is to:

- 1 Provide guidance to Government and stakeholders on eSkills policy.
- 2 Support growth of ICT educational courses and other similar initiatives.
- 3 Be in charge of an ICT professionalism development programme.
- 4 Seek further reform and support capacity-building in ICT education.
- 5 Promote Maltese eSkills both locally and abroad.

4.5.6 Additional Funds

In order to successfully execute the above mentioned deliverables, ongoing funding is a prerequisite. Indeed, other means of financing should be identified together with ESF funding to promote initiatives and schemes that enhance the quality of human capital. As shown in figure 4.6, employees receiving on the job training in Malta were slightly above the 30.0 per cent mark. Moreover, employees receiving training paid by the employer amounted to less than 30.0 per cent of the total employees. This is also the case for developing Member States such as Cyprus, Lithuania and Poland. In contrast, developed Member States such as Germany and the UK registered a higher share of employees receiving on the job training (circa 36.0 per cent and 45.0 per cent respectively) and training paid by employers (circa 40.0 per cent and 47.0 per cent in that order).

TRAINING OF EMPLOYEES (2011)

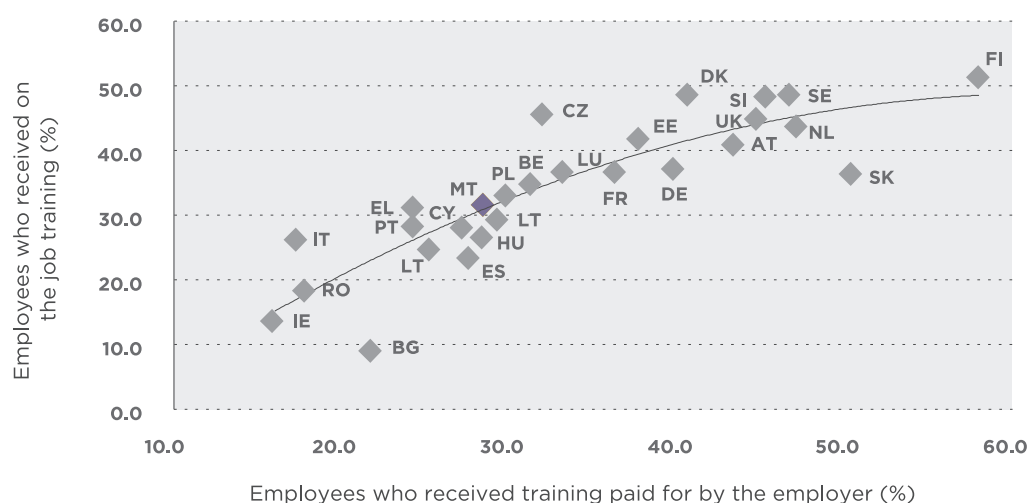


Figure 4.6 Share of employees receiving on the job training & share of employees receiving training paid for by employer

This substantiates the need for intervention to align business interests with the aggregate economy's interests. Indeed, a better trained workforce translates into higher productivity and profitability for the business and higher economic growth for Malta.

Key Points – Chapter 4

- According to Eurostat (2014) figures, Malta has one of the highest rates of workers with a low level of education (equivalent to ISCED 0-2). Malta has the second highest share of workers in the European Union (44.1 per cent) who at best have an educational attainment of ISCED 2. When it comes to ISCED level 3-4, Malta has the third lowest share of workers amongst Member States. With regards to tertiary educated workers, Malta ranks in the seventh place from the last.
- Malta also has a high percentage of youths with low levels of education. Indeed, Malta ranks third in terms of youths with a level of education ISCED 0-2. As regards ISCED 3-4 and 4-6 education levels, Malta scores in the fifth and eighth position from the bottom respectively. One reason behind the low quality of human capital in Malta arises from the high degree of early school leavers.
- A new agenda titled 'New Skills for New Jobs' will be implemented. The aim of this initiative is to identify emerging trends at sectoral level and anticipate the corresponding skills that are required. Moreover, this initiative will enhance the matching process between skills and labour market requirements and therefore bridge the gap between education and work.
- In order to monitor and react to developments in demand for skills, a Skills Council shall be established under the National Commission for Further and Higher Education. The council shall be composed from the social partners and industry leading experts.
- Jobs+, MCAST and ETC will be rolling out new apprenticeship and traineeship schemes providing work exposure for students. There is commitment for ongoing dialogue between social partners and industry stakeholders to come up with appropriate Vocational and Education Training (VET) that meet industry expectations.

- Malta launched the e-Skills Malta Foundation on the 13th February 2014. The Foundation gathers various representatives from Education and MITA alongside key institutions that include Malta Enterprise, Malta Communications Authority, the Lotteries and Gaming Authority, the ETC and the Chamber of Commerce, Enterprise and Industry.
- Employees receiving on the job training in Malta were slightly above the 30.0 per cent mark. Moreover, employees receiving training paid by the employer amounted to less than 30.0 per cent of the total employees. Other means of financing should be established together with ESF funding to promote initiatives and schemes that enhance the quality of human capital.

05

EMPLOYMENT AND TRAINING CORPORATION (ETC)

5.0 Overview

This chapter is focused on labour market services offered in Malta. The major stakeholder in this segment is the Employment and Training Corporation (ETC). Established in 1990, ETC was and remains the main provider of training and placement services in Malta. Following Malta's membership within the EU, ETC took on board additional responsibilities such as the administration of European Social Funds.

Presently, ETC employs circa 300 persons responsible for various tasks that include delivery of employment advisory and placement services for jobseekers, design and quality assurance of training programmes, provision of employers related services such as the issuance of work permits and job matching and the administration of schemes funded by EU funds. Moreover, ETC works closely with a number of employers and the Malta College for Arts, Science and Technology on apprenticeship schemes. Notwithstanding the achievements made over the past years, the Corporation needs to focus more on labour market requirements that are constantly evolving. The following analysis provides some detail on current practices and their limitations together with prospective solutions to enhance the quality of service offered by ETC.

5.1 ETC as a service provider – Employment advisory services

As already stated, ETC caters for both employers and employees. Employers are key service users as they forward vacancies for potential jobseekers through ETC. As a public employment service provider, ETC matches current job vacancies with the skills profile of currently registered jobseekers.

In order to better understand the effectiveness of ETC, it is necessary to highlight developments in the jobs market and how well reflected they are through the distribution of ETC vacancies. As clearly illustrated in figure 5.1, new employment positions between 2004 and 2012 were mainly driven by mid (service workers) to high-level (technicians, professionals, legislators etc.) positions.

NET CHANGE IN OCCUPATIONS 2012/2004



Figure 5.1 Change in Employment (ISCO-88) - 2012 & 2004

The distribution of new jobs created between 2004 and 2012 is to an extent reflected through ETC vacancies (see figure 5.2 below). Yet, there's much room for improvement in job positions of professionals, legislators, senior officials etc. This is evident when comparing both segments in figure 5.1 with their contribution to ETC vacancies. Indeed, occupations for professionals and legislators account for 9.5 per cent and 3.7 per cent in that order to ETC vacancies (see figure 5.2). This contrasts with the high net change in occupations of professionals and legislators of 6,982 and 3,698 respectively between 2004 and 2012 (figure 5.1), (based on ETC data). Consequently, there should be a change in the marketing strategy of ETC services to make them attractive across all segments of job positions from elementary to senior levels.

DISTRIBUTION OF LABOUR MARKET VS ETC VACANCIES (2012)

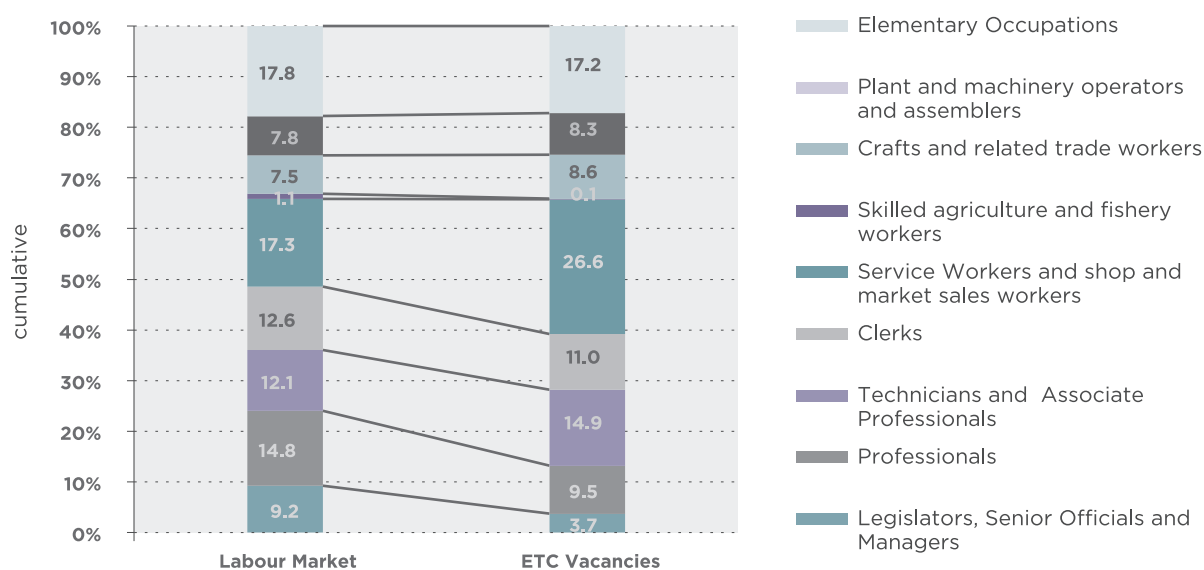


Figure 5.2 Vacancy distribution (2012) - ETC & Labour Market

5.2 Type of Unemployment in Malta

One of the roles of ETC as a Public Employment Service provider is to limit labour markets shortcomings such as imperfect information. As a result, ETC acts as an intermediary to facilitate labour demand and supply interaction by matching vacancies with skills of ETC registered jobseekers.

In line with the above, this section compares ETC registered jobseekers with vacant job positions going through ETC in 2012. As illustrated in diagram 5.3, at face value it seems that the types of vacancies received by ETC are in line with the skills of registered jobseekers (with the exception of agriculture and fishery segment). As an example, elementary occupation jobseekers registered with ETC account for 16.9 per cent of total jobseekers. When it comes to the contribution of elementary occupations to total ETC vacancies, such occupations account for 17.2 per cent. To take another example, 14.9 per cent of ETC vacancies that involve technical and associate professional occupations are applicable to 10.5 per cent of ETC jobseekers (based on ETC data).

Consequently, one would conclude that unemployment in Malta is temporary, arising from frictional factors. In other words, jobseekers have the right skills to meet the prerequisites of prospective employers and it is only a matter of time before they find employment. However, a more detailed look at job seekers and vacancies suggests that this is not the case.

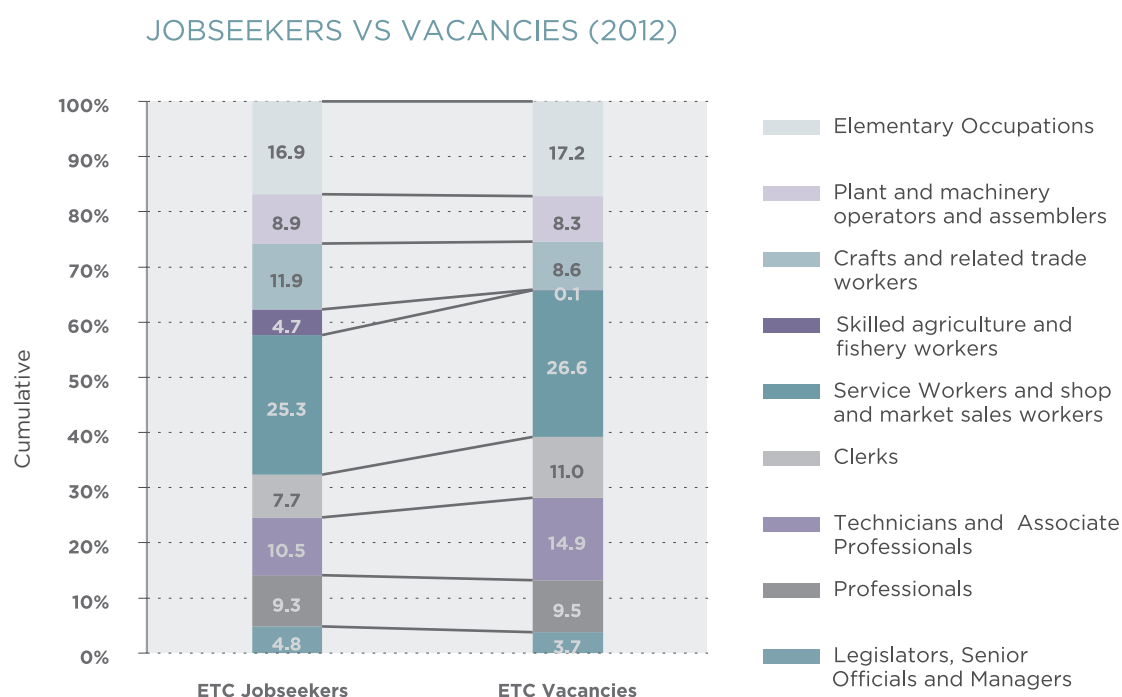


Figure 5.3 ETC registered jobseekers & ETC vacancies (2012)

The following table (5.1) portrays the top 20 jobs in demand by jobseekers in 2012 and the corresponding number of vacancies in the market. Indeed, the top 20 jobs are demanded by 3 out of every 5 registered unemployed. However, when it comes to listed vacancies for the equivalent top 20 jobs, these account for 1 out of every 5 vacancies. Indeed, this implies that there is a clear mismatch between labour demand and labour supply (based on ETC data).

Moreover, it is clearly evident that for certain job descriptions such as petrol pump attendants, jobs related to cinematography, shopkeepers, assemblers, couriers, telephone operators, gardeners and horticultural, and student advisers there is no labour demand. Accordingly, out of 58.3 per cent of unemployed persons, 23.4 per cent – two out of every five registered unemployed – are seeking phantom jobs. To make matters worse, it also transpires that another one-fifth of unemployed are registering for jobs for which they are under-qualified (based on ETC data).

Consequently, despite showing elements of frictional unemployment at the aggregate level (see figure 5.3), table 5.1 shows that unemployment is in actual fact structural. It results that some of the jobs listed in table 5.1, such as cleaners and labourers, also feature prominently among the work permits issued. Hence, notwithstanding demand for labour e.g. 538 vacancies for cleaners and 358 vacancies for labourers, there are still some 665 jobseekers after these two jobs in particular. The problem of structural unemployment therefore goes beyond than just an issue of skill mismatches (based on ETC data).

Job Description	Jobseekers	Related Vacancies
Salesperson, commercial	662	652
Technical and medical sales professional	390	151
Cleaners and helpers in offices, hotels	361	538
Attendant, petrol pump	350	5
Labourer	304	358
Film, stage and related directors and pr	270	3
Shopkeeper	245	0
Assemblers not elsewhere classified	240	0
Data entry clerks	199	47
Courier, travel	198	0
General office clerk	189	314
Gardeners, horticultural and nursery	187	13
Telephone operator	163	0
Storekeeper	153	88
Adviser, student	123	0
Plasterers	118	53
Tile layer	94	11
Security guards	92	80
Plumbers and pipe fitters	90	56

Table 5.1 Top 20 jobs in demand by jobseekers

Due to the limitation of the current system, most jobseekers are not currently exposed to the necessary education and training programmes in order to make them compatible with current vacancies. In turn, this adds the propensity of jobseekers to become long-term unemployed. As shown in figure 5.4 below, Malta has a relatively high share of long-term unemployed as a ratio of the total unemployed of 44.5 per cent. This compares with 47.4 per cent of the EU28 (Eurostat, 2014a). However, it should be highlighted that such high long-term unemployment rates in the EU result from the recession. This is certainly not the case for Malta as it has been already highlighted that the Maltese labour market has recovered rapidly from the 2009 hit.

LONG-TERM UNEMPLOYED AS A SHARE OF THE TOTAL UNEMPLOYED

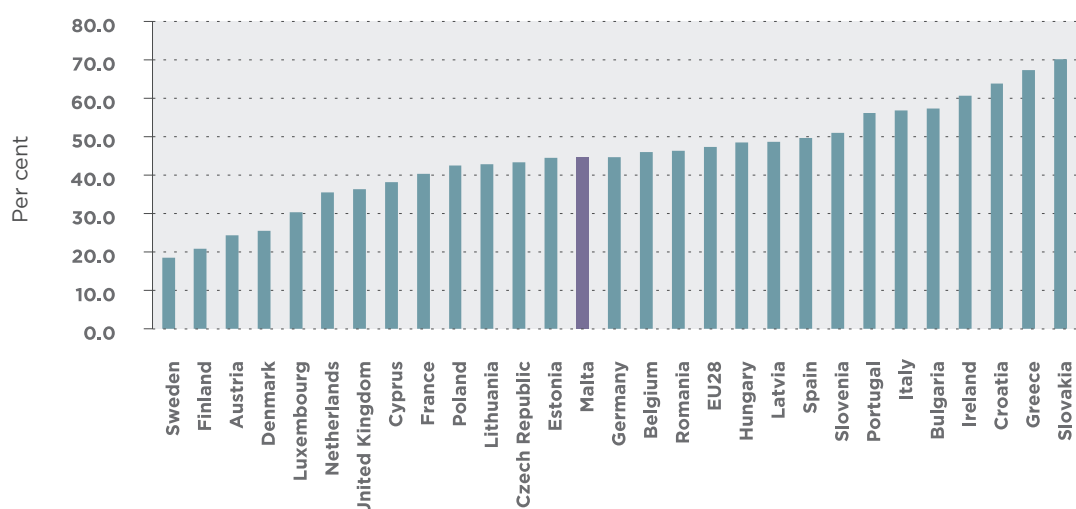


Figure 5.4 Long-term unemployed as a share of the total unemployed (Malta & EU28)

5.3 Registered Unemployed

Every Member State has two measures of unemployment – one based on administrative sources and a second one based on a survey. In Malta, the administrative figure is collated by the ETC whilst survey data is carried out by the National Statistical Institutes (NSO in the case of Malta) through the Labour Force Survey (LFS). In Malta, the unemployment figure reported by the LFS has always been higher than the number of registrants. This is not the case for the majority of the EU Member States as the number of registrants exceeds the number of unemployed as per LFS (see figure 5.5).

