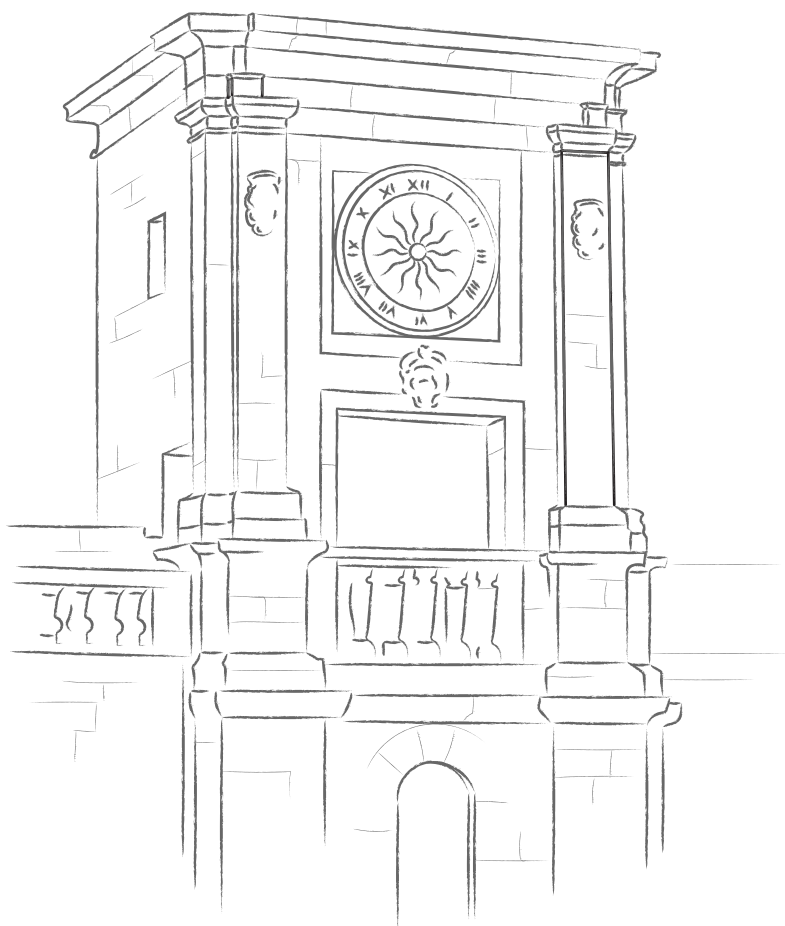


# Perspettivi

A Gozo Review

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# **The Impact of Regional Development Agencies on Regional Socio-Economic Development: Implications for Gozo**

**Victoria Apap**

**Abstract:**

This study appraises the impact of Regional Development Agencies (RDAs) on regional socio-economic development in Europe to derive implications and conclusions for the case of Gozo. A mixed methodology is utilised combining regression analysis, surveys with European RDAs and a case study on the Gozo Regional Development Authority (GRDA). This study concludes that the GRDA is a step forward in the right direction towards enhancing Gozo's socio-economic development through place-based policies. The degree of success can be enhanced if the GRDA is granted implementation powers and capabilities, and if it focuses more effectively on innovation in all areas of its activities.

**Keywords:**

Gozo, Socio-economic development, Place-based approach, Regional economics.

## **Author's Bio-Note**

Victoria Apap is an economist by profession. She attained a MSc in Economics after graduating with an Honours Degree in Economics from the University of Malta. Victoria has been working as an economic consultant for the past four years, focusing in particular on matters concerning Gozo and similar island regions.

# **The Impact of Regional Development Agencies on Regional Socio-Economic Development: Implications for Gozo**

## **Introduction**

Over the past decade, there has been a global recognition of the catalytic role played by regional institutions in promoting proactive territorial development, by adopting place-based strategies which tackle regional specific development challenges and unleash regional potential.

Malta has over the years tended to disregard the concept of a place-based approach when designing its strategic objectives, perhaps on account of the overall small size of the country. Despite several initiatives directed towards the recognition of Gozo's regional distinctiveness, when it comes to on the ground policy implementation, national one-size-fits-all solutions have often prevailed, without paying due regard to Gozo's distinctive characteristics and requirements.

