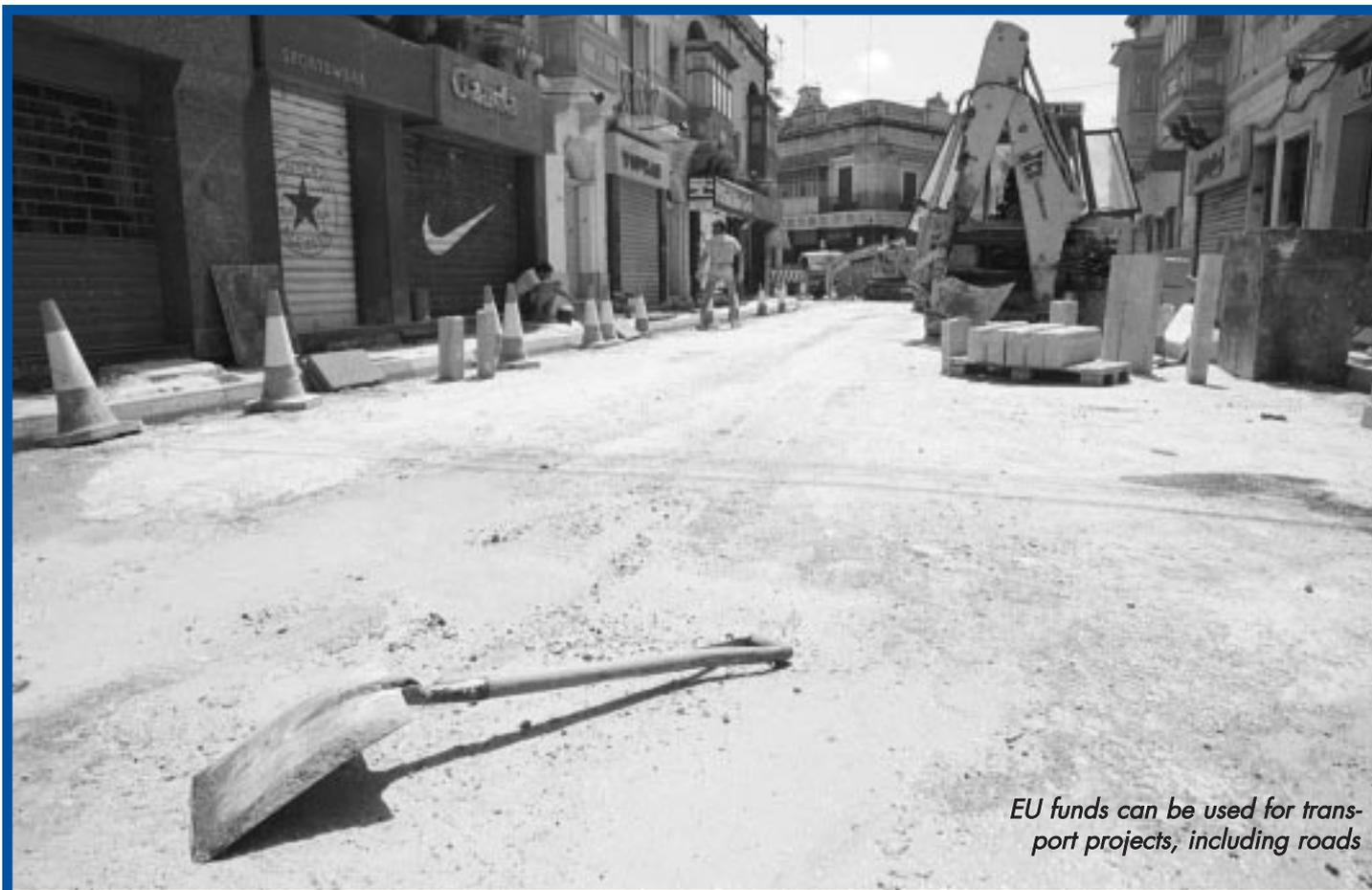


## Malta's financial package

Outcome of negotiations on the financial package for Malta.