In the case of Malta, the lower number of registrants relative to the LFS may be partly explained due to social benefits eligibility criteria and perception about ETC service delivery. Jobseekers that are not head of households are not eligible for unemployment assistance and are therefore not motivated to register with ETC. Moreover, means-tested benefits have a low income threshold. Consequently, if one of the spouses is engaged in the labour market, the other spouse would not be eligible for benefits. Again, this reduces the number of registrants with ETC.

REGISTERED UNEMPLOYED AS A SHARE OF LFS UNEMPLOYMENT

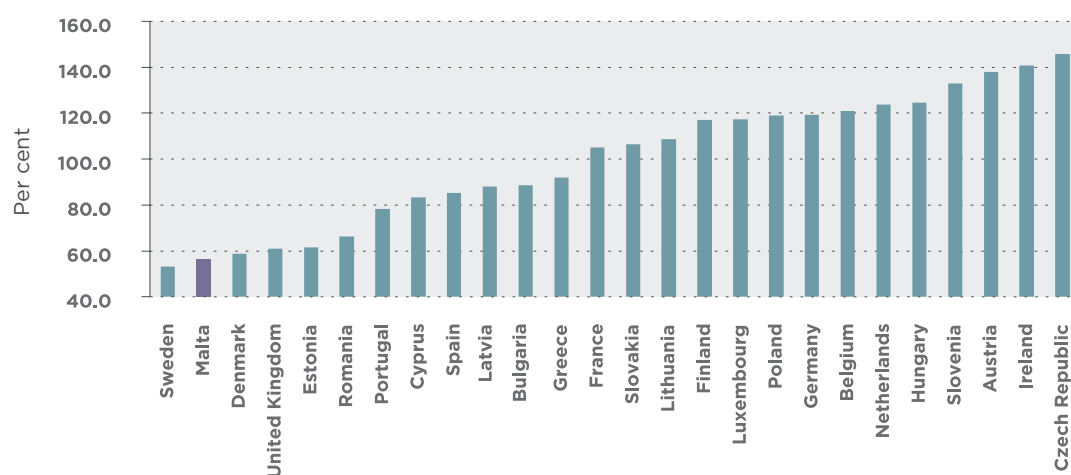


Figure 5.5 Registered unemployed as a ratio of unemployment recorded in LFS

The following diagram (5.6) raises questions on the quality of ETC services. As shown, the volume of unemployed persons registering with ETC as a share of the total unemployed (LFS) declined rapidly over the past years. As indicated by diagram 5.6, in 2000, out of every 100 persons willing to work, 75 were registering with ETC. By 2012, the number of people registering with ETC declined to around 58 out of every 100 persons willing to work. It transpires that 35.0 per cent of those who register with ETC have been doing so for more than a year and most of them are eligible to receive long-term unemployment benefits (Author's calculations).

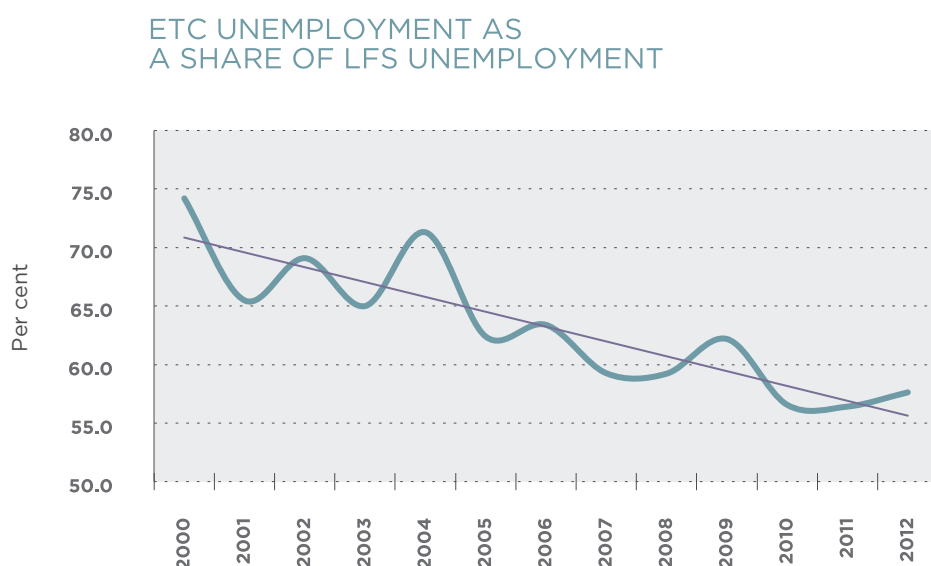


Figure 5.6 ETC unemployment as a share of LFS unemployment

5.4 Strategic Outlook for ETC

Over the past few years labour market developments have been substantial. Increased labour market flexibility, processing and disbursement of EU funds and increased presence of foreigners working in Malta have all left their mark on the effectiveness of the Corporation. Consequently, ETC requires a radical overhaul to meet the requirements of clients comprising employers, employees and jobseekers. A major boost in the ICT infrastructure together with a focused approach on the core business is a must. Better IT infrastructure is primarily required to enhance job matching processing, hasten disbursement of EU funds and ensure timely issuance of work permits.

The core focus of ETC remains that of public employment services i.e. engagement of people back to work. With a current work load of circa 300 unemployed for every employment advisor, ETC is not capable to deliver a high quality service to clients. Consequently, the private sector will have a valid role in this area as it will be invited to participate along the principle of the Making Work Pay Initiative. As a result of this, ETC will be able to focus more on the short-term unemployed. Concurrently, it is also crucial to overhaul the current job preference system. Unfortunately, some jobseekers presently tend to opt for jobs that are not in demand and are automatically classified as eligible for benefits. Part of the overhaul of the current job preference system will require jobseekers to undertake training and acquire skills to satisfy other vacancies that are currently available.

ETC will also be exploring new procurement approaches in order to ensure timely delivery of training programmes without adding additional administrative burden. The current method of procedure requiring the issue of a tender for each training course is simply not efficient. Such method of procurement is having a detrimental effect on the number of persons receiving training.

In addition to the above, good decision making requires good quality research. A modern Public Employment Service necessitates continuous expert input to ensure effective results and efficient cost outlay. Monitoring of outputs and outcomes will become top priority for ETC over the coming months. This requires a good research team to ensure that skill deficits in the labour market are promptly identified and addressed.

Key Points – Chapter 5

- The distribution of new jobs created between 2004 and 2012 is to an extent reflected through ETC vacancies. Yet, there's much room for improvement in job positions of professionals, legislators, senior officials etc.
- Top 20 jobs in 2012 were demanded by 3 out of every 5 registered unemployed. However, when it comes to listed vacancies for the equivalent top 20 jobs, these account for 1 out of every 5 vacancies. This implies that there is a clear mismatch between labour demand and labour supply.
- There is no demand that meets jobseekers' requests for certain job descriptions such as petrol pump attendants, jobs related to cinematography, shopkeepers, assemblers, couriers, telephone operators, gardeners and horticultural, and student advisers. Accordingly, out of 58.3 per cent of unemployed persons, 23.4 per cent – two out of every five registered unemployed – are seeking non-existent jobs. Moreover, another one-fifth of unemployed are registering for jobs for which they are under-qualified.
- ETC requires a radical overhaul to meet the requirements of clients comprising employers, employees and jobseekers. A major boost in the ICT infrastructure together with a focused approach on the core business is a must. Better IT infrastructure is primarily required to enhance job matching processing, hasten disbursement of EU funds and ensure timely issuance of work permits.
- A crucial overhaul to the current job preference system is required. Unfortunately, some jobseekers presently tend to opt for jobs that are not in demand and are automatically classified as eligible for benefits. This will no longer be possible. Part of the overhaul of the current job preference system will require jobseekers to carry out training and acquire skills to satisfy other vacancies that are currently available.
- ETC will also be exploring new procurement approaches in order to ensure timely delivery of training programmes without adding additional administrative burden. The current method of procurement is resulting in inefficiencies and untimely deliveries. This is also having a detrimental effect on the number of persons receiving training.
- A modern Public Employment Service necessitates continuous expert input to ensure effective results and efficient cost outlay. Monitoring of outputs and outcomes will become top priority for ETC over the coming months. This requires a good research team to ensure that skill deficits in the labour market are promptly identified and addressed.

06

MAKING WORK PAY INITIATIVES

6.0 Overview

There has been much discussion amongst OECD countries on providing adequate income protection measures whilst also retaining appropriate work incentives for households unable to support themselves financially. Discussions amongst OECD members also addressed the way forward to incentivise individuals in part-time employment or low-paid jobs to increase work hours, or training to move into higher paid jobs.

Striking an optimal balance between supportive benefits and work incentives is not an easy task. In reality, income protection measures tend to reduce the opportunity cost of not working, leading to risk of long-term poverty for jobless persons on benefits. From an expenditure perspective, safety net accounts for a substantial chunk of Government expenditure. These points reinforce the objective of OECD countries to promote engagement of individuals into the labour force whilst retaining adequate supportive benefits for persons in need. This balanced approach was highlighted in the OECD Jobs Strategy which was first issued in 1994 (OECD, 1994).

In simple terms, in-work benefits constitute welfare schemes that top-up the earnings of low-income families on the condition that they are engaged into employment. In-work benefits can also be in the form of lower social security contributions leading to more disposable income for low-income households. These measures substantiate the make-work-pay principle.

As highlighted by the OECD report 'Increasing Financial Incentives to Work: The Role of In-work Benefits' (OECD, 2005), financial incentives promoting work are on average weak for single parents and one-earner families with children on welfare support. Tax structures across most OECD countries are such that people on a low income who are willing to work longer hours and earn higher wages end up with negligible additional net income.

Various OECD countries have introduced in-work benefit programmes aimed at raising the financial returns from returning to work. Such programmes vary with respect to generosity, income level and rates at which benefits are withdrawn. In-work benefits should be generous and narrow-targeted in

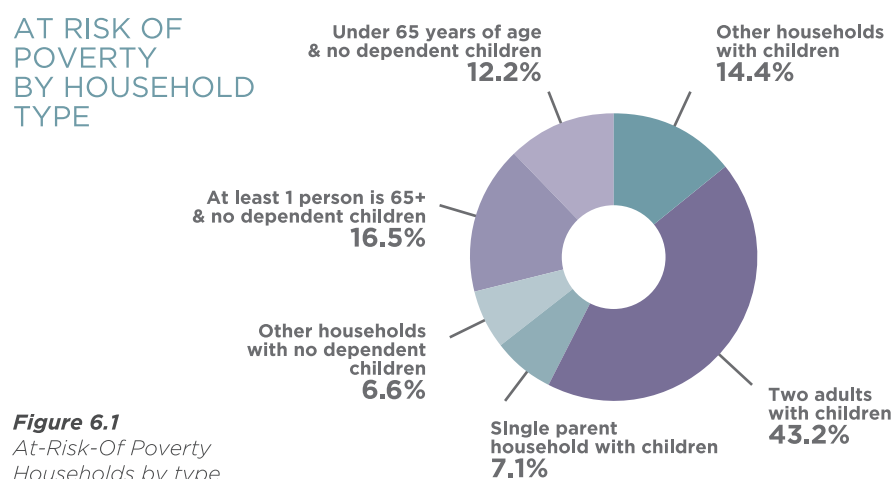
order to channel help to citizens in need. Indeed, a broad and weak offering of income protection measures would reduce the probability of engaging employees into the work environment. Another factor that needs to be taken into consideration is focus on reducing deadweight loss of in-work benefits. This arises in cases where beneficiaries would have been able to find a job themselves even in the absence of this scheme. In this case, precious resources would have been allocated inefficiently. Well-designed targeting and establishment of minimum hours worked for eligibility would be effective ways to address this concern.

Another key point to enhance the effectiveness of in-work benefits would be the setup of appropriate phasing-out rates, which is the speed at which benefits are withdrawn when income increases. In order to maximise engagement of people into work, phasing-out rates should ensure a moderate withdrawal of benefits. However, this would deter prospects of working longer hours and could result into disincentive effects high up in the earnings distributions. Consequently, governments who are more concerned about career advancement or longer working hours would rather take on board higher benefit levels as well as faster phasing-out rates.

As implied by OECD (2005), in-work benefits should not be considered as the sole means to an end. Other measures should be closely integrated with conventional in-work benefit measures. Provision of childcare subsidies for single parents and spouses with children is such an example.

6.1 Target Audience of In-work Benefits in Malta

In order to establish the target audience for in-work benefits an exercise was carried out focusing on the categorisation of individuals at risk of poverty. As shown in diagram 6.1, data indicates that 65.0 per cent of households who are at risk of poverty comprise families with children, in particular families of two adults with children. This implies that the targeted audience for in-work benefits should in great part focus on such households raising children (NSO, 2012b).



6.2 At-Risk-of-Poverty Households

This section highlights that at-risk-of-poverty families involve both inactive households as well as households who are already in employment. It is imperative to adopt measures that increase the opportunity cost of those not working. This should in turn engage non-active households into employment as well as retain currently employed households into employment.

The next diagram (6.2) substantiates the argument that households with dependent children who are already in employment are also exposed to risk of poverty. As shown below, in-work poverty is much higher amongst households with dependent children. Moreover, in-work poverty amongst households with dependent children has been constantly increasing from circa 6.3 per cent in 2005 to 10.0 per cent in 2012.

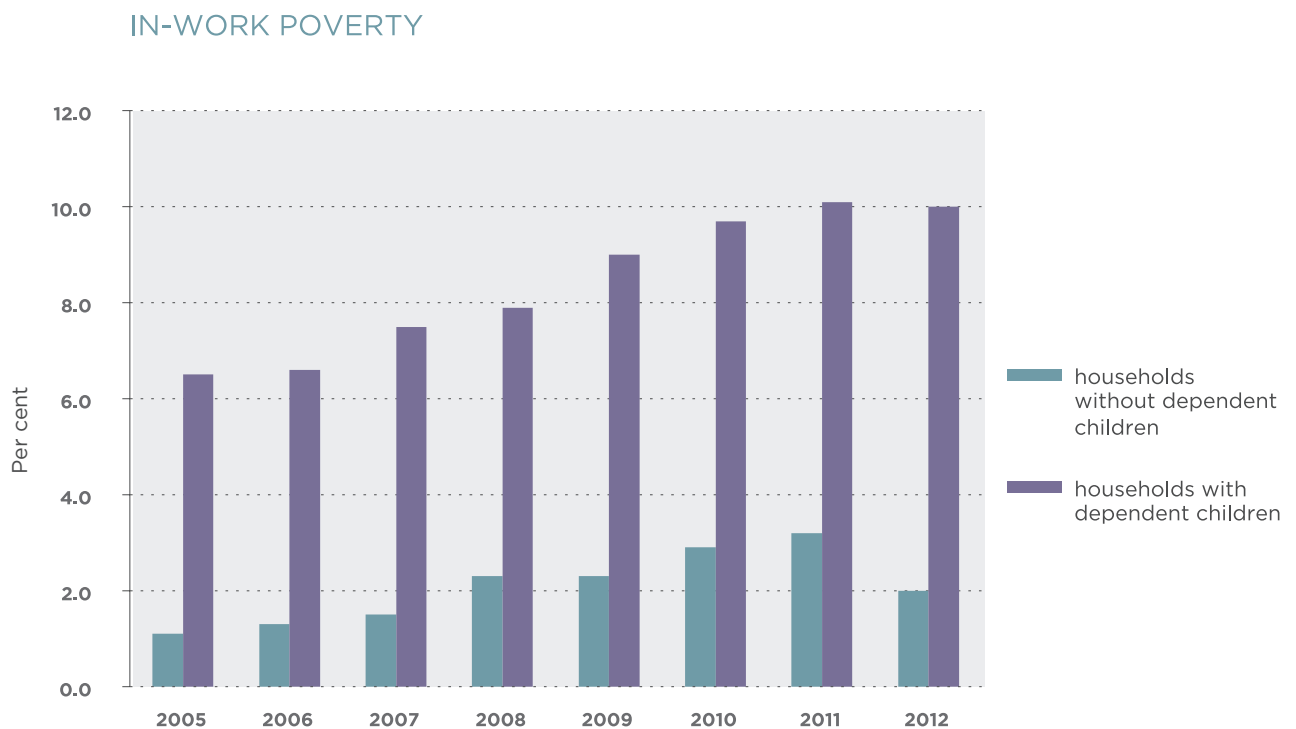


Figure 6.2 *In-work Poverty*

Over the past few years, measures in the form of tax cuts were introduced to promote female participation in the labour market. The take out of this scheme was a success story as the number of female participants in the labour market of Malta increased significantly. However, this particular scheme was targeted towards specific cohorts of the population with a moderate to high education level. As shown in figure 6.3, ISCED 3-4 and ISCED 5-6 female employment ratios within the 25-34 age cohort have increased between 2004 and 2012. Despite registering growth, ISCED 0-2 female employment ratio remains low, below 40.0 per cent (Eurostat, 2014a). Hence the need to introduce additional measures that increase the opportunity cost of females with low education to join into the labour market.