In June 2019, Malta enacted the Gozo Regional Development Authority (GRDA) Act<sup>1</sup> with the aim of strengthening Gozo's

<sup>1</sup> <https://legislation.mt/eli/cap/600/20191205/eng>

institutional framework towards evolving its economic and social development into a distinct and sustainable one. This Authority came into effect in September 2020 with its chief responsibility being the design and stewardship of a long-term regional development strategy for Gozo which shall be reviewed every three years to ensure that Gozo's social, economic and environmental framework is continuously attuned to the changing needs and emerging opportunities in Gozo. Another core responsibility of the GRDA is to ensure that perennial priority is given to Gozo when designing national strategies and policies, particularly those which have a direct effect on the island.

Against this background, this study aims to evaluate the potential influence that the GRDA could have on Gozo's socio-economic progress by exploring situations in other European regions which have such institutions in place. On this basis, this study appraises the extent to which Gozo is likely to benefit from its newly enacted RDA given its current conditions and presents recommendations for its optimal operations and performance.

## **Gozo as a Distinct Regional Territory**

Characterised by its smallness, peripherality and double insularity, the island of Gozo presents a distinct yet complementary offering to that of Malta. Though separated by a mere 6-kilometre channel of sea, Gozo's natural characteristics differentiate it from the rest of the country, albeit from an economic perspective, it is becoming increasingly integrated with the national economy. Gozo's potential is however hampered by the same inherent geographical characteristics which have inevitably deterred economic activity on the island, leading to socio-economic gaps between Gozo and its mainland which merit special attention.

Despite its size, Gozo provides an indispensable contribution to the national economy both in terms of share population and economic activity, which contributions are far higher than those for similar island regions. In 2019, Gozo registered a population of 34,430 and an output of nearly €0.59 billion<sup>2</sup>, representing 6.7% and 4.4% of the national total respectively. Nonetheless, in per capita terms, Gozo still lags behind with an output of €17,027 as compared to €26,780 produced in Malta. It is however worth noting that whilst Malta's GDP growth is reaching a level of saturation, Gozo has the potential to grow further despite its challenges and hence, its potential cannot be overlooked.

One of the socio-economic gaps which exist between Gozo and Malta is the relatively lower economic activity and job opportunities in high value-added and innovative sectors. Indeed, the Gozitan economy remains highly dependent on public administration, retail and wholesale and the tourism sector which together account for almost half of the Gross Value Added generated in Gozo. Conversely, higher productive sectors such as financial services and gaming account for a larger proportion of economic value added in Malta. The discrepancy in economic development is particularly evident from the value of productivity generated per worker<sup>3</sup> which in 2019 stood at circa €41,412 in Gozo, when compared to €49,659 in Malta.

Gozo's inherent challenges are also manifested in its demographic developments. The island of Gozo has been registering a slower growth rate in its population when compared to Malta, mainly due to the lack of accessibility and double insularity which are inevitably compelling Gozitans,

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<sup>2</sup> GDP at market prices.

<sup>3</sup> Defined as the Gross Value Added divided by Full-Time Equivalent.

particularly youths, to opt for a permanent dwelling in Malta to be within the proximity of the main working hubs in the absence of a permanent infrastructure which links Gozo to its mainland. In fact, the share of Gozo's population which is dependent on the working-age population, is estimated at eight percentage points higher when compared to Malta.

In 2019, about 3,578 Gozitan residents were employed on a full-time bases in Malta, of which 51% worked in the public sector. This is a result of the limited job opportunities in Gozo which is in turn causing a lack of suitable access to critical masses of resource inputs and consumer bases, limiting the capacity of business to exploit economies of scale, of scope and diversification in Gozo. The issue of connectivity and accessibility is even more pronounced within a context of a relatively higher level of education attainment in Gozo when compared to that at the national level. In 2019, a higher share of Gozitan graduates per 1,000 inhabitants was observed almost across all MQF levels.

The above-mentioned factors confirm that Gozo merits a place-based approach which allows due consideration to its socio-economic characteristics, state of play and its realities. To this end, through the establishment of the GRDA, Government has committed itself to give a stronger voice to Gozo and strengthen its governance to ensure optimal utilisation of resources that would in turn realise Gozo's full potential.