By Dr Simon Busuttill, MIC head



*EU funds can be used for transport projects, including roads*

### MALTA'S FINANCIAL PACKAGE (2004-2006)

	Euro (million)	LM (million)
<b>EU Budget Commitment for Malta</b>		
Agriculture	29.00	12.08
EU Structural and Cohesion Funds	79.00	32.92
EU programmes + institution-building + Pre-accession Aid	30.00	12.50
Budgetary compensation	233.30	97.21
<b>Total receipts by Malta from EU</b>	<b>371.30</b>	<b>154.71</b>
<b>Total payments from Malta to EU</b>	<b>177.00</b>	<b>73.75</b>
<b>Net benefits for Malta</b>	<b>194.30</b>	<b>80.96</b>
<i>Exchange rate: 2.4 Euros to Lm1</i>		

When negotiations on regional policy were closed in July, 2002, the question of how much money Malta would get as an EU country had not been settled. Being an issue that carries significant financial implications, an agreement on the financial package for candidate countries was only reached in the final hours of negotiations at the Copenhagen Summit on December, 13, 2002. Before the Summit, EU countries had already agreed that new member states, including Malta, would be net beneficiaries from the EU budget and not net contributors. In other words, they would get more from the EU than they will pay. However, the extent of the net beneficiary status was not clear. This matter was finally settled at the Copenhagen Summit on December, 13, 2002, the day when the entire negotiations process was also concluded.

**First three years of membership**

In the first three years of membership, Malta will get from the EU Lm81 million more than it will pay. The basis of this allocation is that Malta's level of economic development still lags far behind that of EU countries. Malta's Gross Domestic Product (GDP) stands at just over half (56%) of the EU average. In practical terms this means that an average Irish citizen is more than twice as rich as a Maltese citizen, whereas an average citizen of Luxembourg is more than three times as rich. So we still have a lot of catching up to do in terms of raising our standard of living to reach these levels. On its part, the European Union is bound, under its regional policy, to help its poorer member countries to catch up and to do so by providing financial support. This is where EU funding comes into the picture.

**GDP PER CAPITA IN EUROS**

Luxembourg	Ireland	Greece	<b>MALTA</b>	Latvia
39,500	23,749	14,500	<b>11,127</b>	5,726

Source: Eurostat

**EU funding: How and why?**

- The EU is bound to help its poorer regions and countries improve their economic development.
- Malta's level of economic development (GDP) stands at just over half of the EU average (56%).
- An average Irish citizen is twice as rich as a Maltese, a Luxembourger three times as rich.
- Malta will therefore be eligible to the highest level of EU funding (Objective One area).
- EU funding can be used for projects such as transport, environment, agriculture, industry, small businesses, education, health and training.
- EU funds are grants, not loans.

On the last day of negotiations, the EU finally confirmed that it will consider Malta as a country that will qualify for the highest level of EU funding. This is known as "Objective One" status. As a result, Malta will qualify for funding from the EU Structural and Cohesion funds. EU funding can be used for projects in areas such as transport, environment, agriculture, industry, small businesses, education, health and training.

**Objective One: What it means**

Objective One areas are the poorest regions in the EU which have a GDP level that is less than 75% of the EU average. Countries and regions under this objective get the large chunk - 70% - of all EU funding in order to help them catch up. 22% of the EU population live in Objective One areas. Upon membership, Malta will be an Objective One area.

EU financial assistance from Structural and Cohesion funds is project-based, that is, it is only paid on the basis of approved projects that are implemented in Malta, if and when they are carried out. It is also important to note that EU funding does not cover the total costs of a particular project and the amount provided by the EU may vary from project to project. The highest level of EU contribution is usually paid under the Cohesion Fund where the EU contribution may reach the level of 85% of total costs. Under other funds, the contribution is normally lower.

Apart from the Structural and Cohesion Funds, like other countries, Malta will also qualify for EU financial assistance for its agricultural sector, for participation in EU programmes and for institution building, that is, to strengthen its administration to cope with the implementation of EU rules and standards.

Additionally, in order to ensure that even on a cash flow basis Malta remains up in a net beneficiary position, it will receive additional cash flow lump sum payments and a budgetary compensation.



Translated into numbers, this works out at a total budgetary allocation of Lm154.71 million (€371.3 million) that the EU will commit to Malta during the years 2004 to 2006, or just over Lm51 million every year. As can be seen from the table, from the total commitment of Lm154.71 million to Malta, the EU will pay Lm97.21 million in a direct cash flow transaction that will be credited to Malta's budget. The remaining Lm57.5 million will be allocated for projects carried out in Malta as explained above. Once committed, funding that is not used in a particular year can still be used in subsequent years.

**Malta's contribution to the EU**

As an EU country, Malta must also pay its share to the EU budget. This is made up of a contribution in the form of payments of a portion of VAT revenues collected in Malta, of customs duties collected from imports coming from non-EU countries and an additional contribution based on our country's Gross National Product (GNP). Additionally, each EU country contributes to a refund that is granted to the United Kingdom on its budgetary contribution (this is known as the UK rebate).