FEMALE EMPLOYMENT RATIO (25-54 YEARS) BY LEVEL OF EDUCATION

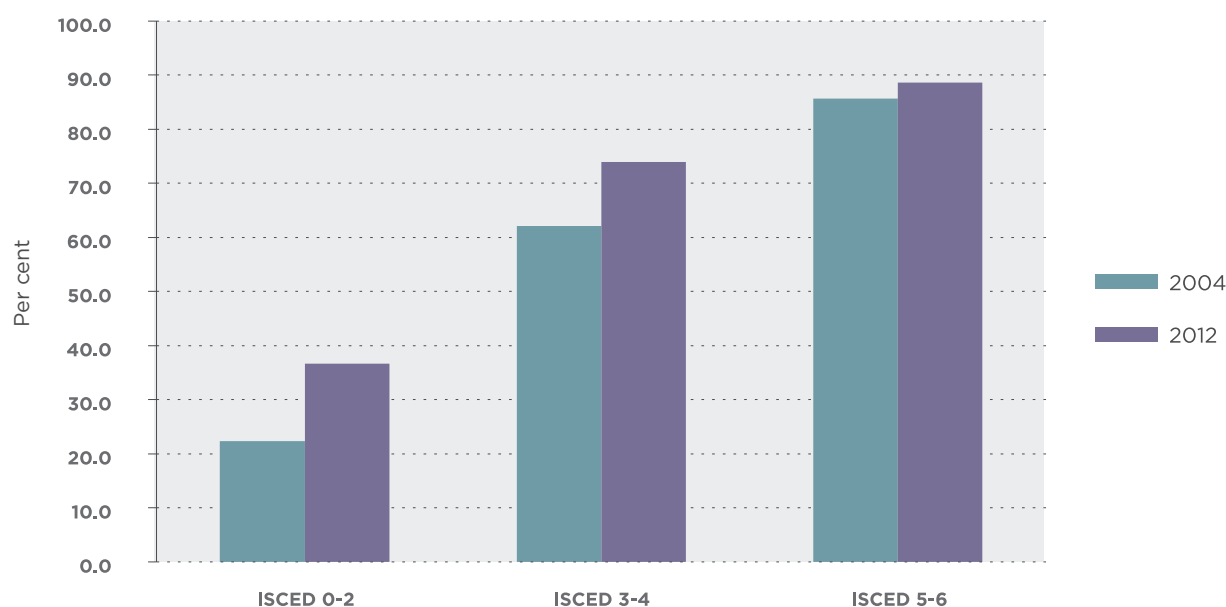


Figure 6.3 Female Employment Ratio (25-54 years) by level of education

In the case of male employment, labour market participation was high across all ISCED levels in 2012. This implies that most families raising children who are at risk of poverty usually depend on one income earner, usually the husband. As a remedy to the above, various measures were recently introduced to facilitate entry of women raising children into the labour market as well as to support women raising children who are already in employment.

6.3 In-work benefits

In-work benefit schemes address two key points. Firstly, adequate provision of childcare services leaves more time for parents, specifically women, to engage or remain in employment. Secondly, the free or subsidised nature of the services offered increases the opportunity cost of not working or leaving employment.

6.3.1 Childcare Support

6.3.1.1 Free Childcare Support Services for Working Parents

The government introduced free childcare services on the 1st of April 2014. Services are being offered to all working parents. The scheme is aimed at working parents and parents who are still students. The childcare service allows for flexibility through the provision of an extra hour of support daily over and above the working hours of mothers/fathers.

6.3.1.2 Breakfast Clubs for Children

In order to support time management for parents, the government rolled out a complimentary service offered to children where parents will be able to drop their children to school one hour before it opens through a breakfast club scheme. This is another scheme targeting the engagement of females in the labour market.

6.3.1.3 Klabb 3-16: After-school hours care service

Klabb 3-16 is an after-school hours' care service targeting school-age children. The service is aimed to fill the time gap between when school finishes and when parents leave work. This service caters for children in the age cohort of 3 to 16 years. Skola Sajf is another scheme which includes catch up school services during summer holidays lasting 11 weeks. Government will be merging these two services in order to make it more affordable for parents during summer holidays and the school term.

6.3.2 Tapering of Social Benefits

As shown in figure 6.4, the share of persons benefitting from Social Assistance (SA) or Single Unmarried Parents (SUP) benefits is at its highest within the age cohort of 20-28. This is usually the phase during which parents especially mothers with low levels of education have children. Moreover, the graph implies that the share of persons eligible for SA and SUP benefits that are in employment is negligible. This does not in itself imply a highly generous benefit scheme. Indeed, it has already been argued that parents on benefits tend to be at a higher risk of poverty. Still, they would be unwilling to engage in the labour market as the structure of the benefit scheme does not encourage work. In 2008, 45.0 per cent of the 495 females applying for SA and SUP benefits were actively employed on the day of application for benefits. After 18 months, only 12.5 per cent remained actively employed. As an example from figure 6.4, the share of SA and SUP beneficiaries aged 24 who were in employment before becoming eligible to benefits was at around 88.7 per cent. After becoming eligible to benefits, this number dropped to circa 13.4 per cent. This is a clear example highlighting the disincentives within the current benefits structure.

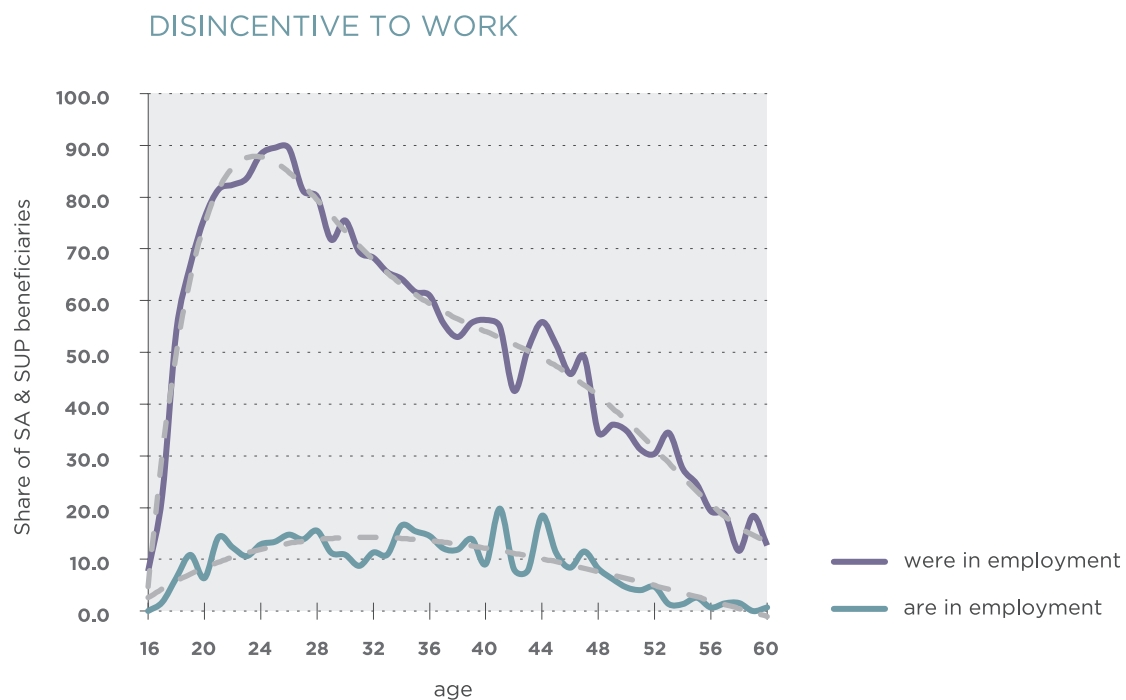


Figure 6.4 Share of SA & SUP beneficiaries in employment before and after Benefit entitlement

In 2008, 45.0 per cent of the 495 females applying for SA and SUP benefits were actively employed on the day of application for benefits. After 18 months, only 12.5 per cent remained actively employed. As an example from figure 6.4, the share of SA and SUP beneficiaries aged 24 who were in employment before becoming eligible to benefits was at around 88.7 per cent. After becoming eligible to benefits, this number dropped to circa 13.4 per cent. This is a clear example highlighting the disincentives within the current benefits structure.

In line with the above, there needs to be a change of philosophy from passive to active benefit schemes that encourage labour market engagement rather than the opposite. The tapering scheme aims to provide adequate support for citizens whilst at the same time motivate them to participate in the labour market. Tapering of benefits will also provide incentives for employed individuals to remain actively employed and work more hours. In the case of employees with low levels of income, including minimum wage earners, who do not qualify for SA or SUP benefits, prospective measures should be formulated as a means of topping up their income levels. The aim of this measure is to reduce the degree of workers who are at risk of poverty and to reinforce the concept of making work pay.

6.3.3 From Passive to Positive Welfare

Employment is considered as the most effective solution to mitigate the at-risk-of-poverty and/or social exclusion. In line with this consideration, welfare systems are meant to temporarily assist an individual during the transition phase into employment. In many instances however, welfare benefits have shifted away from their active role in engaging candidates into employment towards a passive role where individuals are encouraged to remain on benefits indefinitely. This is referred to as the benefit trap. Indeed this phenomenon leads to higher instances of at-risk-of poverty due to the small amounts of benefits received. Moreover, the benefit trap triggers higher cases of social exclusion as well.

This is certainly the case in Malta where the benefit system has failed in activating individuals into employment. In reaction to the above, the budget speech of 2014 introduced various initiatives to amend the current shortcomings of the system.

In cases where beneficiaries of Social or Unemployment Assistance have been in receipt of this benefit for a minimum of two years in the three years preceding engagement in a job, benefit entitlement shall no longer cease as soon as they start working. Tapering has been introduced where a person shall be entitled to 65.0 per cent of the benefit for the first year, 45.0 per cent of the rate for the second year and 25.0 per cent of the rate for the third year of employment. Eligibility depends on the person's income being not less than the equivalent of the National Minimum Wage including the statutory bonuses.

This is certainly a step in the right direction which leads towards an active welfare system. However, the limitation from this initiative arises from the limited duration of the tapering effect over a span of three years. In line with this, a permanent top-up on low income earners is being proposed. The aim of this proposition is to keep low income earners engaged in employment indefinitely.

An exercise was carried out to arrive at a reservation wage demanded by persons currently on state benefits. Out of 9,555 persons eligible for the tapering initiative, circa 130 persons have engaged into the formal labour market on their own initiative. Some other 500 persons have expressed interest to work given some support. A reservation wage was calculated for these 500 persons based on a sample of 350 individuals. On average, the reservation wage of a thirty-year-old person in possession of o-levels and working on a full-time basis amounts to EUR 10,921. This amounts to EUR 1,600 over and above the minimum wage of EUR 9,300. There is no statistical significance for experience or sex. The amounts have been based on a 40 hour week and 52 weeks per year.

In line with the reservation wage exercise described above, it is clear that a top-up on the minimum wage would stimulate current beneficiaries into employment. Moreover, make work pay initiatives would curb down undeclared work by increasing the opportunity cost of not being in formal employment.

Key Points – Chapter 6

- Sixty-five per cent of households who are at risk of poverty comprise families with children, in particular families of two adults with children. Households with dependent children who are already in employment are also exposed to risk of poverty. In-work poverty amongst households with dependent children has been constantly increasing from circa 6.3 per cent in 2005 to 10.0 per cent in 2012.
- Over the past few years, measures in the form of tax cuts were introduced to promote female participation in the labour market.
- In-work benefit schemes have been introduced to address two key points. Firstly, adequate provision of childcare services leaves more time for parents, specifically women to engage or remain in employment. Secondly, the free or subsidised nature of the services offered increases the opportunity cost of not working or leaving employment.
- In 2008, 45.0 per cent of the 495 females applying for SA and SUP benefits were actively employed on the day of application for benefits. After 18 months, only 12.5 per cent remained actively employed.
- The tapering scheme aims to provide adequate support for citizens whilst at the same time motivate them to participate in the labour market. Tapering of benefits will also provide incentives for employed individuals to remain actively employed and work more hours.
- In the case of employees with low levels of income, including minimum wage earners who do not qualify for SA or SUP benefits, prospective measures should be formulated as a means of topping up their income levels. The aim of this measure is to reduce the degree of workers who are at-risk-of poverty and to reinforce the concept of making work pay.
- On average, the reservation wage of a thirty-year-old person in possession of o-levels and a school leaving certificate working on a full-time basis amounts to EUR 10,921. This amounts to EUR 1,600 over and above the minimum wage of EUR 9,300. In line with the reservation wage exercise described above, it is clear that a top-up on the minimum wage would stimulate current beneficiaries into employment.

07

LABOUR MARKET INITIATIVES

7.0 Overview

This employment policy outlines various challenges faced by the local labour market. Unless they are addressed, a sizeable portion of the existing and future workforce is going to experience a deteriorating standard of living in relation to other workers employed in high-value added sectors. Indeed, there needs to be an ongoing active labour market policy to provide the labour market with a permanent supply of initiatives all year round. This would enable employers to strategically plan ahead without running into labour market obstruction. As a result, labour market initiatives will remain open throughout the entire programming period between 2014 and 2020. In order to enable smoother absorption, better administration, faster disbursement and sufficient funds for the entire programming period, annual monetary quotas will be applied to each labour market initiative.

As already outlined in previous chapters, investment in the labour market needs to be addressed both from a demand and supply perspective. Investment for demand purposes serves mainly to stimulate employers' demand for labour. There may be several reasons why such interventions may be required, namely to compensate for low productivity among workers who had been long-term unemployed, persons with a long history of inactivity and persons with a disability.

On the other hand, investment in the supply-side addresses the employability of labour and its productivity through the enhancement of human capital. There remains a considerable number of persons who are inactive and young of age. Through adequate training and appropriate incentive schemes, the distance of these persons from the labour market can be diminished. In addition to this, the general level of human capital in the economy needs to be improved. This is necessary for a flexible labour market. Investment in human capital shall not comprise solely of workers with low skills. Indeed, it is equally important to target high achievers as well. The Maltese labour market is creating a number of opportunities that so far are in great part missed by national workers due to insufficient skills. In addition to the above, the following initiatives will aid the labour market make a leap forward in terms of quality development.

7.1 Demand-side Initiatives

7.1.1 Access to Employment Scheme

Wage subsidisation forms an integral part of active labour market policies. Persons who are at a distance from the labour market, namely the long-term unemployed, inactive persons, unskilled youths and persons with a disability, tend to be regarded by employers as having serious productive shortcomings that do not justify the full wage linked to the job. Older workers looking for work tend to experience the same fate. In order to compensate for any productivity shortcomings, employers would receive wage subsidies which make up for the costs incurred. Wage subsidies are usually a percentage of the wage bill and last for a number of months.

During the programming period 2007-2013, wage subsidies under the Maltese Employment Aid Programme (EAP) totalled the sum of €16.2 million spread over 2,600 employees. The employee retention rate following such an initiative was very satisfactory, well over 80.0 per cent. Nevertheless, it transpires that EAP had an element of deadweight loss, i.e. the beneficiaries would have found employment even in the absence of the subsidy. This should serve as a lesson so as to better define the eligibility criteria over the next programming period and minimise the deadweight element.

7.1.2 Job Practice Scheme

Job Practice is a scheme intended to address the issue of underemployment. Underemployment represents instances where an employee is over-qualified for the type of job he/she does, works on a part-time basis despite willingness and ability to work on a full-time schedule.

(Brunello et al.:2007) distinguish between two types of individual classes that are considered as underemployed: over-qualified but correctly matched and over-qualified and mismatched. The first type of underemployment involves individuals having the right skills demanded by the job but able to undertake more technical tasks in line with their qualifications e.g. a Ph.D graduate in mathematics working as a research assistant. The second type refers to individuals who are over-qualified and mismatched at the same time e.g. a Ph.D graduate in mathematics working as an electrician.

Although in Malta unemployment among University or MCAST students is statistically insignificant, anecdotal evidence suggests that some students experience underemployment. While part of the problem may be due to a mismatch between the type of skills required and the education attained, it also transpires that the absence of enough work experiences leaves certain students at a disadvantage. For certain jobs, such as IT, employers would rather take on board experienced candidates. The Job Practice scheme would offer practical experience to students so that they would have a skills portfolio which would enhance their chances of being employed when they apply for a job commensurate with their area/level of study. An Employability Index would be carried out in order to identify which students are at high risk of experiencing underemployment due to significant job mismatching in relation to education attainment.

7.1.3 Career Review and Mobility

The duration of workers in the labour market is expected to increase as longevity increases. In line with this, retirement ages have been revised in many developed economies. Statutory retirement age in Malta has already been revised upwards to 62 years. During the coming years, the statutory retirement age will be revised for another three times. Although workers with a forty year social contribution would be able to retire with full pension rights, workers are choosing to stay active in the labour market beyond their statutory retirement age. Active ageing is also highly relevant in view of a shrinking workforce.

Countries such as Austria and Germany have started to deliver 'digital occupational maps' which help workers in strenuous work to find alternative employment which is less demanding past a certain

age. This transition helps such individuals to prolong their participation in the labour market without compromising their health requirements. In line with this, Malta will start looking at pilot projects through which workers exposed to strenuous work are supported to retrain themselves for different occupations requiring less physical effort. This in turn will help Malta raise the low employment ratio amongst old age workers whilst concurrently improving the standard of living of older workers.

7.2 Demand-side Initiatives for Disadvantaged Persons

7.2.1 Inmates

In line with the European Convention for the Protection of Human Rights and Fundamental Freedoms, education is a fundamental human right that cannot be denied to anyone including prisoners. Education and training is considered as a key pillar of the rehabilitative process of prisoners. Indeed education and training are not just meant to keep prisoners busy but rather serve as means of empowering prisoners who face social exclusion by addressing gaps in their learning and skills, change attitudes and perceptions as well as enhance employability prospects.

The European prison population sitting at circa 640,000 has a large proportion of low-skilled inmates. No exact figures are available. However, it is estimated that circa 3.0 to 5.0 per cent of European inmates have the qualifications to undertake higher education. Moreover, there is a high incidence of early school leaving amongst prisoners. The low level of education of inmates has negative implications on prisoners' employment prospects.

In line with the above, provision of basic education skills and vocational training should be top priority in the strategy towards the reintegration of inmates into society. Education and training should not be limited to lowly educated inmates. Indeed, a holistic approach to the education of inmates should provide opportunities to well educated inmates as well. A large majority of European countries (15 out of 20 including Cyprus, Greece, Hungary, Netherlands, UK-Scotland and UK-Wales amongst others) claimed that less than a quarter of prisoners participate in education and training. In Germany, between half and three quarters of inmates participate in education and training.

In line with the employment strategy outlined in this document, education and training of inmates in Malta should be considered as part of the nation-wide strategy of improving the quality of the workforce. This is in line with Europe's shift towards a knowledge-based economy.

7.2.1.1 Education and Training to Increase Employability Prospects

Initiatives to promote education and training to inmates vary amongst European Member States. Some prison systems offer vocational education alongside work activities whilst others consider vocational training as part of the prison education service. In Germany, the computer-recycling project (ECO-PC) is an exercise that allows female prisoners in Berlin and Brandenburg prisons to carry out on-the-job learning experiences and concurrently educated themselves in subjects such as IT basic skills, German and mathematics. Basic education eventually leads to a certificate. Moreover, exposure to on-the-job opportunities would enhance the prospects of inmates in engaging into the labour market on release.