## **Literature Review**

Halkier et al. (1998) define a Regional Development Agency (RDA) as:

“a regionally based, publicly financed institution outside

the mainstream of central and local government administration designed to promote economic development”

These scholars along with Hughes (1988) stipulate a number of criteria that should be met by an ideal model of a RDA. The first criterion is that such institutions should be semi- or quasi-autonomous from their sponsoring political authority in order to carry out their tasks independent of the day-to-day pressures of the civil service. Another criterion is that the objectives of these agencies should be sufficiently broad to support indigenous firms through soft policy instruments. These objectives may include regional competitiveness, regional growth, SMEs growth and inward investment, amongst others. Lastly, RDAs should have multiple policy instruments available to implement regional development strategies, including environmental improvement, infrastructure, business advice and venture capital.

Furthermore, Mountford (2009) identifies four main roles which development agencies are entrusted with, these being:

1. An economic role – to overcome several market failures including policy and investment failures by using a business approach, seeking to build markets, engage with stakeholders, and perform tasks that remain outside of the government jurisdiction.
2. Leadership role – to address leadership failures by developing a long-term strategic plan for their region and bring together the interest of various stakeholders beyond the specific limitations of electoral cycles and partisan policies.



3. Governance and co-ordination role – to address co-ordination failures by acting as intermediaries among multi-lateral stakeholders and keeping focus on the long-term vision and the regional plan.
4. Implementation role – to address capacity constraints within the public sector. A dedicated team of specialists with high-level skills should be in place to employ the right tools and resources needed to address several market failures that might exist and to reach the envisaged goals of the region.

RDAs are perceived as having several advantages given their organisational set-up. Firstly, RDAs are ideally positioned to develop place-based strategies that address regional specific problems, particularly devolved production systems, to foster new development initiatives and increase differentiation in regional economic activities. Secondly, given that RDAs are outside the mainstream bureaucracy of the public sector, this makes it conducive to attracting specialist expertise required to administer regional policy. Thirdly, the elimination of direct political interference enables the adoption of a long-term strategy capable of tackling fundamental weaknesses of the regional economy that would not have been otherwise addressed due to the short-term mindset of political manoeuvring. Finally, unlike national-level policies, which seem so distant from the regional community, regional development strategies developed by RDAs would seem more proximate to the requirements of the region. The relative freedom of operation, in conjunction with the capacity to produce motivated and regional specific initiatives, enable RDAs to perform a crucial role as an alternative to national government policies (Halkier, et al., 1998).

Nonetheless, in practice, RDAs may tend to differ considerably from the theoretical perspective of an ideal model. These entities are exposed to a number of pressures and influences that impact the way strategies are developed and implemented. EU regional policy and national government legislation could determine their path of development. Moreover, regional actors could also influence the way such institutions evolve as each set of actors could have their own objectives, which could deter the scope of RDAs to actively promote cooperation and to form strategic and associative capacities in a region (Mcmaster, 2006).

RDAs often face several hindrances especially in the form of political and bureaucratic demands, inadequate resource availability as well as the constant need of financial support. Furthermore, these regional institutions often find themselves constrained by the process of state restructuring driven by 'high' politics. They have to meet top-down political strategies and bureaucratic obligations whilst also respond to local demands in terms of governance, economic intelligence and business needs (Lagendijk, et al., 2009).

The following case studies present two different situations in Europe.

#### a) Poland

In Poland, RDAs were established to enhance the socio-economic development of the most disadvantaged regions, with their main aim being the promotion of investment and tourism within the region. Polish RDAs were established as public-private joint-stock companies. The share of the public sector enabled Polish RDAs to acquire the best properties of administration including predictability and public accountability. On the other hand, engagement with the private sector enabled flexibility in decision-making and risk-taking in particular. The involvement of the private sector as

stakeholder in the RDA equity structure also helped to decrease the influence of politics on RDAs' operations.