Altogether, during the first three years, Malta's total contribution to the EU budget will amount to Lm73.75 million (€177 million), or just over Lm24 million every year.

**Malta's net budgetary status (2004-2006)**

The net balance is achieved after deducting Malta's total contribution to the EU budget from the EU's total committed allocation to Malta. This works out at a total net budgetary position of Lm81 million (€194 million) in favour of Malta, or Lm27 million every year, for the first three years of membership. On a per capita basis, this works out at a net EU payment of Lm205 (€492) per person in Malta in the first three years of membership. (On January, 1, 2002 Malta's population was 394,600.

Source: Eurostat News Release 95/2002 issued on 07/07/2002).

### What Malta pays, what it gets

#### From 2004 to 2006

- Malta will be allocated from the EU Lm81 million (€194.30) more than it will pay. This is calculated by deducting Malta's contribution from its allocation, as follows:
- The EU will commit to Malta a total of Lm154.71 million (€371.30 million) whereas Malta will contribute to the EU budget a total of Lm73.75 million (€177 million).

#### Funding for Malta after 2006

The fact that Malta will be a net beneficiary in the first three years of membership does not mean that it will no longer be a net beneficiary after 2006. Negotiations focused on the first three years simply because the EU current budget term expires at the end of 2006 and therefore no fixed commitments could be made beyond that year. After 2006, a new EU budget will need to be agreed for a further period of around seven years, until 2013. The decision on the new EU budget will be taken in 2006 by the countries that are members of the EU at that time. For this decision to be adopted, the unanimous agreement of all EU member countries is required, including Malta, if it joins at the next enlargement.

By 2006, Malta's level of economic development is not expected to have advanced sufficiently to lose its eligibility to EU funding. Eligibility to the highest level of EU funding (Objective One) is lost when a country exceeds the ceiling of 75% of average EU GDP. But from 1997 to 1999, Malta's GDP level compared to the EU average only increased from 54.5% of the EU average in 1997, to 54.6% in 1998 and to 55.1% in 1999. As a result, Malta is still expected to qualify for EU funding under Objective One even during the next budgetary term after 2006. Malta will therefore remain a net beneficiary from EU funds for the subsequent seven years. As an EU member, Malta would be involved in deciding on this matter.

### What Malta pays, what it gets

#### After 2006

- A new budget will apply. To be approved, budget needs agreement of all EU countries (unanimity), including Malta.
- Because of its low GDP level, Malta is still expected to remain a net beneficiary.

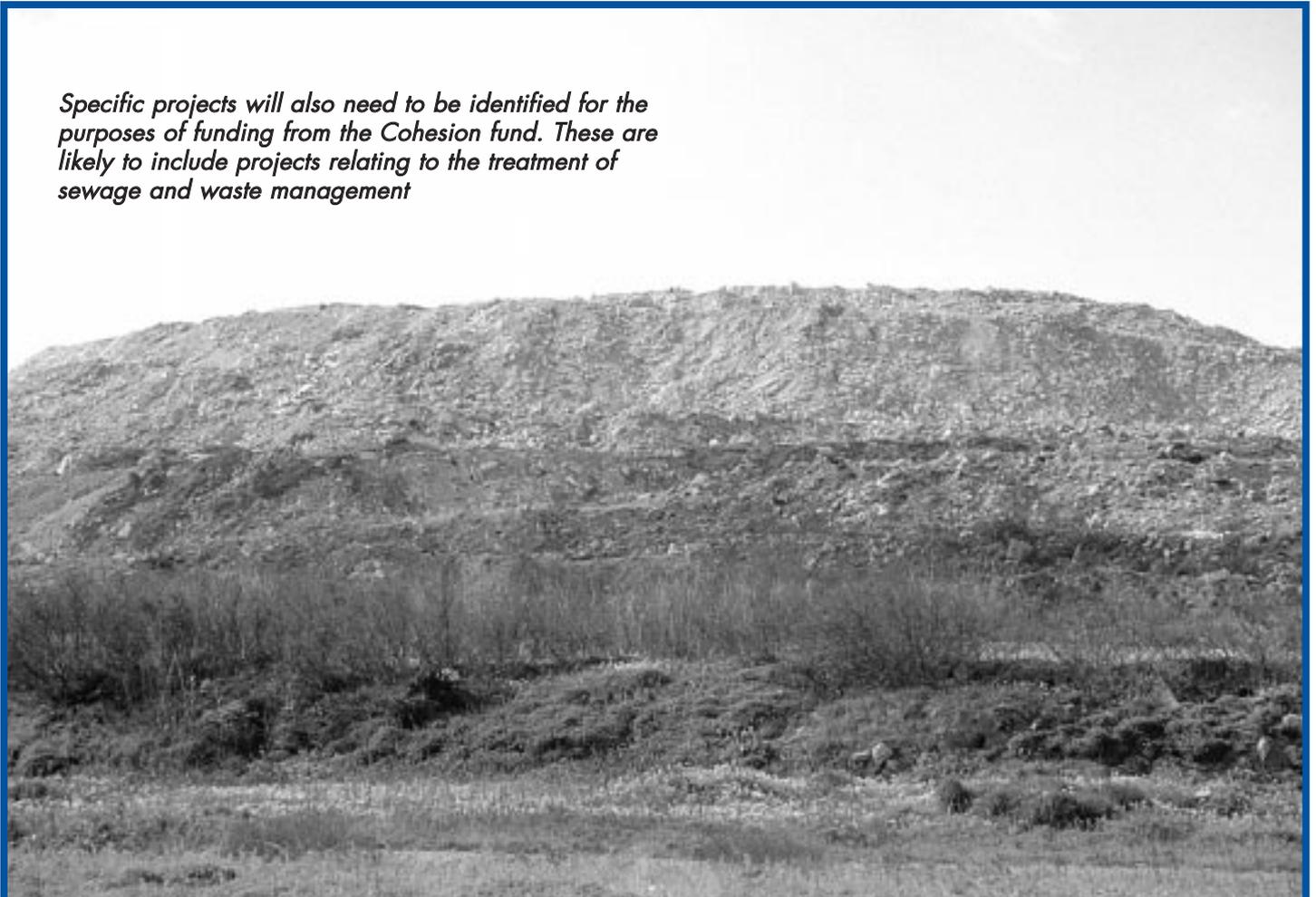
#### Who will administer EU funds in Malta?