In Luxembourg, Defi-Job, a non-profit organisation offers employment opportunities in the formal labour market as well as through sheltered workshops. The scheme is funded by the Ministries of Labour and Justice. Within this scheme, employees are granted an employment contract, are paid a minimum wage and are entitled to make social contributions.

7.2.1.2 Inmates in Malta

The following looks into the distribution of inmates according to various attributes. In line with Formosa (2013), fifty-eight per cent of inmates are between 21 and 30 years old. The second largest

category of inmates by age cohort is the 31-40-year-olds followed by the 41-50 and 16-20 age categories in that order. Only one per cent of inmates were over 50 years of age. From the research, it transpires that circa 31.7 per cent of inmates have two or less persons dependent on them. From an education perspective, most inmates attended school until 16 years of age. Moreover, most inmates (circa 65.0 per cent) do not have basic computing skills. When it comes to prospects to secure a job, 33.0 per cent of inmates claimed that they lacked preparation for a job interview (Formosa, 2013). In line with the above, various education and training schemes and initiatives will be introduced in Malta to promote the development of skills of inmates. This will not only contribute towards the enhancement of inmates' skills base but also promote higher employability prospects on release and reduce incidence of poverty.

7.2.2 Immigrants

The profiling of immigrants in Malta varies from lowly skilled persons to highly skilled individuals. From a social responsibility perspective, it is the Government's duty to respect the dignity of these persons by integrating them into society. From an economic perspective, given the current deficiencies within the Maltese labour market of an ageing workforce and a declining working age population it would be feasible to train and educate these persons in order to engage them into unfilled vacancies resulting from excess demand.

Currently, the majority of migrants who work are employed through the black market across manual sectors such as construction. This allows for exploitation of such workers who usually get paid a meagre compensation for their work. In turn, this leaves jobseekers in the formal market at a disadvantage. In reaction to this, various initiatives are underway to train and educate migrants. Through these initiatives, migrants would be recruited through the formal market to fill up unfilled vacancies. Moreover, this would mitigate the extent of underground employment and its consequences on the formal labour market. From a macroeconomic perspective, these initiatives would counter the declining working age population of Malta as well as reduce the ageing factor.

7.3 Supply-side initiatives

7.3.1 Activation of Long-Term Dependants on Social Benefits or Inactive

Making work pay is one of the flagships of the employment policy. It is only through work that poverty can be addressed and mitigated. Long-term dependency on social benefits will only increase the likelihood of at-risk-of-poverty. Measures such as tapering of social benefits and the eventual introduction of in-work benefits would further strengthen the concept that work pays. In addition to this, with the signing of the Jobs+⁹ agreement, all political parties and social partners committed themselves to work in this direction.

Given the right incentives, a good number of social benefit beneficiaries and inactive persons will be encouraged to take up a job. However, the majority of beneficiaries would be too far from the labour market in terms of experience and skills, which makes it difficult to find employment. To remedy such a situation, it is imperative that such persons receive the basic soft skills and training required to make them more employable especially females aged 40 years and over.

7.3.2 Work Trial Scheme

Not all unemployed persons are distant from the labour market. Some individuals may require a small intervention to re-engage them into the labour market. Hence it would be a waste of resources to allocate wage subsidisation across the board. As in the past, the Work Trial Scheme (WTS) is intended to offer a short period of work experience to individuals who have not been unemployed for long and who are in possession of skills to enter or re-enter into the labour market. Through such a scheme, the employer would benefit from the equivalent of half of the minimum wage. Back to when it was launched in 2009, the success rate for WTC was 45.4 per cent (PQ 32444, 2012).

⁹Jobs+ is an initiative where social partners and representatives of the political parties are entrusted with the task of advising and co-ordinating with Government issues relating to the labour market. Such initiatives are discussed within the Active Labour Market Counselling and Action Committee.

7.3.3 Traineeship and Apprenticeship Schemes

A renewed initiative taken on board by the European Union to curb youth unemployment is the quality of traineeships and apprenticeships. Apprenticeship and Traineeship schemes facilitate the transition from education to employment. In addition, such schemes provide a skilled labour force that is relevant to labour market demand. Malta will participate in the European Alliance for Apprenticeships to develop high quality apprenticeship-type training and excellence in work-based learning in VET, and is committed to promote national partnerships for dual learning.

MCAST as the main provider of Vocational Educational and Training is taking the lead together with the employers to develop the educational component that will thereafter be linked to apprenticeship and traineeship schemes. The challenge is that the employers' needs are so diverse that a large number of courses are required to address all the needs of the markets.

The other challenge to deliver good quality apprenticeship and traineeships is the availability of placements within firms. During recent months, through the Jobs+ initiative, a series of meetings were held with employers to rally enough support for placements. Results were encouraging as a good number of employers promised their support.

7.3.4 Tapping Future Demand

As outlined in Chapter 2, the Maltese labour market is generating a number of employment opportunities that are not being filled by nationals due to the incompatibility or lack of skills. To meet the shortfall in supply, employers have no choice but to employ foreign workers which comes at a considerable expense. In addition to this, employers tend to experience a high turnover of labour as foreigners tend to be very mobile.

In order to address this shortcoming, the government will allocate funds for the training of highly specialised workers that are required by specific sectors. Moreover, the government intends to work with particular sectors that are experiencing substantial supply shortages of skilled labour to develop the right training paths that will serve to upgrade the skills of current and future workers. As per Say's law, an adequate supply of skilled workers will create its own demand. A substantial number of employers would like to expand their current operations but are hindered by the lack of supply of highly skilled workers. This initiative is expected to create a number of job opportunities that are waiting to be exploited.

7.3.5 Investing in Skills

Upgrading the human capital element of the entire workforce is one of the biggest challenges ahead. As explained in the previous chapters human capital is also essential to enhance the productivity of physical capital. Concurrently, it results that the amount of money spent on training per employee in Malta is not enough. If this trend persists, Malta will not manage to hasten its convergence rate with other Member States.

In order to ensure that firms have the necessary resources to invest in training, the government intends to allocate a sizeable part of the European Social Fund money towards the training of workers. Similar to the EAP, if annual demand exceeds the availability of money, limits will be imposed in order to ensure that funding lasts throughout the entire programming period (2013-2020) and more importantly that it is well spent. It must be ensured that these funds are spent to enhance the productivity of workers or increase employability prospects in cases of high risk of redundancy.

7.3.6 Training Pays

The previous administration introduced the Average Wage Earners Scheme where individuals earning less than €300 per week are eligible to receive a grant if they undergo training. For a person to receive the financial grant he or she must attend for a minimum of 4 hours of training per week organized by the Employment and Training Corporation (ETC).

Unfortunately, such a scheme did not attract many trainees. Among the reasons for the low take up is the low allowance, which translates into circa €2 per hour of training. This is not enough to cover the opportunity cost to work when the minimum wage is in excess of €4 an hour. Workers in low paid jobs face a high opportunity cost to take on training. This may be a result of high discounting, where present income is preferred to income derived from future investment. To reduce the opportunity cost for such workers, individuals who participate in relevant training sessions will benefit from an allowance equivalent to the net minimum wage rate per hour.

Key Points – Chapter 7

- During the programming period 2007-2013, the EAP had an element of deadweight loss, i.e. the beneficiaries would have found employment even in the absence of the subsidy. In future, the eligibility criteria will be better defined to minimise the deadweight element.
- The Job Practice scheme will offer practical experience to students such that they are awarded a skills portfolio. The Employability Index will identify which students are at high risk of experiencing underemployment due to significant job mismatching in relation to education attainment.
- Malta will start looking at pilot projects where ageing workers exposed to arduous work are supported to retrain themselves for different occupations requiring less physical effort. This in turn will help Malta raise the low employment ratio amongst old age workers whilst concurrently improving the standard of living of the older by remaining active for longer.
- As in the past, the Work Trial Scheme shall offer a short period of work experience to individuals who have not been unemployed for long and who are in possession of skills to enter or re-enter into the labour market. Through such a scheme, the employer would benefit from the equivalent of half of the minimum wage.
- The government will allocate funds for the training of highly specialised workers that are required by specific sectors. Moreover, the government intends to work with particular sectors that are experiencing substantial supply shortages of skilled labour to develop the right training paths that will serve to upgrade the skills of current and future workers.
- Previous training schemes (e.g. Average Wage Earners Scheme) did not attract many participants due to a low hourly allowance of €2 as opposed to the minimum wage which is in excess of €4 an hour. To reduce the opportunity cost for workers on minimum pay, individuals who participate in relevant training sessions will benefit from an allowance equivalent to the net minimum wage rate per hour.

08

INITIATIVES TO PROMOTE FEMALE EMPLOYMENT

8.0 Overview

Gender pay gap is the variance between men's and women's pay based on the average difference in gross hourly earnings of all employees. In the EU, the gender pay gap is 16.0 per cent favourable to male employees. The gender pay gap phenomenon differs across the EU. It is below 8.0 per cent in Slovenia, Poland, Italy, Luxembourg and Romania but wider than 20.0 per cent in countries like Austria, Czech Republic, Estonia, Germany, Greece and Finland (Eurostat, 2014f).

On average, the overall gender pay gap has gradually diminished over the years. However, it has actually widened in some countries (e.g. Latvia and Portugal). The gender pay gap does not reflect a deficit in the know-how/skills of women as opposed to that of men. Indeed, when it comes to know-how/skills, women do better at school and university than men. On average, 2011 figures illustrate that 82 per cent of women reach at least upper secondary school education in the EU as opposed to 77.0 per cent in the case of men. Moreover, women account for 60.0 per cent of total university graduates in the EU (Eurostat, 2014a).

The overall implication of the gender pay gap phenomenon is that women earn less over their lifetime than men, leading to lower pensions and a higher risk of poverty. In fact, 23.0 per cent of women aged 65 and over were at risk of poverty as opposed to 17.0 per cent of men in 2011 (Eurostat, 2014c). Women are the majority part-time workers in the EU at 32.1 per cent as opposed to 9.0 per cent in the case of men. In turn, this has negative implications on career progression, training opportunities, pension rights and unemployment benefits for women.

8.1 Key Factors leading to Gender Employment Gap

The gender employment gap is caused by a number of interrelated factors that are discussed below.

8.1.1 Gender Pay Gap

In some instances, despite the fact that both women and men carry out the same work load or work of equal value, they are not paid the same wages. This is often referred to as 'direct discrimination' where women are treated less favourably than men. This may also arise due to a policy/practice that is not designed to discriminate, however ends up leading to unequal treatment between men and women. Methods of rewarding employees (e.g. bonuses, allowances) and the structure of pay systems can lead to different rates of remuneration for females and males.

8.1.2 Different jobs and sectors

At times, the gender pay gap reflects differing jobs and often sectors between men and women. In the health and social work sector, women make up 80.0 per cent of all workers. Sectors involving higher participation of women have lower wages than sectors dominated by men. Women usually bear the burden of unpaid work and childcare. Consequently, they tend to work shorter hours. Moreover, the female gender is generally employed in jobs/sectors that are compatible with family responsibilities.

8.1.3 Workplace practices

Workplace practices such as access to jobs, career development and training may in reality accelerate the gender employment gap. Inactivity of women and gender gaps may arise from historical and cultural factors that influence recruitment practices, setting of wages and career mobility; thus leading to a glass ceiling effect, preventing women from reaching top positions.

8.1.4 Undervalued work and skills of women

Women's skills tend to be undervalued, especially in cases where they are in the majority. For instance, a female cashier in a supermarket earns less than a male working in the stockroom. As women are in the majority within a small number of occupations they receive lower compensation. However, this does not hold true in the case of men as the more they dominate an occupation, the higher their pay. There are instances where women's skills are often undervalued as they are seen to reflect their 'female' characteristics rather than acquired skills and competences. This leads to a gender bias in the setting of wages and assessment of the work that women do.

8.1.5 Few women in senior and leadership positions

The role of women in senior and leadership positions is to this day under-represented. This spans across politics and the economy, scientists and engineers. Indeed only 32.0 per cent of European scientists and engineers are women. The under-representation of women in senior positions also holds true across sectors dominated by women. Women account for 15.8 per cent of board members and 3.3 per cent of the chairs of boards in the biggest publicly-listed companies in the EU.

8.1.6 Gender roles and traditions

Traditions could have an impact on gender roles and the choice of educational paths taken by young men and woman. Women in senior positions in typically 'feminine' careers are paid substantially less than women working at the top in typical 'masculine' careers.

8.1.7 Balancing work and family responsibilities

The gender pay gap is more pronounced when women have children and have to work part-time. Women tend to spend more time carrying out domestic and care work whilst the proportion of men availing from parental leave or working part-time is in the minority. Although men spend longer hours than women in the workplace, the combined working hours of women (both paid and unpaid) is significantly longer.

8.2 Benefits of Closing the Gender Employment Gap

Accurate treatment of the gender employment gap would yield greater equality between sexes and eventually lead to economic and social benefits. Indeed, efforts to close the gender employment gap help reduce poverty levels of women during their working lives as well as in their retirement.

It is in the interest of efficient companies to attract the best talent. Equality at work is essential to create quality jobs and a larger pool of human resources to choose from. Women have skills and talents that are often under-utilised at the workplace. Employers can benefit from using women's talents and skills more effectively, e.g. valuing women's skills and introducing policies on work-life balance, training and career development. In turn, this leads to a positive working environment that helps a business attract customers and improve performance. Another benefit arising from equal treatment of employees whatever their gender is that employers avoid complaints on discrimination and unfair work practices. This in turn minimises time and money spent on complaints and any other subsequent litigation.

8.3 Gender Employment Gap Initiatives in Malta

Over the years (2008-2011), Malta has successfully narrowed the gender pay gap by 3.2 per cent. This compares with the EU average registering a drop of 1.1 per cent over the same period. Presently, Malta has the third lowest gender pay gaps in the EU at 6.0 per cent (Eurostat, 2014f).

One major determinant of the pay gap in Malta arises from costs associated with maternity for women. As a result of this, figures show that only 900 women remain in employment with the private sector. Another 1,100 remain in the public sector as a result of more flexible conditions such as reduced hours of work (Caruana et al., 2011). The low propensity of women remaining in employment when having children hinders career progression and wage development as opposed to males.

Currently, the employer bears most of the cost of maternity leave. The state subsidises four weeks of maternity leave out of a total of eighteen weeks. The maternity leave costs the employer 27.0 per cent of the wage bill for every mother-to-be. In reaction to this, it is being proposed to raise the yearly social security contribution payable by the employer for each employee – males and females. The excess inflow of social security contribution shall be allocated towards the provision of maternity leave for women. The end result of this initiative would be spreading the cost of having children across all sectors of the economy between both genders. In turn this should curb down gender discrimination related to having children, allow for equal opportunities of career progression and reduce further the gender gap.

The following analysis focuses on the dynamics of employment of women having children. The analysis takes into consideration female occupations across all economic sectors. Figure 8.1 compares the extent of women¹⁰ that change jobs when giving birth (Drifters) as opposed to women retaining the same career with the same employer (Career).

¹⁰ By number of births.

AVERAGE NUMBER OF BIRTHS (1996-2009)

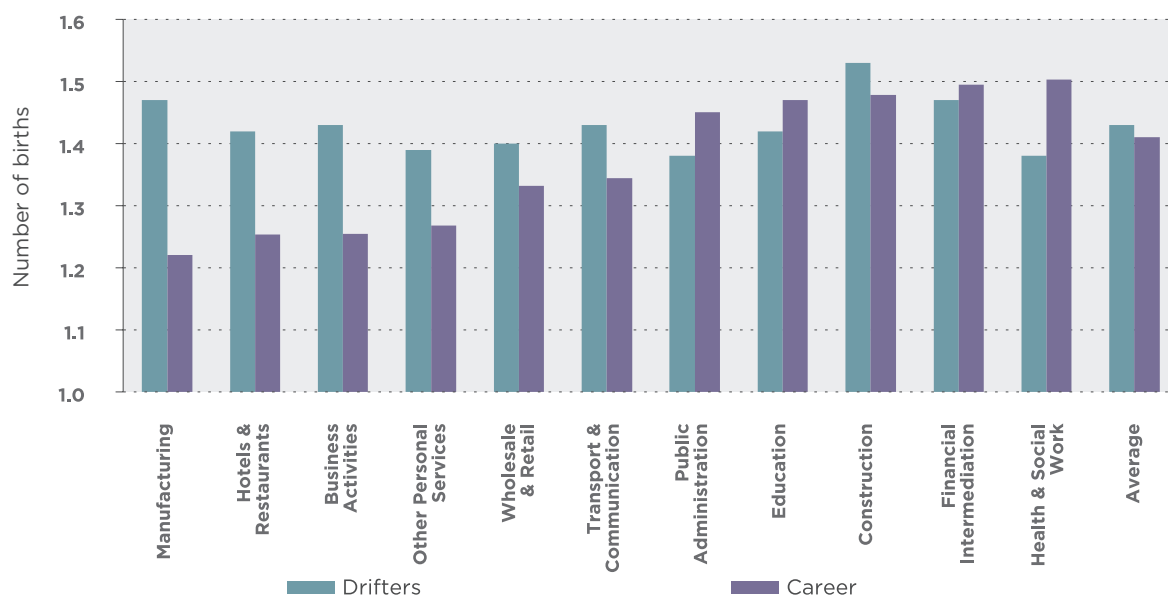


Figure 8.1 Average Number of Births (1996-2009) - Drifters & Careers

As shown in figure 8.1, the propensity of drifters tends to be higher across sectors involving low skills such as manufacturing (1.47), hotels & restaurants (1.42) and business activities (1.43) amongst others. The propensity of drifters within the financial intermediation sector (1.47) is lower than women who retain their current career (1.5). This is also true for women working in the education sector (1.42: drifters & 1.47: careers). The flexibility of the public sector is reflected by the small number registered for drifters (1.38) & career (1.45). On average, the value pertaining to drifters (1.43) exceeds that for careers (1.41). This implies that a higher share of women in Malta have to change their current employment after giving birth.

It must be highlighted that drifters involve two categories. On one side, the term 'drifters' involves females who have to change jobs before giving birth as a result of unfair treatment from the employer. On the other hand, drifters may be able to retain their current job and shift jobs soon after giving birth in order to juggle child rearing and occupation.