Gorzalak et al. (1998) surveyed Polish RDAs to assess the extent to which such institutions have enhanced the development of the region and identify best and worst practices. Around 30% of the surveyed RDAs stated that they have contributed towards the development of the region through the creation of new jobs, whereas another 35% stated that they contributed through promotional and advisory activities. Nonetheless, lesser significance was attributed to the attraction of capital (10%). Those who admitted that they were not able to improve the regional situation stated that this was due to the lack of capital, their relatively short period of operation and the lack of formation of the agency's operative.

#### b) England

In England, RDAs were primarily set up to reduce the economic imbalances that exist between and within the best and worst performing regions. These regional institutions set off with the primary aim of building upon the regions innate capacities and capabilities by allowing more regional flexibility and by providing a framework of accountability within regions.

The Regional Development Agencies Act enacted in 1998 entrusted these RDAs with five key roles. RDAs were designed to regenerate and coordinate regional economic development; foster business efficiency, investment and competitiveness; promote enterprise and job creation; develop the right skills to match opportunities within the region as well as to ensure sustainable development. However, these RDAs were abolished in 2012 as they were regarded as an expensive

failure when judged on their performance (Canzanelli, 2011).

A Taxpayers' alliance report highlighted that there was little discernible impact for the money that had been spent over their years of operation. Several factors led to the failure of RDAs in England, amongst them the complete adherence to the central government, with board members and their objectives being directly set by the Ministries. Lack of flexibility to respond to local needs and aspirations compelled local partners to feel precluded from leading action towards economic growth and development (Pike, et al., 2018). Furthermore, most of the RDAs' responsibilities were being undertaken by county councils creating a significant waste of resources. The Taxpayers' alliance report also highlighted that regional disparities between the richest and the poorest regions shot up post the introduction of the RDAs (The Taxpayers' Alliance, 2008).

## **Methodology**

This study seeks to appraise the impact that European RDAs have on regional socio-economic development to derive implications and conclusions for the case of Gozo. A mixed methodology is used, featuring econometric analyses, surveys with European RDAs and a high-level assessment of Gozo's newly enacted RDA. The latter builds upon the results obtained from the econometric and survey analyses to derive policy implications for the functioning of the GRDA and its likely effects on Gozo's development.

### ***Econometric Analysis***

Regression analyses were conducted to assess the impact that RDAs have on both the economic growth and the socio-economic development of European regions with a degree of similarity to Gozo. Economic growth refers to the

extent to which a region is prosperous in terms of output produced within the economy and is usually measured by the change in the Regional Gross Development Product (RGDP) over time. Socio-economic development is a much broader concept, as it takes into account the improvement of people's wellbeing through better-quality education, employment, skills and income. The Subnational Human Development Index (SHDI) is a widely used socio-economic development indicator as it summarises average achievement in three key development dimensions, these being longevity, knowledge and standard of living.

This analysis sets off by observing all European regions reported in the SHDI database compiled by the Global Data Lab Area Database (GDL-AD). Regions included in this database are quite heterogeneous. Hence, a similarity process was undertaken to control for regional differences in terms of their NUTS level, population, regional contribution towards the national economy, land area and whether they are characterised as islands or otherwise. A weighting was assumed for all these control variables depending on their importance in relation to the objectives of the study. On this basis, regions which were found to be at least 80% similar to Gozo were included in this study. These amounted to a total of 57 regions of which 14 were found to be at least 90% homogenous to Gozo.

A cross-sectional linear regression model was first carried out to test the long-run impact of RDAs on regional development, as the effect of policies and strategies adopted by RDAs are typically long-term. This study is based on a period of 27 years ranging from 1990 to 2017 to capture the pre and post effect of an RDA, bearing in mind that most of the European RDAs were introduced in the 1990s. The SHDI was used as a proxy for economic development whilst a qualitative dummy

variable<sup>4</sup> was used to capture the presence or absence of an RDA within the respective region. Given the lack of regional data, especially at the NUTS III level, the only additional explanatory variable was another qualitative dummy variable representing regions benefitting from Objective 1<sup>5</sup> funds. Both qualitative variables were derived through desk research.