A well-functioning structure must be put in place in each country to ensure that it can absorb EU funds effectively and manage them properly. Being able to absorb EU funds is crucial if a country is not to lose out on funding. In Malta, the main player will be the Regional Policy Directorate within the Office of the Prime Minister, which will be responsible for programming and management of the funds allocated to Malta. However, there are other structures being set up and there is also the involvement of Ministries and other public entities. An active participation of the Malta Council for Economic and Social Development (MCESD) and of non-governmental organisations is also envisaged.

In Malta's case the document that will identify Malta's priorities will be known as the "Single Programming Document" (SPD). Out of these priorities, specific concrete projects can be formulated that would qualify for EU funding. A first draft of Malta's Single Programming Document (SPD) will be presented to the EU in the first half of 2003. Unless this programme is finalised, candidate countries may run the risk of not being able to submit project proposals in time immediately after membership.

Specific projects will also need to be identified for the purposes of funding from the Cohesion fund. These are likely to include projects relating to the treatment of sewage, the Maghtab and Tal Qortin landfills and the improvement of Malta's roads and transport network.

*Specific projects will also need to be identified for the purposes of funding from the Cohesion fund. These are likely to include projects relating to the treatment of sewage and waste management*





*The European Agricultural Guidance and Guarantee Fund (EAGGF)  
The guidance section of the EAGGF finances rural development measures and aid to farmers. The Guarantee section of this fund supports the Common Agricultural Policy*

## EU FUNDS TO WHICH MALTA WILL BE ELIGIBLE TO AFTER MEMBERSHIP

### **The Cohesion Fund**

Finances specific infrastructural projects relating to transport and the environment in countries with a level of wealth below 90% of the EU average.

### **European Regional Development Fund (ERDF)**

Promotes regional development such as:

- productive investment to create and safeguard sustainable jobs;
- investment in infrastructure (such as transport, industry, environment);
- measures which support small businesses;
- investment in education and health.

### **The European Social Fund (ESF)**

Promotes the return of the unemployed and disadvantaged groups to the work force, mainly by financing training measures.

### **The European Agricultural Guidance and Guarantee Fund (EAGGF)**

The guidance section of the EAGGF finances rural development measures and aid to farmers. The Guarantee section of this fund supports the Common Agricultural Policy.

### **The Financial Instrument for Fisheries Guidance (FIG)**

Helps the fishing industry through projects such as the modernisation of fishing vessels and fishing port facilities, processing and marketing of fishery products and aquaculture.

*For more information see also: •Aggornat Special Edition on Regional Policy*

**Malta's official negotiating position paper on this area  
is also available from MIC or from:  
[www.mic.org.mt](http://www.mic.org.mt)**

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