Figure 8.2 focuses on the 'drifters' category showing the extent of drifters remaining in employment during birth as opposed to drifters who give up work. As shown, on average 77.1 per cent of drifters in Malta give up their current job before giving birth. Again, sectors that involve low skills such as wholesale and retail (85.4 per cent) and hotels and restaurants (82.2 per cent) registered higher shares of women who give up work before birth. High value added sectors such as Financial intermediation (51.0 per cent) and flexible sectors such as Education (59.2 per cent) and Public Administration (53.4 per cent) registered much lower shares of drifters leaving work before giving birth.

DRIFTERS IN EMPLOYMENT PRE/POST BIRTH - BY NACE

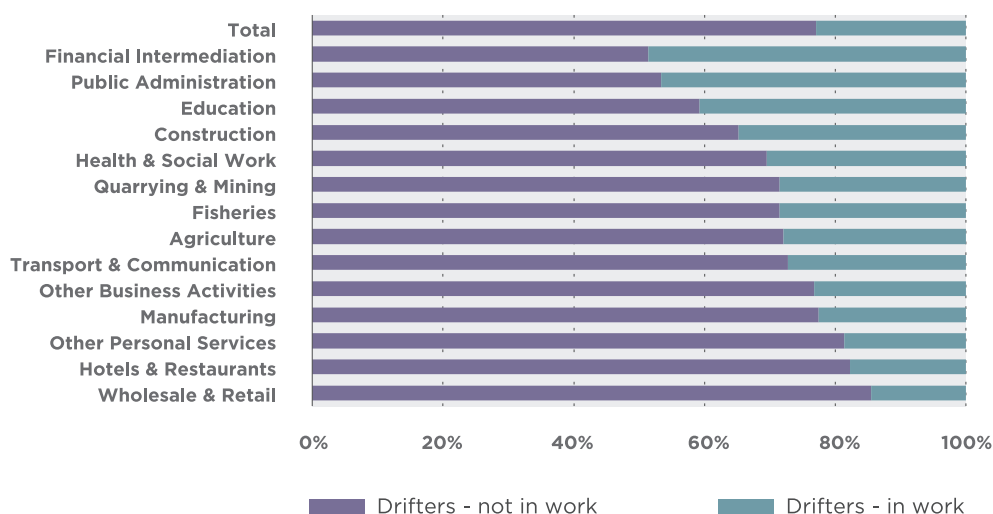


Figure 8.2 *Drifters (In work & Not In Work) - By Sector*

Figure 8.3 represents the equivalent information as in figure 8.2 by occupation. It is clear that more women retain their current jobs in occupations involving medium to high skills e.g. professionals (31.6 per cent), technicians and associated professionals (30.0 per cent), legislators, senior officials and managers (28.9 per cent). Conversely, the share of women in employment before birth e.g. elementary occupations (12.4 per cent) is much lower. As indicated by the average value for drifters not in work, 8 out of 10 women giving birth would have already given up their career before giving birth. In all, the propensity of drifters not in employment prior to having the child is high across all occupations.

DRIFTERS IN EMPLOYMENT PRE/POST BIRTH - BY NACE

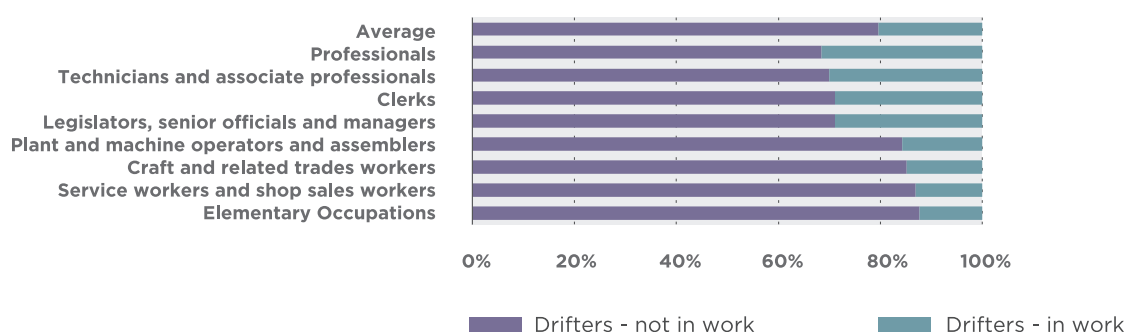


Figure 8.3 *Drifters (In work & Not In Work) - By Occupation*

Figure 8.4 illustrates the share of women who give up employment to give birth but who return to work after 1 year, 2 years and 3 years. As shown, the majority of women who give birth opt to take a maximum of three years out of work whilst the minority of women get back to work after one year. The highest share of women returning to work after giving birth is in the plant and machine operators and assemblers segment (1 year – 17.5 per cent, 2 years 34.8 per cent, 3 years 46.9 per cent). On average, 66.5 per cent of women who give birth return to work after 1, 2 or 3 years (Caruana et al., 2011). This shows that drifters do not give up their current occupation on their own willingness. Indeed, it is rather the case that employers tend to make it difficult for women to retain their current job.

ENTRANCE IN THE LABOUR MARKET AFTER GIVING FIRST BIRTH

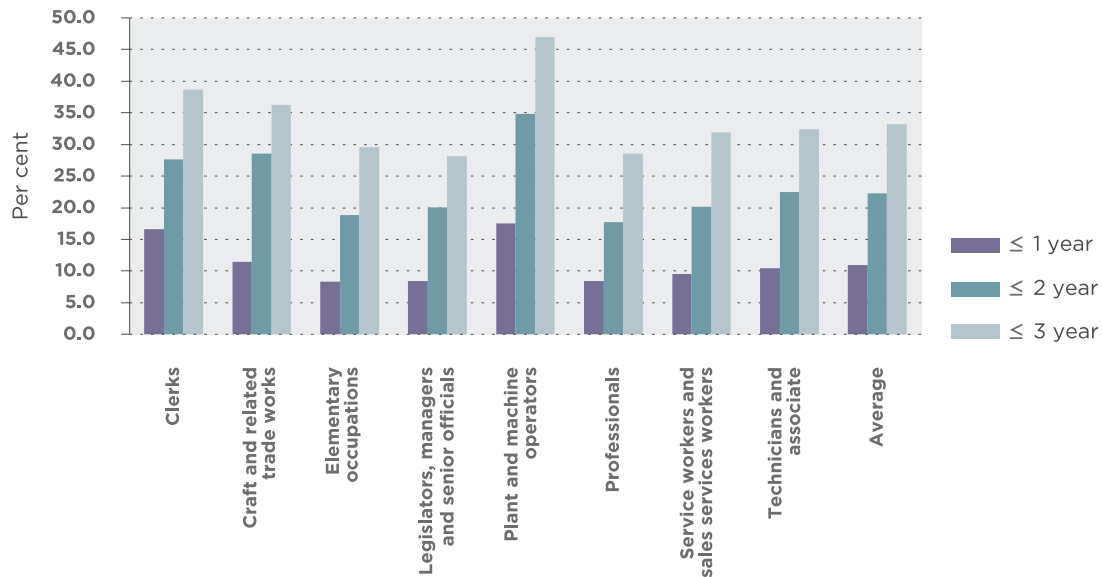


Figure 8.4 Re-entry into the Labour Market Post Birth

Diagram 8.5 shows the duration of women in their first job after giving first birth. As highlighted earlier, the term 'drifters' includes women who give up their occupation after giving birth. In line with the diagram, it is shown that women employed in low skill occupations tend to give up their current job much before women employed in medium to high skill occupations. For instance, women in elementary occupations, plant and machine operators and service workers give up their job circa one to two years only after giving birth respectively. In contrast legislators, professionals, technicians and legislators do so after two and a half to three years in that order.

DURATION IN FIRST JOB AFTER GIVING FIRST BIRTH

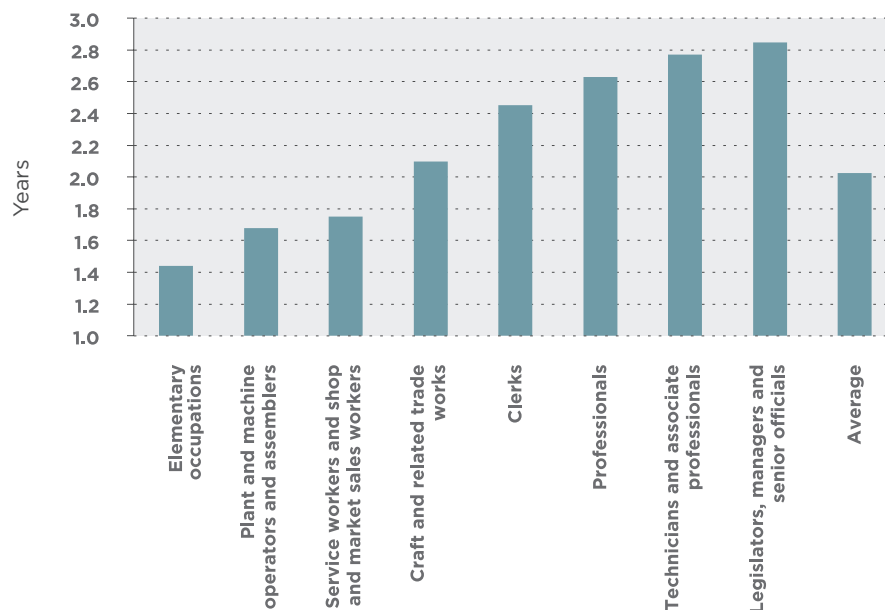


Figure 8.5 Duration in First Job Post First Birth

As mentioned in chapter 6, in order to reduce the propensity of drifters post birth to children, a series of initiatives were introduced to promote women with children to re-enter or remain engaged in employment. These include free childcare support services for working parents, breakfast clubs for children and after-school hours care services (Klabb 3-16).

8.4 Flexibility Initiatives

Flexible work initiatives go beyond employment on a part time basis. Other initiatives promoting flexibility involve job sharing, flexible hours, compressed hours, flexible start and finish times, term time work and working from home amongst others.

Flexibility in the workplace is usually treated as a form of 'benefit' granted from an employer to an employee. However, flexible working opportunities are good for both the employer and the employee. From an employee's point of view, flexibility allows for the organisation of work schedules in line with family and childcare responsibilities. This is especially relevant to single parents raising children. Flexibility initiatives make it easier for an employee to remain engaged in work and not rely on benefits.

From an employer's perspective, flexible working opportunities help in retaining experienced and skilled staff. As a result of flexible initiatives, workers tend to be happier at their workplace. Retention of highly skilled workers that are happily engaged into employment translates into productivity gains for an employer. Moreover, a flexible workforce is able to adjust to unexpected shocks more rapidly at a lower cost. Retention of skilled and non-skilled employees through flexible initiatives is highly relevant in Malta as the costs of hiring and firing are high. This has already been highlighted in chapter 2 (Labour Demand) where employers have expressed difficulty in recruiting skilled/non-skilled workers.

8.5 Flexibility Measures in Malta

8.5.1 Flexibility Measures - Public Sector

In Malta Government is committed towards the establishment of enabling environments that facilitate the reconciliation of family and work across the Public Administration. In the last years, a number of family-friendly policies have been adopted to encourage healthier work environments, as well as a better quality of life and increased productivity in the workplace. Research conducted by the Directorate within the Public Administration HR Office (PAHRO) indicates that between 2010 and 2012, family-friendly utilisation in the public service amounted to 10,699, whereas family-friendly utilisation in the public sector in the same reference period amounted to 5,028. This means that there were a total of 15,727 utilisations of family-friendly measures, out of which 87.0 per cent were females and 13.0 per cent were males.

8.5.2 Flexibility Measures - Private Sector

The private sector recognises that the adoption of flexible working measures is instrumental in the current socio-economic context. To this effect, the Malta Business Bureau has created the SHIFT (Supporting Human Resources in Family-Friendly Training) project, which was an initiative aimed at supporting its members and local businesses to manage a healthy workplace through the implementation of family friendly measures. The findings (MBB, 2012) indicate that when asked about the concept of flexible work and family friendly measures, the majority of respondents associated positive attributes linked with flexible work and family friendly measures, with the majority choosing the phrases 'an opportunity to shift towards better work life balance' and 'a possibility to retain trained staff'.

The findings (MBB, 2012) also reveal that amongst Small Enterprises (10 to 49 employees) and

Large Enterprises (250+ employees) the main focus was on the notion that flexible work and family friendly measures allows a shift to better work life balance (33.3% Small Enterprises and 36.8% Large Enterprises). In the Medium Enterprises, 45.5% associated more with the possibility to retain trained staff.

The study also indicated that the majority of respondents did not agree that family friendly measures need to be implemented mostly in companies having a majority of female workers. More than half of the respondents (60.3%) claimed that flexible work and family friendly measures should be made to all members of staff. The most common family-friendly measure offered amongst respondents was reduced hours, followed by flexible hours and teleworking/working from home.

Most respondents reported benefits relating to higher levels of employee motivation and engagement and improved employee loyalty/retention. On the other hand, one challenge includes the aspect relating to the inability to implement a uniform measure across the board and thus having to act on a case-by-case basis. On a positive note, 17.6% of respondents claimed there were no main difficulties in implementing flexible work and family friendly measures. Moreover, 26.5% claimed that they experienced no other difficulty in the implementation phase (MBB, 2012).

In the coming years, the government will be involving social partners to highlight successful cases of work flexibility amongst employers. The aim of this initiative is to promote the benefits of introducing flexible measures amongst employers.

Key Points – Chapter 8

- Over the years (2008-2011), Malta has successfully narrowed the gender pay gap by 3.2 percentage points. This compares well with the EU average registering a drop of 1.1 percentage points over the same period. Presently, Malta has the third lowest gender pay gaps in the EU at 6.0 per cent.
- It is being proposed that the yearly social security contribution payable by the employer for both male and female employees, is raised. The excess inflow of social security contribution shall be allocated towards the provision of maternity leave for women. The end result of this initiative would be spreading the cost of having children across all sectors of the economy between both genders. In turn this should curb down gender discrimination related to having children, allow for equal opportunities of career progression and reduce further the gender gap.
- On average, the majority of women in Malta have to change their current employment before or after giving birth. The propensity of drifters tends to be higher across sectors involving low skills such as manufacturing, hotels and restaurants and business activities amongst others. The propensity of drifters within the financial intermediation sector is lower than women who retain their current career.
- On average 77.1 per cent of drifters in Malta give up their current job before giving birth. Sectors that involve low skills such as wholesale and retail (85.4 per cent) and hotels and restaurants (82.2 per cent) registered higher shares of women who give up work before birth. High value added sectors such as Financial intermediation (51.0 per cent) and flexible sectors such as Education (59.2 per cent) and Public Administration (53.4 per cent) registered much lower shares of drifters leaving work before giving birth.
- On average, 66.5 per cent of women who give birth return to work after 1, 2 or 3 years.
- Government will be involving social partners to highlight successful cases of work flexibility amongst employers. The aim of this initiative is to promote the benefits of introducing flexible measures amongst employers.

09

INITIATIVES FOR YOUTHS

9.0 Youth Unemployment and NEETs in Malta

Disengagement from education and employment of youths is a phenomenon that reduces prospects for sustainable employment and consequently raises the chances of being at-risk-of-poverty. Unlike fellow Member States, Malta did not fully experience the direct repercussions from the financial crisis. The resilient nature of the Maltese economy to the financial crisis is reflected through a 'moderate' rate of unemployment relative to other Member States that peaked at 7.0 per cent during the recession.

As shown in figure 9.1, the volume of locally unemployed youths at the peak of the recession (2009) was at circa 4,300 persons. By 2012, youth unemployment dropped to circa 4,100 persons. Despite the drop in youth unemployment, Malta's Not in Employment, Education or Training (NEET) rate grew from 9.8 per cent in 2009 to 11.1 per cent in 2011 reflecting an increase in the number of inactive youths. In volumes, NEETs increased from 1,400 in 2009 to 2,200 in 2012 (Eurostat, 2014a).

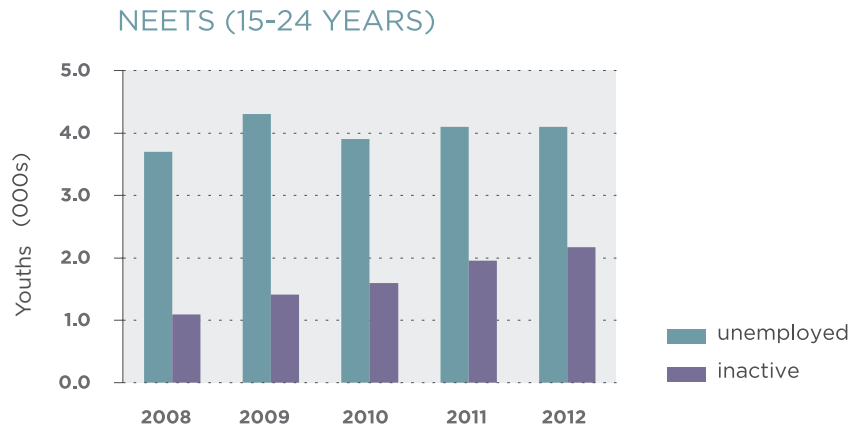


Figure 9.1 NEETs - Unemployment and Inactivity

As highlighted in figure 9.2, Eurostat figures show that in 2012, 11.1 per cent of Maltese within 15-24 age cohort were NEETs. This is 2.0 percentage points below the EU28 average. Youth unemployment in Malta for the same age cohort was at 14.0 per cent, 9.0 percentage points below the EU28 average. Moreover, Eurostat figures confirm that Malta had the tenth lowest NEET rate and fifth lowest youth unemployment rate in 2012 when compared to other European Member States (Eurostat, 2014g).