The following equation specifies the model utilised in this analysis:

$$\text{LogSHDI} = c + x_1\text{RDA} + x_2\text{Objective}_1 + \varepsilon$$

Although the selection process served as a control to select only those regions that have a certain degree of similarity to Gozo, the existence of other heterogeneity was plausible, yet could be hard to quantify and to observe. Control for this type of heterogeneity is omitted by a cross-sectional regression model and hence, a Difference-in-Difference panel data approach<sup>6</sup> was also employed to account for any time-invariant characteristics that might have biased the significance of the results.

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<sup>4</sup> The main variable of interest denoted by the presence or absence of RDAs, is represented by a qualitative dummy variable which takes the value of 1 if a RDA is established and operating within the region and 0 if otherwise. This variable varies across time to account for the pre and post effect of RDAs on the SHDI.

<sup>5</sup> Objective 1 regions are those regions that benefit from EU funds directed towards the promotion of harmonious development of regions that are lagging behind. Territories that benefit from this type of funding have a RGDP per capita of less than 75% of the EU average. A value of 1 was assigned in periods where the regions benefitted from Objective 1 funds, whereas regions that were either in transition between Objective 1 and Objective 2 or had not benefited at all from these funds under the respective period were assigned a value of 0.

<sup>6</sup> This approach is used when one needs to test the effect of a binary policy variable which varies by state and over time. In this case, the binary policy variable is the presence or absence of a RDA.

The following equation specify the model utilised in this approach:

$$\text{LogSHDI}_{it} = c + x_1 \text{RDAt}_{it} + x_2 \text{Objective}_1 + \text{as} + \text{uts}$$

The same methods were applied with respect to Regional GDP per capita. Data concerning Regional GDP per inhabitant was obtained from the Eurostat portal for the period 2000 to 2016. Objective 1 dummy variable was not included as an explanatory variable in this regression as by definition, eligibility of Objective 1 funds is based on the per capita GDP of the region in relation to the EU average. The results of this regression were not robust as no additional control variables could be used given the lack of regional data, particularly at NUTS III level. Unlike the SHDI, which is composed of various indicators, the GDP regression would need more control variables to produce comparable robustness in results. GDP per capita data was also lacking for some regions which were then eliminated from this analysis.

Furthermore, the timeframe available was shorter than that in the SHDI database.

### ***Survey Approach***

A survey was also designed to provide a wider qualitative picture of the way regional institutions operate and their effect on regional development given the tools and powers that such institutions are endowed with.

A total of eight European RDAs were approached to participate in this research by means of a questionnaire. The European Association of Development Agencies (EURADA) was also contacted to provide its general views on its member RDAs. Valuable information was provided by this Association, especially in reference to the success stories of its members, which have been granted EURADA

Awards as a recognition of their outstanding work to overcome regional challenges.

Apart from EURADA, four RDAs completed the survey, namely:

- SIMORA, the RDA for Sisak - Moslavina County in Slovenia;
- Highlands and Islands Enterprise, the RDA for the Highlands and Islands region in Scotland;
- ADRAL, the RDA for Alentejo in Portugal; and
- Scottish Enterprise, the RDA for Scotland being a peripheral region in the United Kingdom.

The survey was structured into three main sections. The first section aimed to uncover the region's challenges and market failures and to reveal the motives behind the establishment of the RDA. The second section delved into the functions and powers of RDAs with the aim of determining their remit and the various economic instruments and policy tools employed to ensure efficient and effective decision making. The final section sought to identify best and worst practices that RDAs were involved in or have used for the purposes of learning and information gathering.

## **Results and Analysis**

As outlined in the previous section, a regression approach is utilised involving both a cross-sectional regression and panel data analyses to study the impact of RDAs on SHDI and RGDP per capita.

Cross-sectional regression analyses indicate that those regions which had an established RDA during the period under



study, experienced an average improvement of 3.3% in development as represented by the SHDI, when compared to those without an RDA, whereas a positive but insignificant effect was found on the RGDP per capita. This result conforms with a priori expectations, as the main role of RDAs is to enhance regional economic development particularly by activating the region's primary development dynamics. An average increase of 3.3% over the long-term period covered by this approach is also realistic as RDAs seek to develop, plan and carry out innovative and effective development projects that are long-term in their aim and effect. Hence, the benefits reaped by society as a result of the establishment of such institutions are often realised in the long run due to the multi-layered nature of their outcome. The positive but insignificant effect on RGDP per capita is also plausible since RDAs are primarily designated to enhance development, albeit indirectly effects growth.