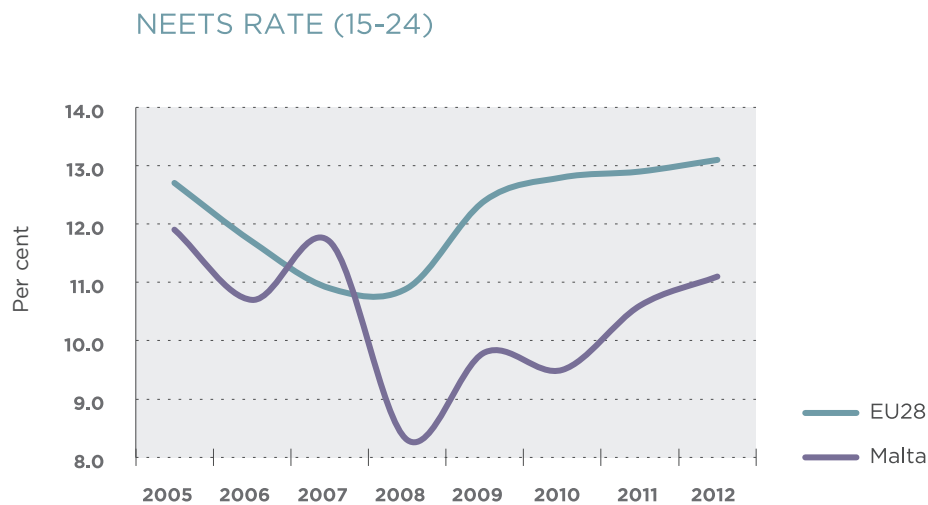


Figure 9.2 NEETs Rate (15-24) - Malta & EU28

9.1 Understanding the Phenomenon behind NEETs

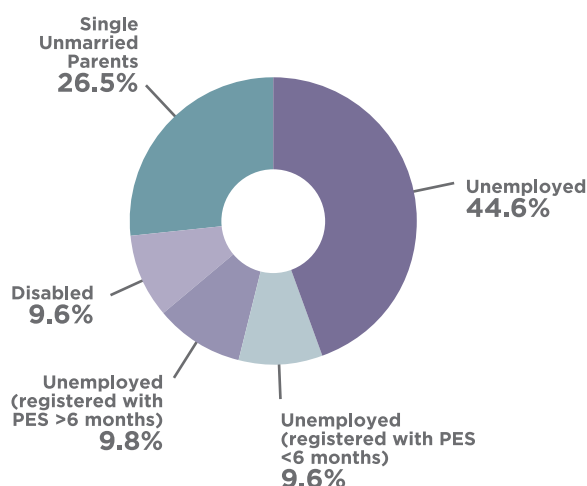
Eurostat figures demonstrate that two thirds of NEETs in Malta hold an education level of ISCED level 2 at best. In relative terms, this ranks Malta at the top of the EU, only second to Spain, when it comes to the concentration of NEETs with a low level of education. In Malta, unemployment levels of youths with a level of education of ISCED level 3 or higher are too low to allow for a reliable sample. Indeed, this substantiates that the phenomenon of NEETs in Malta occurs as a result of poor level of education. This point is also reflected by the high rate (34.1 per cent) of citizens aged between 25-29 years of age in Malta with an ISCED level 2 level of education at maximum (Eurostat, 2014g). In line with the initiatives described further on in this section, the aim of the Youth Guarantee is to provide a second chance of education to individuals with a low level of education. This measure is fundamental to the enhancement of employability prospects of NEETs.

9.2 The Road Ahead – Addressing NEETs

The Ministry for Education and Employment (MEDE) is responsible for the Youth Guarantee Implementation Plan. Over the past months, the Ministry has been collating administrative data to profile youths falling in this category. Data extracted from the unemployment register, social benefit register and the Labour Force Survey provided detailed information on NEETs in Malta. Figure 9.3 below illustrates five distinct categories of NEETs.

NEETS BREAKDOWN (15-24)

Figure 9.3
*Profiling of NEETs
in Malta*



The following information sheds some light on each of the five target groups classified as NEETs.

- Target Group 1 consists of single unmarried parents who are rearing a child. Almost all of single unmarried parents are females. Beneficiaries receive social assistance without any training or work requirements. Although technically social assistance lasts until the child or children are 23 years of age and thereafter, beneficiaries are required to start looking for work, this does not happen in the majority of the cases. Hence, single unmarried parents can remain on benefits for life.
- Target Group 2 consists of disabled youths who are in receipt of a disability pension.
- Target Group 3 consists of unemployed youths who have been registering with the Public Employment Service for more than 6 months. These youths are in receipt of unemployment assistance. Although such beneficiaries are obliged to search for work, the benefit carries no lifetime limit. Individuals have to be head of households to be eligible to receive such benefit.
- Target Group 4 consists of unemployed youths who have been registering with the Public Employment Service for less than 6 months. Most of these youths had previous work experience. This type of unemployment is more of the frictional type.
- Target Group 5 consists of youths who are captured in the Labour Force Survey but do not feature in any type of administrative register. Youths within this category report that they are looking for work which may be true. However, it may also be the case that they are not interested in working or they are working in the informal economy.

9.3 Value Added of Youth Guarantee

MEDE is in the process of delivering a number of services focused on reducing NEETs through the Youth Inc. run by the National Youth Agency and the Foundation courses at MCAST. For the first time,

NEETs are profiled and addressed accordingly. Profiling allows for tailor-made and effective measures and initiatives. As already shown in figure 9.3, unemployed youths not registered with the Public Employment Services (ETC) account for the majority of NEETs. Consequently, as discussed further on in this document, a series of concrete measures will be launched to address this particular target group. Moreover, given the high correlation between NEETs and the high rate of early school leavers, initiatives promoting vocational education shall be directed towards youths at risk of becoming early school leavers. MEDE is also actively working on a number of additional initiatives¹¹ aimed at reducing the inflow of NEETs.

9.4 Specific Measures Under the YGIP

As portrayed in figure 9.3, the NEETs category is diverse, therefore requiring various initiatives aimed towards each category. In this section however, reference is made to initiatives that in particular will address unemployed youths, i.e. target groups 4 and 5. Measures targeting groups 1 and 3 are addressed in more detail in the in-work benefits and labour market initiatives chapters. Measures addressing disabled youths are dealt with chapter 11.

As outlined in figure 9.4, Malta has the third lowest number of youths registering with the Public Employment Services provider (ETC), (Author's calculations). This phenomenon occurs as a result of either of the following: ineligibility for social benefits, dissatisfaction with PES, involvement in undeclared work activities, youths with social problems that make it even more difficult to work or simply lack of interest to find work. In line with figure 8.4, only 3 out of every 10 youths are currently registering with ETC. Currently no information is available for the remaining youths. Given that this group represents a substantial segment of the NEETs, Government is committed to get some clarity about this group and understand the major causes preventing the group from entering into the labour market or in education. With the help of administrative data, government intends to map out where these youths are and what they are doing in order to come up with a tailor made plan according to their specific needs. This initiative will be financed by the European Social Fund.



Figure 9.4 Registered Unemployed as a Share of LFS Unemployment (15-24)

Those youths who accept Government intervention together with registered unemployed youths shall be provided with personal action plans and training courses to enhance their soft skills and employability. Through Jobs+, a series of ESF funded projects will be launched towards NEETs. NEETs will be individually profiled by experts and will receive thirty hours of direct contact with a youth worker and another ninety hours of training intervention that will consist of motivation and behaviour,

¹¹ Alternative Learning Programme is a vocational training programme offered to those students who at the beginning of Form 5 have been identified by the guidance teachers as not intending to sit for the Secondary Education Certificate (SEC) examination. Other initiatives consist of revision classes to students who fail to achieve the required grades to further their studies.

labour market orientation sessions (including guidance on employment), CV writing and interview skills, and communication skills. Training will be offered over a span of six weeks. Thereafter, youths will be offered the opportunity to benefit from twelve weeks of work exposure. During these twelve weeks youths will be entitled to a stipend equal to the minimum wage rate. Others will be encouraged to read for vocational education at MCAST.

In order to minimise the incidence of dead-weight loss, unemployed youths who are not so distant from the labour market (target group 4) will be offered different schemes as opposed to NEETs. Accordingly, candidates will be offered the opportunity to make use of the Work Trial Scheme. As already highlighted in chapter 7, the work trial scheme provides temporary work experiences to individuals who are already in possession of skills and have been unemployed for a limited period of time.

Not all unemployed persons are distant from the labour market. Some individuals may require a small intervention to re-engage them into the labour market. Hence it would be a waste of resources to allocate wage subsidisation across the board. As in the past, the Work Trial Scheme is intended to offer a short period of work experience to individuals who have not been unemployed for long and who are in possession of skills to enter or re-enter into the labour market. Through such a scheme, the employer would benefit from the equivalent of half of the minimum wage.

Youths who have potential and would like to pursue a career shall be encouraged to enter into vocational education and take an apprenticeship course. MCAST remains the main provider of Vocational Educational and Training. Moreover, MCAST will be involved with employers in the development of courses along the apprenticeship and traineeship routes. In line with the Jobs+ initiative, placements will be provided for such candidates.

9.5 Treating the Social Aspect of NEETs

At times, NEETs come from vulnerable social backgrounds which problems that make it even harder for young individuals to involve themselves in education or employment. In line with the National Youth Employment Strategy, MEDE will be involved with the respective authorities to grant assistance to young people coming from vulnerable social backgrounds. Support services will be provided from professionals specialised in the social development field.

Key Points – Chapter 9

- The volume of locally unemployed youths at the peak of the recession (2009) was at circa 4,300 persons, dropping to circa 4,100 persons by 2012. Despite the drop in youth unemployment, Malta's Not in Employment, Education or Training (NEET) grew from 1,400 in 2009 to 2,200 in 2012.
- Eurostat figures indicate that in 2012, 11.1 per cent of Maltese within 15-24 age cohort were NEETs. This is 2.0 percentage points below the EU28 average. Youth unemployment in Malta for the same age cohort was at 14.0 per cent, 9.0 percentage points below the EU28 average. Moreover, Eurostat figures confirm that Malta had the tenth lowest NEET rate and fifth lowest youth unemployment rate in 2012 when compared to other European Member States.
- Eurostat figures highlight the fact that two thirds of NEETs in Malta hold an education level of ISCED level 2 at best. In relative terms, this ranks Malta at the top of the EU, only second to Spain, when it comes to the concentration of NEETs with a low level of education. In Malta, unemployment levels of youths with a level of education of ISCED level 3 or higher are too low to allow for a reliable sample. Indeed, this substantiates that the phenomenon of NEETs in Malta occurs as a result of poor level of education.

- Youths shall be provided with personal action plans and training courses to enhance their soft skills and employability. Training will be offered over a span of six weeks. Thereafter, youths will be offered the opportunity to benefit from twelve weeks of work exposure. During these twelve weeks youths will be entitled to a stipend equal to the minimum wage rate. Others will be encouraged to read for vocational education at MCAST.
- In order to minimise the incidence of dead-weight loss, unemployed youths who are not so distant from the labour market (target group 4) will be offered different schemes as opposed to NEETs. Accordingly, candidates will be offered the opportunity to make use of the Work Trial Scheme. The work trial scheme provides temporary work experiences to individuals who are already in possession of skills and have been unemployed for a limited period of time.
- Youths who have potential and would like pursue a career shall be encouraged to enter into vocational education and take an apprenticeship course. MCAST remains the main provider of Vocational Educational and Training. Moreover, MCAST will be involved with employers in the development of courses along the apprenticeship and traineeship routes. In line with the Jobs+ initiative, placements will be provided for such candidates.
- At times, NEETs come from vulnerable social backgrounds which make it even harder for young individuals to involve themselves in education or employment. In line with the National Youth Employment Strategy, the Ministry for Education and Employment will be involved with the respective authorities to grant assistance to young people coming from vulnerable social backgrounds. Support services will be provided from professionals specialised in the social development field.

10

AN AGEING MALTESE POPULATION

10.0 Overview

Over the past three decades, the Maltese demography has been going through an evolution with shrinking fertility rates and consistently improving life expectancy rates. Consequently, the demographic distribution has shifted from a traditional pyramidal shape to an evenly distributed demography with the exception of the older cohort. Back in 1901, the 0-14 cohort and 65 plus age group accounted for 34.1 per cent and 5.4 per cent of the Maltese aggregate population in that order (National Commission for Active Ageing, 2014). In 2012, the same age cohorts stood at 14.5 per cent and 17.2 per cent of the aggregate population. Over the coming years, the ageing effect is expected to intensify further leaving the majority of the population within the 75+ age cohort.

An ageing population is in itself a testament of increasing longevity which is conducive to socioeconomic progress. However, this is only one side of the coin. Indeed, an ageing population increases the burden on current welfare programmes as a smaller working population will be unable to support an increasing pension bill. Moreover, the demographic imbalance manifested in Malta will also put more pressure on the social and health care sector. The subsequent analysis gives some detail on the share of ageing individuals currently engaged in the Maltese labour market.

Figure 10.1 illustrates the employment ratio of older workers falling in the 55 to 64 cohort. As shown, following an increase in the employment ratio of older persons from 28.1 per cent in 2000 to 32.2 per cent in 2003, there was a consistent decline in the employment ratio (Eurostat, 2014a). From 2010 onwards, the trend in the employment ratio of older persons was reversed and increased consistently up to 2013. The employment ratio is expected to increase indefinitely over the coming years. This reflects the pension reform of raising the retirement age from 60 in the case of females and 61 in the case of males to 62 in 2012, 63 in 2016 and 64 in 2019. By 2020, the old age employment ratio is expected to reach 49.4 per cent. This contrasts with the 28.6 per cent registered back in 2000.

OLD AGE EMPLOYMENT RATIO 55-64

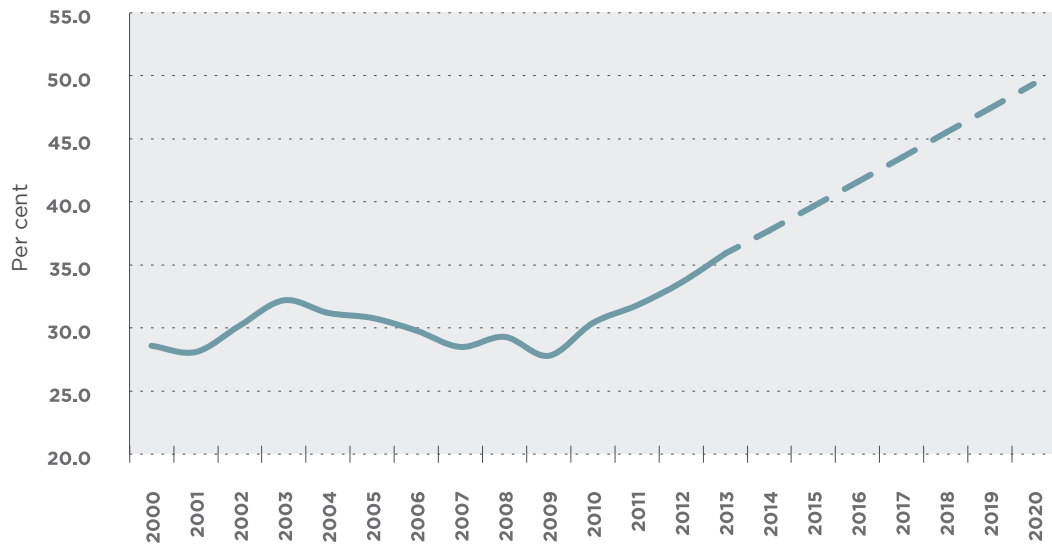


Figure 10.1 Current and Projected Population Pyramid of Malta

As seen in figure 10.2 below, persons past their retirement age have been increasingly interested in remaining engaged in the labour market. In line with the budget measure introduced in 2008, pensioners became eligible to receive pension while employed. As a result, this triggered an increase in persons remaining in employment after their retirement age from 2008 onwards. In line with figure 10.2, persons aged 61, 62, 63, 64, and 65+ remaining in employment past their retirement age increased by 693, 847, 705, 606 and 4,238 respectively between 2004 and 2012 (based on ETC data).

PERSONS IN THE LABOUR MARKET PAST RETIREMENT

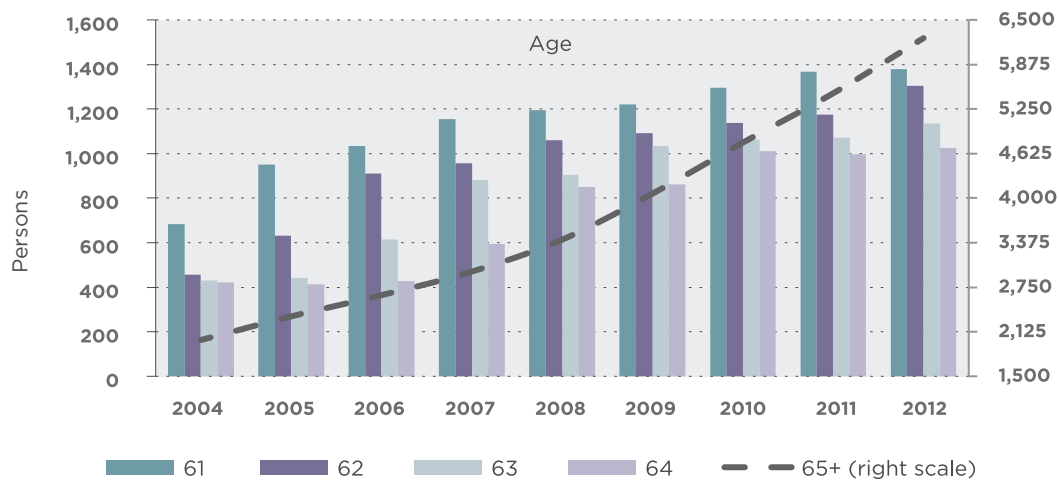


Figure 10.2 Persons in the Labour Market Post Retirement Age

Figure 10.3 substantiates this observation showing that the share of older workers (61+) out of the total workforce increased from 2.5 per cent in 2004 to 6.0 per cent in 2012 (based on ETC data).