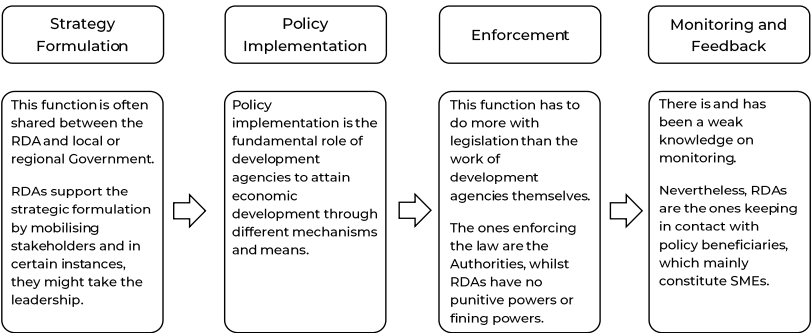
Results derived from the panel data analyses also indicate that the SHDI of those regions with an RDA in place increased by circa 4.5% over the period under study. The panel regression model which tests the effect of RDAs on RGDP per capita produced a spurious outcome due to an omitted variable bias. These results approximate those found in the cross-sectional regressions, thus confirming the validity of the cross-sectional regression results despite the fact that both a lower number of observations and degrees of freedom were present.

The main conclusion that emerges from this method is that European regions with a degree of similarity to Gozo, which had an established and operating RDA between 1990 and 2017, experienced a direct improvement in their SHDI, albeit not in their RGDP per capita. These results indicate that RDAs enhance regional socio-economic development to a more significant extent than growth.

Results derived from the survey conducted with European RDAs indicate that the motives behind their establishment include peripherality which forges regional disparities, undercapitalised human resources that are unable to address contemporary socio-economic issues and the need for a place-based approach in order to achieve better prioritisation of regional needs.

All surveyed RDAs expressed their efforts towards regional development and whilst there is still much to be desired in terms of public administration efficiency, interest and trust among target groups and the capacity of intervention, there is an overall consensus that European RDAs have greatly contributed towards the development of the region primarily by ensuring a strategic vision through the development of a long-run regional development strategy. In general, this function is shared between the RDA and the regional Government with its implementation being a fundamental role of European RDAs. Table 1 presents a general overview of the typical functions performed by European RDAs, in terms of strategy formulation, policy implementation, enforcement and monitoring and feedback.

**Table 1: Functions of European RDAs**



Source: Surveyed European RDAs

Furthermore, Table 2 summarises the typical powers that European RDAs are entrusted with based on information provided by the surveyed RDAs.

**Table 2: Powers of European RDAs**

Fiscal Powers	RDAs are only entrusted with expenditure powers, but none are endowed with the power to impose or collect taxes. Some RDAs charge fees for any public services they may offer. Others borrow from public fund banks to offer microcredits to local stakeholders.
Administrative and Regulatory Powers	RDAs have no regulatory powers. At best, they give technical assistance to parliament or public administrations that pass laws and regulations.
Policy and Political Decision-Making Powers	RDAs have neither political nor decision-making powers. They are solely expected to carry out what governments need to implement.

*Source: Surveyed European RDAs*

An outstanding lesson that emerged from the survey analysis is that although some regional difficulties cannot be completely eliminated due to their geographical position relative to others, such regions are still flourishing as a result of the policies and programmes initiated by RDAs. European RDAs are designing innovative-driven regional development strategies and high-technology practices which enable the region to prosper despite its inherent handicaps. Key lessons learnt from this approach include the importance of:

- i. Enhancing regional cooperation and partnerships both at a national and international level;
- ii. Supporting indigenous firms through soft advice, which is as important as harder measures;
- iii. Embarking on innovative and high-technology practices that enable the region to prosper despite its characteristics; and lastly
- iv. Promoting the region's potential internationally and investing in regional niche sectors.

## **An Ex-Ante High Level Assessment of the Expected Impacts of the GRDA**

This Section provides an evaluation of the GRDA, both in relation to theoretical insights obtained from the literature as well as practical experiences derived from the econometric and survey analyses. An appraisal of whether such factors exist in the design of the GRDA - or are at least likely to materialise in the future - is conducted. This leads to the formulation of policy implications and lessons in this regard.

### ***Motives Behind the Establishment of the GRDA***

As outlined above, the general motives behind the establishment of surveyed RDAs include the need to address market failures generated by insularity and peripherality issues, which in turn lead to regional disparities and the lack of regional community capacity. The solution to these problems is often found in a place-based approach to ensure adequate prioritisation of interventions and measures across all spheres of socio-economic development.

As recognised in Section 2, the flexibility needs behind the establishment of these RDAs are conformable with those of Gozo, being characterised by double insularity, peripherality and remoteness, all of which forge disparities from mainland Malta. Moreover, its small population, which is aggravated by the ageing population, offers limited employment opportunities for specialised personnel, leading to brain and skill drains, thus reducing Gozo's community capacity. This is further accentuated by the element of detachment that exists between Gozitan economic and social stakeholders and the national Government, which may delay due consideration of Gozo's needs and priorities, hampering its development.

To this end, the need for a place-based approach has been confirmed year after year to address Gozo's specific requirements and ensure that the necessary actions are taken towards enhancing Gozo's socio-economic development.

### ***An Evaluation of the GRDA***

#### a) Institutional and strategic aspects

Hughes (1988 and Halkier et al. (1998 outline three criteria that an ideal RDA should satisfy in order to be best equipped to enhance regional development.

The first criterion requires RDAs to be in a semi- or quasi-autonomous position from their sponsoring political authority in order to carry out their tasks independent of the day-to-day pressures of the civil service. As highlighted above, Gozo's needs and characteristics are often underemphasised due to the amount of detachment that exists between Gozitan stakeholders and the national Government. To this end, the GRDA is designed as a semi-autonomous Authority and is managed by Gozitan social and economic stakeholders who are interested in Gozo's sustainable development. The Minister has the power and duty to appoint a number of GRDA board members to ensure that these individuals are carefully selected to reflect Gozo's socio-demographic characteristics and its institutional representation. Other representatives are nominated by the Diocese of Gozo, the Gozo Local Councils and the Gozo Regional Committee. Furthermore, the Act stipulates that any person who is or has formerly been Minister, Parliamentary Secretary or a member of the House of Representatives shall not qualify to be part of the GRDA Board (Parliament of Malta, 2019).

The second criterion entails that strategically, RDAs require a broad range of objectives directed towards supporting indigenous firms by means of 'soft' policy, specifically regional competitiveness, regional growth, SMEs growth and inward investment amongst others. The Gozo Regional Development Strategy, which is being finalised at the time of writing, seeks to address a broad range of priority areas including Rurality, Infrastructure and Accessibility, Social Development, Sustainable Tourism, Economic Development and Human Capital, Spatial Development and the New Economy. The design of this strategy was based on a consultation process with Gozitan stakeholders in order to ensure that the needs of local firms and the Gozitan civil society are addressed.

The third criterion stipulates that RDAs should have multiple policy instruments at their disposal to be able to implement regional development strategies. However, the GRDA does not comply with this criterion because it is not designed to be the policy implementer. Policy execution and the use of policy instruments will remain a core Government function. Measures and actions included in the Strategy will be carried out by the respective Ministerial department, whilst the GRDA will only influence this process through the management and stewardship of the Strategy and secure a joined-up policy design through its Regional Impact Assessment Studies (Parliament of Malta, 2019).

This analysis implies that the design of the GRDA conforms with both the first and the second criteria, nonetheless, it does not comply with the third criteria as the GRDA is not designed to be the policy implementer.

#### b) Efficiency and effectiveness

Mountford (2009) identifies four main roles that an RDA should

play to ensure efficient and effective operation.

RDAs should fulfil an economic role with the aim of correcting regional market failures including policy and investment failures, through engagement with stakeholders and their semi-autonomous operations outside the Government jurisdiction. The GRDA is intended to address policy and investment failures that have ensued in the past due to an absence of a long-term, concrete and enforceable strategy for Gozo, which instigated a lack of motivation among Gozitan entrepreneurs to engage in development projects, particularly those which require significant amounts of funding and other resources, and entail elevated risks. It is considered that insufficient effort in this regard contributed to widen the gap between Malta and Gozo's socio-economic development.