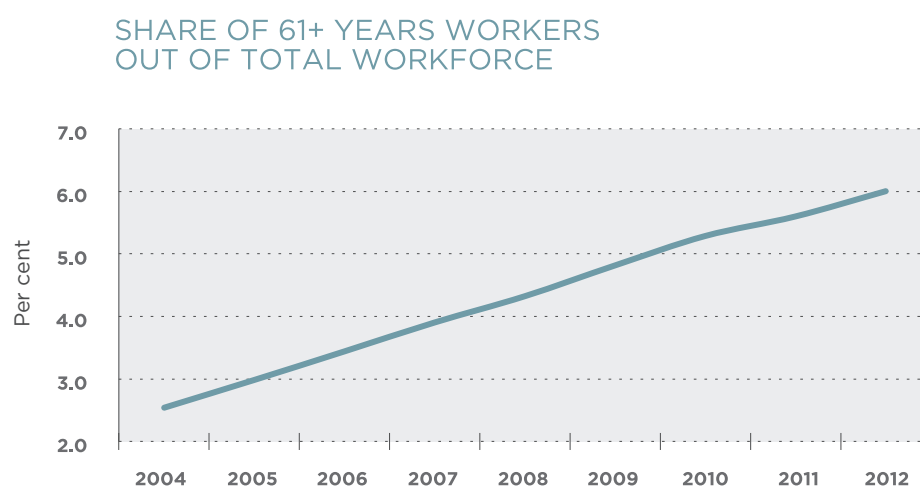


Figure 10.3 Share of 61+ years workers as a ratio of total workforce

In line with an ageing demographic trend and labour market, a common framework for the active participation of older citizens in the labour market has been recently launched - 'National Strategic Policy for Active Ageing: Malta 2014-2020'. The next section looks into more detail at these measures.

10.1 Active Participation of the Elderly in the Labour Market

In line with the European Union's active ageing agenda, the National Strategic Policy motivates older individuals to remain active in the labour market by shifting from passive to active welfare policies.

10.1.1 Continuing vocational education and training

There is a positive correlation between a person's level of education and the duration of participation in the labour market. Consequently, one of the measures highlighted in the National Strategic Policy refers to the provision of continuous vocational education and training for ageing and older workers. More specifically, education and training should reinforce competence of ageing and older citizens in computer related skills, information management and processing skills, language skills, ability to learn and engage in new things. Another recommendation raised by the document is to take into account the requirements of employers and workplace within vocational education and training.

10.1.2 Healthy working conditions

As production methods and working conditions continue to evolve in line with the requirements of the job market, job processes have become more intensive, serving as a key source of stress, health risk and eventually early retirement for older workers. As workers get older they experience reduced aerobic capacity, higher chronic neck and shoulder pain and longer injury recovery periods. What is more, they become prone to musculoskeletal complaints, experience a decline in muscular capacity and a reduction in spinal flexibility, higher heat intolerance and visual and auditory limitations. The document highlights that modern technology, equal training opportunities, age appropriate training systems, flexible and individual work designs, age-friendly shift schedules, occupational support from well-informed management and health promotion activities serve as means to counter such inevitable age-related setbacks.

10.1.3 Age management

In order to support an ageing workforce there must be a change in mentality and policies. The shrinking working-age population requires governments to replace traditional policies that encourage older workers to exit and make way for younger workers in the labour market with policies that encourage older workers to remain actively employed. Age management involves concentration of human resource management together with public policy or collective bargaining on the ageing and older population. Policies promoting the concept of age management include five specific segments. Firstly, employment organisations should ensure that older workers have equal or special access to occupations on offer. Secondly, older workers should be offered training opportunities and possibilities to develop their career. Thirdly, age management involves the provision of adequate levels of added work flexibility or timing and nature of their retirement (e.g. short-term work placements and gradual retirement). The age management concept also takes into account ergonomics and job design. The fifth segment of age management involves a positive attitude of an organisation (including employees) supportive of age-friendly measures at the workplace.

10.1.4 Employment services for older workers

Career guidance is traditionally regarded as a service for the younger generation supporting them to enter or progress through their career. Vocational and professional guidance should also target the older generation as growth and prosperity in the coming decades will increasingly depend on the skills and experience of older workers. The National Strategic Policy for Active Ageing establishes three policy measures within this field. Firstly, employment services should take into account the diversity of older workers as well as specific features which age imposes on their career paths. Secondly, guidance workers should be adequately trained in order to meet the requirements of older workers and minimise premature exit from the labour market. The third measure requires employment services to tackle unemployment amongst individuals aged 50 years and over. These are highly susceptible as they tend to be either under-skilled or over-skilled given the jobs in demand.

10.1.5 Ageism¹² and age discrimination

Ageism and age discrimination are acute social problems that interfere with older workers' ability to progress in their career. Employers tend to consider shortage of older workers in specific positions as arising from older persons' unwillingness to take up specific roles or a result of older individual lacking job-specific skills. This type of age discrimination in employment is high and is thus leading to frequent dismissal or loss of promotions. The document highlights three policy measures in this regard. Firstly, there ought to be more awareness on ageism and age discrimination. Secondly, legal definition should be broader allowing for direct and indirect discrimination. Thirdly, older workers should be allowed to continue working beyond their retirement age. Employers' replies to such requests should be within a timeframe of not less than 6 months and not more than 12 months before the date of expected retirement.

10.1.6 Employment-friendly tax/benefit system

In 2012, the European Union brought forward recommendations for the review of tax and benefit systems in order to ensure that work pays for older workers whilst providing adequate benefits. This implies that traditionally implemented invalidity and unemployment programmes providing generous retirement benefits before retirement age should be revised. Through employment friendly tax/benefit systems, older people ought to be rewarded for remaining active both before and after statutory retirement age. Incentives should also attract older workers to re/enter the labour market or persist with their current employment.

Until recently, the Maltese structure impeded older people beyond their statutory retirement age to extend their working hours as increases in their wage reduced entitlement to benefits. Moreover, older citizens approaching their retirement age had no incentive to remain actively employed as additional

¹² Ageism involves labelling of the older and attributing them with negative characteristics.

savings were countered by higher means-testing benchmarks. Amongst various measures that have already been introduced in Malta, tax brackets have been revised in order to minimise the burden of taxation across all categories of workers. Another effort was the allowance of older workers to remain actively employed after their statutory retirement age whatever their income level without giving up entitlement to pension.

The National Strategic Policy for Active Ageing document puts forward three recommendations with respect to employment-friendly tax/benefit system. The document recommends for the initiation of financial incentives for employers who retain existing workers or attract older and ageing workers back into employment. Moreover, the document proposes for more financial incentives to make it financially feasible for older employees to return or remain in work.

10.1.7 Transfer of experience

Employers are becoming increasingly aware of the loss of expertise arising from the exit of older workers from employment. Accordingly, employers are recognizing the role of older workers as mentors for the transfer of experience-based competence to younger workers. Besides connecting co-workers with older colleagues both personally and professionally, experience is a factor which helps older workers maintain their relevance to the organization and ultimately retain their job. In this regard the National Strategic Policy for Active Ageing recommends a broad public campaign focusing on the relevance of older workers as mentors and role models for younger employees. In turn would enhance retention levels.

10.1.8 Better Reconciliation of Work and Family Commitments

Due to the ageing nature of the Maltese workforce, there is an increasing necessity of caring responsibilities. Presently, family-friendly and work-life balance policies are limited to parenting. In this regard, employers should be encouraged to accommodate a healthy balance between work and caring responsibilities of older workers. In turn this allows for economic independence and higher employment activity amongst older workers. Such conditions include adaptive working conditions, leave arrangements and allowance for a balanced role of the older as informal carers and employees amongst others. Public service employment in Malta provides responsibility leave or reduced hours of work to take care of dependent older parents.

The National Strategic Policy for Active Ageing recommends the promotion of specific types of leave entitlement to enhance flexibility between employment and caring duties of older workers. Other measures such as work-time adjustment, flexible working, teleworking and job-sharing should be encouraged across the public and private sectors.

Key Points – Chapter 10

- Over the past three decades, the Maltese demography has shifted from a traditional pyramidal shape to an evenly distributed demography with the exception of the older cohort. Back in 1901, the 0-14 cohort and 65 plus age group accounted for 34.1 per cent and 5.4 per cent of the Maltese aggregate population in that order. In 2012, the same age cohorts stood at 14.5 per cent and 17.2 per cent of the aggregate population.
- Following an increase in the employment ratio of older persons from 28.1 per cent in 2000 to 32.2 per cent in 2003, there was a consistent decline in the employment ratio of the elderly. From 2010 onwards, the trend in the employment ratio of older persons was reversed and increased consistently up to 2013. The employment ratio is expected to increase to 49.4 per cent by 2020.
- Persons past their retirement age have been increasingly interested in remaining engaged in the labour market. In line with the budget measure introduced in 2008, pensioners became eligible to receive pension while employed. As a result, this triggered an increase in persons remaining in employment after their retirement age from 2008 onwards. The share of older workers (61+) out of the total workforce increased from 2.5 per cent in 2004 to 6.0 per cent in 2012.
- In line with an ageing demographic trend and labour market a common framework for the active participation of the elderly has been recently implemented - 'National Strategic Policy for Active Ageing: Malta 2014-2020'.

11

INITIATIVES FOR PERSONS WITH DISABILITY

11.0 Overview

In the European Union (EU), social participation is a fundamental right of each and every citizen without distinction. Where this is not the case, society at large has a duty to foster an environment that is open and supportive of equal access to social participation. On these lines, the EU Disability Strategy 2010-2020 promotes the principles of equal social treatment through the empowerment of persons with disability to fully utilize their rights, participation in society, elimination of barriers and discrimination. Article 27 of the United Nations Convention on the Rights of Persons with Disabilities defines the right of disabled persons to work on an equal basis with others which includes gaining a living through work that is freely chosen or accepted in a labour market that is open, inclusive and accessible to persons with disabilities.



Figure 11.1 Disabled Persons in Employment and Actively Seeking Employment

11.1 Persons with Disability Registering for Work by Type of Disability

In line with figure 11.1, the number of persons in employment dropped by 15.3 per cent between the years 2004 and 2012. As shown, the downward trend settled in 2008, taking another hit in 2009. Thereafter the trend floated around 1,250. To a certain extent, the registered unemployed indicator below reflects the fluctuations of persons with disability in employment. As shown, the trend in registered unemployed fluctuated between 2004 and 2007, and went up drastically reflecting the drop in disabled persons in employment. Between 2004 and 2012, registered unemployed with a disability grew from 340 persons to 515 persons (+51.8 per cent), (based on ETC data).

Diagram 11.2 portrays jobseekers with a disability by type of disability as at 2012. More than half of the jobseekers under consideration suffered from a physical disability. Persons with intellectual disabilities accounted for circa one third of jobseekers with a disability in 2012. Persons with sensory and other disabilities contributed to 6.0 per cent of the aggregate jobseekers with a disability in 2012 (personal communication).

REGISTERING FOR WORK BY TYPE OF DISABILITY

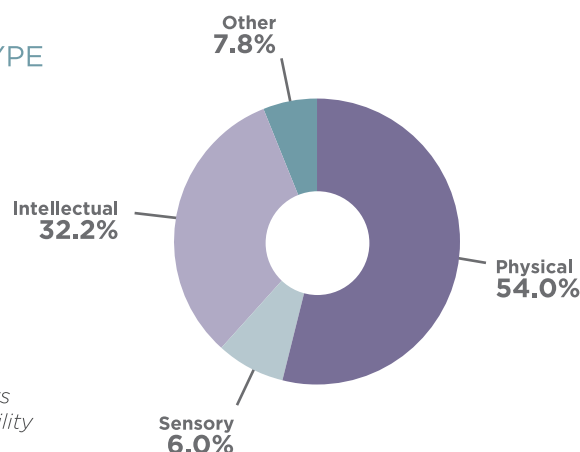


Figure 11.2
*Distribution of Jobseekers
with a disability by Disability
(2012)*

As substantiated by the diagram above, disabilities are heterogeneous, requiring different measures to promote and facilitate participation in the labour market. Firstly, there are physical disabilities which include impairments which limit the physical function of limbs, fine bones or gross motor ability. Secondly, sensory disabilities include auditory and visual impairments and lastly, there are the intellectual disabilities which include impairments such as Down Syndrome and Autism. Therefore, a one size fits all measure to activate disabled persons in the labour market would not be successful.

11.2 Past Activation Schemes for Disabled Persons

The following is an overview on past activation schemes that were specifically targeted towards the engagement of persons with disability into the labour market.

Supported Employment Scheme – ESF 19 was designed to support registering unemployed persons with a severe disability who are therefore deemed as too challenging or expensive to be engaged in gainful employment. The scheme was meant to upgrade participants' skills in line with employer expectations and lead these individuals in the labour market. Participants were to have a remunerative employment and ongoing support services. This way, persons with disability gave their contribution to the labour market instead of depending on social benefits. The support was offered through job coaching, personal assistant and allowance to employer. The scheme also created an environment which raised awareness and standards amongst employers in their practices and policies on disability, whilst developing clear 'pathways into employment' for disabled persons based on cooperation and support from employers and work colleagues.

The Employment in the Social Economy Programme contributed towards the integration, retention and progression of disadvantaged persons; including persons with disability in the labour market. Employment assistance aims to encourage employers to recruit individuals who, due to preconceived ideas, are likely to be excluded from the labour market, unless incentives are offered in relation to their employment. Socio-economic groups targeted include any person who is a registered disabled person and who has a recognised physical, mental or psychological impairment.

The Employment Aid Programme (EAP) is an EU-funded project focused on providing subsidy incentives to employers. The Programme contributed towards the integration of disadvantaged persons and persons with disabilities in the labour market. The programme facilitated access into employment through financial assistance and upgraded the skills of those furthest away from the labour market through work experience. Amongst the target groups, the EAP targeted persons with disabilities. Assistance in respect of registered disabled persons was for 75.0 per cent for the first and 60.0 per cent for the subsequent second and third year.

The Employment Support for Persons with Disability promoted an inclusive labour market by encouraging employers through specific support services in the recruitment and in the retention of employment of persons with disabilities. The project aims to increase the participation rate of persons with disabilities in the labour market and provide opportunities to further their skills and enhance their employability in order to adapt to market changes and requirements, thus enhancing their social inclusion. The project focuses on disadvantaged groups by assisting them in finding and retaining employment by increasing their confidence and practical job-specific skills through 'work exposure opportunities'.

The last calls for the Community Inclusive Employment Scheme (CIES) were closed on the 15th of October 2012. Through this scheme, persons with disability registering for work had the opportunity to be employed by Local Councils. The purpose of this scheme was to minimize inequality in employment. The ETC ran this scheme in collaboration with Local Councils. Jobs were tenable for a maximum period of three years with remuneration based on a pro-rata rate of hours worked with respect to the national minimum wage. Disability pensions were not affected and employees were allowed to work on full-time, reduced hours or part-time basis. Eligible jobseekers had to be persons with disability who had been registering for at least 6 months.

Project Me2 came to an end in December 2012. Agencija Sapport together with the National Commission Persons with a Disability (KNPD) and ETC collaborated together on an ESF supported project called Me2. The aim of this project was to target persons with disability by assessing their requirements, strengths and abilities. Moreover, Me2 was focused on evaluating and validating skills and competences of disabled persons in order to activate these persons into employment.

11.3 Current Activation Schemes for Disabled Persons

Supported Employment is a unit within ETC that is specialized in skills enhancement and integration of disadvantaged groups in the labour market. This unit has a Supported Employment scheme in place called Bridging the Gap. With regard to persons with disability, the Supported Employment unit works with the National Commission for Persons with Disability as well as Non-Governmental Organisations such as Inspire and Richmond Foundation.

The 'Bridging the Gap' scheme is focused on persons with various types of mental health and/or physical disabilities as well as former substance abusers and former CCF inmates who are at a disadvantage in accessing the open labour market. In order to qualify for the scheme, prospective candidates have to be registered as unemployed. Moreover, the scheme is also working with education institutes (ITS, Wardija Resource Centre, Youth Inc. and Pathway MCAST) to promote employment to registered disabled persons who are in education. The scheme supports clients during the transition period from unemployment to employment. The employer is given the possibility to evaluate the performance of the client at the workplace, prior to his/her official engagement. During this period, the employer has no obligations in terms of National Insurance contributions, wages and sick leave benefits. On the other hand, prospective employees receive an allowance equivalent to 80.0 per cent of the National Minimum wage. The work exposure period provided by this scheme allows the

prospective employee to show his ability/skills in meeting the requirements of a specific process/ service. The employer and ETC agree on a pre-specified period of work exposure which eventually would lead to formal employment.

ETC works in collaboration with Mount Carmel Hospital offering information sessions to patients who are participating in the Work Rehab Programme, in collaboration with Mental Health Services Day Centers Occupational Therapists, FITA, Students Services and MCAST, Youth. INC, ITS and Wardija Resource Centre.

There are various accompanying measures in place that are focused on simplifying access to the labour market for persons with disability.

- Transport services that promote access to employment for persons with disability.
- Technical aids such as the purchase of specialized equipment maximize the potential in work and every-day life.
- Specialized tax deductions and exemptions that incentivize the employment of persons with disability.
- Practical/physical assistance provided mainly through the agency providing personal assistance services and some NGOs.
- Flexible incapacity benefits/disability pensions (allowing for part-time work) on the condition that the part-time disabled employees do not earn more than the national minimum wage.
- Quota system obliges enterprises and institutions that employ more than twenty workers to employ a quota of 2% of persons with disability. In reality this law was not successful in raising the number of workers with disability in either public or private employment. This is due to the fact that the quota system is difficult to implement and supervise.

11.4 Employment Initiatives for the disabled – The Way Forward

Despite the number of schemes and initiatives targeted at persons with disability, Malta's current employment rate for people with disability sits low at only 4.5 per cent (based on ETC data). Indeed, out of 4,805 attempts by the ETC to engage disabled persons into employment last year, only 23 or 0.5 per cent were successful (based on ETC data). Despite there being various successful schemes and programmes which were launched with the aim of engaging persons with disability into employment, a number of shortcomings were noted such as schemes that were limited to specific timeframes and schemes that were subject to availability of ESF funds (e.g. Me2!). This lack of continuity in the programmes/schemes came at the expense of persons with disability who were willing to engage themselves in the labour market. Consequently, short-term programmes/schemes are to be replaced with long-term policies in order to ensure a steady flow of services and support measures to promote the activation and retention of persons with disability in employment.

Policies on the activation of the disabled will focus on four specific measures. As shown in the diagram below (11.3), prospective measures are ranked in terms of the support required and the severity of disability.

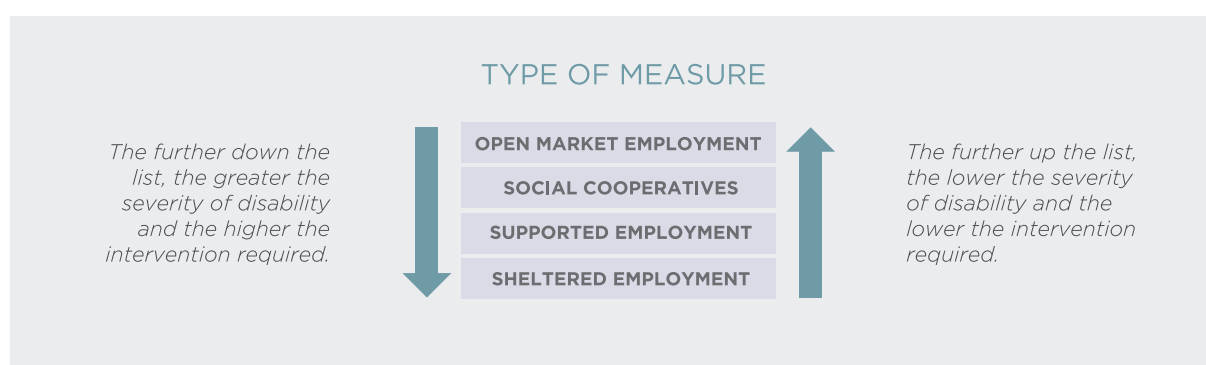


Figure 11.3 Type of Measure by severity of disability

11.5 Open Market Employment Measures

Open employment refers to the engagement of persons with disability into the labour market with minimal intervention from the State. This is the case for persons with mild disabilities that hold the required set of skills to match what is currently demanded in the labour market. This category of persons with disability may feel discouraged to remain actively engaged in job searching activities after a while. Moreover, persons with mild disabilities may require initial support when engaging into employment in the form of on the job coaching/mentoring. Employers tend to discriminate against persons with disability when it comes to recruiting new employees due to cultural attitudes, fear and lack of knowledge.

It is envisaged that new schemes will be developed to support open market employment for individuals with disability. Moreover, the public sector will be constantly involved with Employers' Associations and Trade Unions to educate employers and employees on supporting and integrating people with disability into the working environment. Another initiative that is intended to engage disabled persons into the labour market is to nurture a change in employers' philosophy by making them aware of the capabilities of persons with disability. As part of the open employment initiative, persons with a disability will be involved with co-workers and employers to discuss and implement best practices. The aim is to bring persons with disability at a level playing field in relation to employability prospects through ongoing promotion of their capabilities.

Despite the mild nature of the disability of persons qualifying for open market employment measures, it can be the case that they are not as productive as persons without a disability. In such instances, an employer would naturally discriminate against persons with a disability when it comes to employment. In order to overcome this limitation, various initiatives meant to compensate for the skill deficit of mildly disabled persons will be explored. There are already systems in place to assess the level of disability of persons at work. This could be applied to determine the appropriate compensation accruing to an employer in employing a person with disability. As an example, if a person has 5 per cent disability, then government would need to account for that and compensate the employer accordingly.

11.6 Social Cooperatives

Social cooperatives targeting people with disability are usually made up of a diverse category of members, including people with disabilities, their families, volunteers, disability associations, and Government agencies. The primary goal of social cooperatives is to engage persons with disability into employment. Social cooperatives also aim to reduce discrimination against persons with disability and promote social integration. In addition to this, the Me2. Cooperative initiative in Malta also provided training and job placement services. Various social cooperatives have been established in Italy as well as across other EU Member States (Poland, Czech Republic, Slovakia, Bulgaria, Romania, Sweden, France, Spain and the UK), (CECOP, 2013). In Italy, social cooperatives provide circa 32,000 jobs for disadvantaged groups that include persons with disability. In Bulgaria and Romania, social cooperatives are the first source of employment for disabled persons.

Government considers the contribution of social cooperatives to the engagement of workers with disability into the labour market as one of the most efficient ways which will contribute to the achievement of the Europe 2020 targets for employment and social inclusion. Through the activation of persons with disability into employment, social cooperatives will benefit from preferential treatment when it comes to public procurement projects. In return, social cooperatives will be expected to fully engage and integrate persons with disability into their workforce. Job coaching services will be provided by the ETC agency to align the skills of employees with a disability with the requirements of social cooperatives. Non-Governmental Organizations will be taking on board this initiative to provide support with the setup, administration and training requirements.

11.7 Supported Employment

Supported Employment (SE) involves the provision of support services to persons with disability or other vulnerable groups to enable a secure paid employment position in the open market. Supported Employment services are provided by a job coach or employment specialist responsible for helping a client get a paid job in the open labour market. More specifically, SE services empower clients to become active jobseekers, identify their skills and preferences for work and match their profile to a suitable job on the market. Successful integration of clients at the workplace as well as on-the-job support targeting employers and work colleagues are also important elements of SE.

Supported Employment services comprise the following five-stage process:-

- 1 Client Engagement: The initial stage involves marketing of supported services to identify interested prospective jobseekers.
- 2 Vocational Profile: This involves the development of a personal profile with information useful to identify a prospective employer based on the candidate's skills and work preferences.
- 3 Job Finding: This stage involves effective matching of the candidate's profile to a suitable job. Services include effective job finding and marketing techniques and assistance with negotiation of terms and contracts etc.
- 4 Employer Engagement: The job coach works closely with the employer and discusses with the employer and jobseeker the skills/experiences required, workplace culture, working hours, wages, etc.
- 5 On/off the Job Support: This is a very crucial step involving the successful integration into the job and workplace by providing support to the employee, employer and work colleagues. This stage also includes the possibility of career development for people with disabilities.

11.8 Sheltered Employment

Sheltered employment for persons with disability provides a safe and supportive environment where individuals are exposed to work experience, socialisation with peers and on the job training amongst other opportunities. Engagement of persons with disability into the labour market is also a source of independence as workers are rewarded in monetary terms in return for services rendered to the employer. Sheltered employment can be provided by both the public and private sector.

In Europe, sheltered employment measures are not endorsed across the board as they are regarded as discriminatory and isolating. In Germany, for instance, the segregation of persons with disability is such that there are whole villages just for people with disability. Consequently, some Member States are shifting towards Supported Employment and other measures that promote open employment more effectively. Sheltered employment has been decreasing in Poland, Sweden and the UK for example (Greve, 2009) Conversely, countries such as Austria, Germany, Finland, Italy, Luxembourg and Portugal are increasing sheltered employment opportunities. In Slovenia, sheltered places of employment are the major source of employment for people with disability. In Germany, sheltered jobs employ circa 80.0 per cent of persons with intellectual/cognitive impairments (Greve, 2009). Sheltered workshops can be a good employment option for persons with severe disabilities, challenging behaviour or particular conditions who would require professional input whilst at work and who can find it unsafe to be in conventional workplaces.

Sheltered employment is traditionally regarded as a first step towards the open labour market. Several Member States have questioned the effectiveness of this particular measure. The true value of this measure relies in the creation of opportunities that create opportunities where persons with severe disability can contribute to the labour market and enjoy the added value of socialization, independence and job satisfaction related to being in employment.

On these lines, various sheltered employment workshops will be setup to cater for persons with severe disabilities. Moreover, Government is committed to enter into sheltered employment agreements with the private sector as well, providing the necessary support to employers and employees to successfully integrate workers with a disability within the team.

Key Points – Chapter 11

- The number of persons with a disability in employment dropped from 1,472 in 2004 to 1,247 in 2012. The registered unemployed increased from 340 individuals in 2004 to 515 by 2012.
- Despite the number of schemes and initiatives targeted towards disabled persons, Malta's current employment rate for people with disability sits low at only 4.5 per cent. Indeed, out of 4,805 attempts by the ETC to engage disabled persons into employment last year, only 23 or 0.5 per cent were successful. Short-term programmes/schemes are to be replaced with long-term policies in order to guarantee a steady flow of services to promote the activation of disabled persons into employment.
- Policies on the activation of the disabled will focus on four specific measures. Open employment refers to the engagement of disabled persons into the labour market with minimal intervention from the State. Accordingly, new schemes shall be developed to support open market employment for disabled individuals.
- Government considers the contribution of social cooperatives to the engagement of disabled workers into the labour market as one of the most efficient ways which will contribute to the achievement of the Europe 2020 targets for employment and social inclusion. Through the activation of disabled persons into employment, social cooperatives will benefit from preferential treatment when it comes to public procurement projects.
- Supported Employment (SE) involves the provision of support services to disabled persons or other vulnerable groups to enable a secure paid employment position in the open market. Supported Employment services are provided by a job coach or employment specialist responsible for helping a client get a paid job in the open labour market. More specifically, SE services empower clients to become active jobseekers, identify their skills and preferences for work and accordingly match their profile to a suitable job on the market.
- Various sheltered employment workshops will be setup to cater for severely disabled persons. Moreover, Government is committed to enter into sheltered employment agreements with the private sector as well, providing the necessary support to employers and employees to successfully integrate disabled workers within the team.

12

GOZITAN LABOUR MARKET

12.0 Overview

In Gozo, 50.3 per cent of individuals aged 15-64 are engaged in full-time employment. This compares with 50.6 per cent for Malta. This shows that Gozitans are in actual fact as economically active as their Maltese counterparts (based on ETC data).

The number of Gozitans engaged in the labour market grew from 9,133 individuals to 10,700 by 2012. However, as shown in figure 12.1, the share of Gozitans working in Gozo dropped from 81.7 per cent in 2004 to 72.4 per cent by 2012 (based on ETC data).

SHARE OF GOZITANS WHO WORK IN GOZO

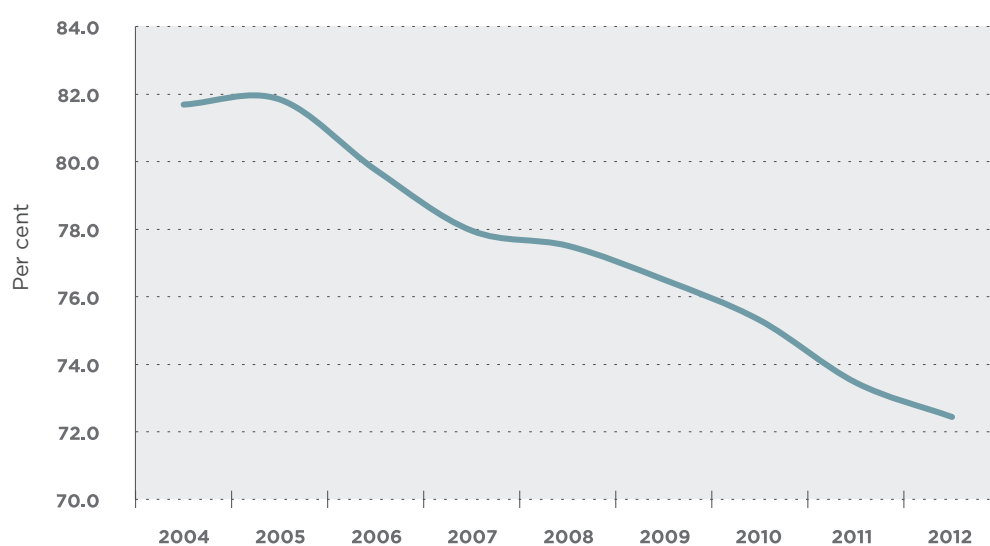


Figure 12.1 Gozitans in Work

As indicated in figure 12.2, the same conclusion holds as regards the private sector. Indeed, the share of Gozitans working in Malta rose from 16.7 per cent in 2004 to 24.3 per cent by 2012. An increasing share of Gozitans working in Malta arises from the fact that Gozo is not generating enough jobs for Gozitans (based on ETC data).

GOZITANS IN THE PRIVATE SECTOR



Figure 12.2 Gozitans in Work - Private Sector

Figure 12.2 highlights employment in Gozo's private sector. It must be highlighted that there is no precise data available on who is working where. This limitation arises from the fact that private sector data by Nace and occupation is recorded according to an employee's address rather than location of work (based on ETC data). Moreover, some employers have their businesses registered in Malta.

12.1 Gozitan Labour Market

12.1.1 By Nace

Again, results by Nace clearly show that the majority of Gozitans (57.2 per cent) were employed in low to medium skill sectors that include Manufacturing (939), Wholesale and Retail and Repair of Motor Vehicles (1,049) and Accommodation & Food Services Activities (568) in 2004. By 2012, the contribution of low skills sectors dropped to 50.3 per cent. Despite the registered drop, there remains a high incidence of lowly skilled jobs. High-skill sectors such as Information & Communication (42) and Financial and Insurance Activities (219) accounted to 5.8 per cent of total occupations back in 2004. By 2012, the share of employment in Information and Communication and Financial and Insurance Activities increased to 8.0 per cent. Again, despite the registered improvement, there is an evident imbalance in the labour market towards low to medium skilled jobs.

12.1.2 By Occupation

In 2004, 53.8 per cent of Gozitans were employed in elementary occupations (1,051), craft and related trade workers (611), service workers and shop and market sales workers (742). This went down marginally to 51.3 per cent by 2012. It transpires that the share of Gozitans working in Gozo (2012) in elementary occupations, craft and related trade workers, service workers and shop and market sales workers was of 97.0 per cent, 88.0 per cent and 91.0 per cent in that order. Despite the limitations of data, results indicate that occupations involving low skills are supplied in Gozo (based on ETC data).

The share of Gozitans employed as technicians and associate professionals (274), professionals (251) and legislators, senior officials and managers (534) accounted for 23.7 per cent of total occupations in 2004. In 2012, the share of Gozitans employed in skilful occupations reached 28.9 per cent. By 2012, the share of Gozitans working in the above mentioned skilful occupations from Gozo reached 34.8 per cent. Again, one would have to take into consideration the fact that data might be biased (based on ETC data).

12.2 The Gozitan Labour Market – Demand Side Issues

In line with the above, the limitation of the Gozitan labour market is a demand-side driven issue rather than a supply side one. This is clearly reflected in Cordina (2011: 23):

“The presence of human resource and quality enhancements would of course be futile in the absence of the creation of adequate employment opportunities. This aspect is therefore crucial in the development of a human resource strategy. This is especially so in the context of the smallness and peripherality conditions that characterise Gozo, which give rise to a situation where the supply of human capital does not necessarily create its own demand through market forces, but would require specific approaches to overcome inherent barriers to development so as to ensure that the demand for labour is present.”

12.3 Double Insularity

In line with (Cordina, 2011), 37.0 per cent of investors in Gozo consider lack of accessibility as the major obstacle that hinders investment in Gozo. Moreover, 33.0 per cent of investors in Gozo consider high transport costs as a major constraint that hampers investment. Both accessibility issues and high transport costs are obstacles arising from the double insularity of Gozo. As a consequence, the small island struggles to attract investment and therefore lacks the required diversification. The current situation will persist unless accessibility to Gozo is enhanced through a permanent link between the two islands. Impediments to investment from lack of human resources are minor (10.0 per cent of responses) and secondary to the insularity concern.

12.4 Big Push – The Case for Gozo

Rodenstein Rodan’s big push theory upholds that a critical amount of resources should be invested for development activities due to specific indivisibilities. Rodenstein highlights indivisibilities related to the production function. Indeed, when so many industries are established, economies of scale from factors of production, goods and production processes occur. Rodenstein also refers to indivisibilities related to demand. Rodenstein argues that a minimum certain amount of investment is to be made in so many industries in order to support each other in terms of demand.

In line with the big push theory of economic development, public sector investment supports economies to overcome disincentives from the private sector in adopting modern production techniques and experience economies of scale. Public sector investment comprises roads, schools, waterworks, power plants and hospitals amongst other infrastructure. The big push induced by public sector investment has a positive effect on income and welfare.

Along these lines, the double insularity of Gozo requires public sector intervention to provide the appropriate infrastructure so as to improve accessibility. In line with the big push theory, public sector investment would attract high-value added industries and narrow the incidence of excess labour supply.

12.5 Local Employment Development Unit

In line with Cordina (2011), a Local Employment Development Unit (LEDU) will be established to coordinate employment initiatives between the public and private sector. The LEDU will be responsible for the achievement of a balanced regulatory system that addresses the requirements of Gozo whilst maintaining a flexible structure in order to attract business activity. Moreover, the LEDU will be responsible for the promotion of employment in Gozo. In cooperation with the Ministry for Gozo, the LEDU shall hold regular meetings to address employer concerns as regards employment issues. Moreover, despite the fact that Gozo will be benefitting from the same labour market initiatives as in Malta, the LEDU will be responsible for tailor made initiatives in order to meet the requirements of the Gozitan labour market¹³.

¹³ To take an example, Employment Aid Programme (EAP) beneficiaries in Malta and Gozo differ in terms of age cohort distribution, target groups and education levels (ISCED level).

12.6 Entrepreneurship Initiatives in Gozo

The Gozo Business Academy will be setup to create a platform for Gozo to mobilize its internal resources, provide an environment fostering employability, reduce brain drain and promote learning for youths that supports local businesses to develop in the international field. In turn, this should reduce dependency on Malta to develop across the international spectrum. The objectives of the Gozo Business Academy include the following:

- 1 To initiate a service of capacity building for Gozo businesses supporting business development in terms of strategy, operations, HR, marketing and networking.
- 2 To provide an incubator for Gozitan youths who want to build their business providing networking facilities, entrepreneurship mentoring and financial support in the process.

Key Points – Chapter 12

- In Gozo, 50.3 per cent of individuals aged 15-64 are engaged in full-time employment. This compares with 50.6 per cent for Malta. The number of Gozitans engaged in the labour market grew from 9,133 individuals to 10,700 by 2012. However, the share of Gozitans working in Gozo dropped from 81.7 per cent in 2004 to 72.4 per cent by 2012.
- Amongst various inherent characteristics raising the vulnerability of Gozo, the island region suffers from smallness and double insularity. The concept of double insularity translates into higher transport costs and accessibility barriers. As a consequence, the small island struggles to attract investment and therefore lacks the required diversification. The current situation will persist unless accessibility to Gozo is enhanced. Impediments to investment from lack of human resources are minor and secondary to the insularity concern.
- The double insularity of Gozo requires public sector intervention to provide the appropriate infrastructure so as to improve accessibility. In line with the big push theory, public sector investment would attract high-value added industries and narrow the incidence of excess labour supply.
- A Local Employment Development Unit (LEDU) will be established to coordinate employment initiatives between the public and private sector. Moreover, the LEDU will be responsible for the promotion of employment in Gozo. In cooperation with the Ministry for Gozo, the LEDU shall hold regular meetings to address employer concerns as regards employment issues.

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