The GRDA is expected to overcome such failures by ensuring that the Strategy is being implemented in line with its objectives and by carrying out Regional Impact Assessment Studies on national strategies, policies and strategic plans which might have an impact on Gozo. These studies will ensure that Gozo's significant economic, social and environmental requirements are incorporated within the national targets and actions (Parliament of Malta, 2019). Results emanating from survey responses indicate that most of the European RDAs share the strategy formulation function with the local or regional Government. EURADA claimed that usually European RDAs support the design of the strategy and in some instances, they might also take the leadership. In fact, leadership is another role that RDAs should play through the management and supervision of the regional development strategy beyond the specific limitations of electoral cycles and partisan policies. The GRDA will be responsible for the stewardship of the Gozo Regional Development Strategy to ensure a long-term strategic

plan for Gozo that will be reviewed every three years to reflect the evolving needs of society. This Authority will allow Gozo to consider its own needs and put itself on the national Agenda.

This role is intertwined with that of Governance and co-ordination. One of the main functions of the GRDA is to consult with the Government and its representatives, the private sector, governmental and non-governmental organisations as well as private citizens regarding any work that it intends to carry out, especially concerning the design of the Strategy. A performance agreement is to be signed between the GRDA, acting as the 'purchaser' of the implementation services, and Government departments within the Ministry for Gozo, acting as the 'suppliers' of such service (Parliament of Malta, 2019). This agreement specifies the key performance indicators and targets which the Government departments have to achieve by a stipulated date and according to an agreed plan. Hence, projects and initiatives identified in the Strategy will be bound by this agreement, which acts as the governing instrument of the GRDA on the provider.

Theory stipulates that RDAs should play an implementation role by employing a dedicated team of specialists with high-level skills to address any market failures which might exist within the region and to achieve envisaged goals. From a practical standpoint, this is one of the key functions of the surveyed European RDAs, through which various successful initiatives have been introduced to enhance their regional socio-economic development. Nonetheless, the GRDA is not designed to be an implementing agency but rather an implementing Authority, as it is only responsible for the stewardship of the implementation process undertaken by Government departments and ensuring smooth implementation of the measures stipulated in the Strategy.



As previously highlighted, there is a weak knowledge regarding monitoring and feedback among European RDAs and also in the literature, in spite of the importance of this matter in assessing whether the implemented policies and measures are contributing towards regional development and in addressing any shortcomings in the strategy including far-fetched goals and availability of resources. It is considered that the GRDA will be in a strong position to exercise this function, particularly through its formal three-year strategy review.

Expenditure required for the proper functioning of the GRDA shall be met by its revenue (Parliament of Malta, 2019). Similar to European RDAs surveyed in this study, this entity is not entrusted with tax raising powers, but it is able to levy fees, rates and other payments prescribed by law. The Government will also support the functioning of this Authority through its Consolidated Fund as may be authorised from time to time by Parliament. The Authority also has the power to borrow funds by way of an overdraft or otherwise, without the need of approval by the Minister, provided that the amount does not exceed €120,000.

### c) Avoiding pitfalls

As outlined in Section 3, there are some drawbacks which hamper the effectiveness of regional strategies adopted by RDAs, the first one being a tendency to go for rushed high-visibility strategies. The GRDA is design to circumvent this through a five-year strategic review which evaluates the Authority's performance against key indicators and ensures its efficiency and effectiveness. As part of this review, an assessment of de-bureaucratisation measures will also be conducted to ensure that political and bureaucratic obligations are avoided (Parliament of Malta, 2019).

Inadequate resource availability is also a notable concern for RDAs, particularly their reliance on external funding to carry out their tasks. However, this does not concern the role of the GRDA as a governing Authority, since the principal aspects of the budget instrument is within the Government departments' remit as the strategy implementers.

Another drawback is that regional actors could influence the way RDAs evolve in line with their own objectives, which discourage the scope of RDAs to actively promote cooperation and enhance regional development. Nonetheless, as outlined above, one of the main roles of the GRDA is governance and co-ordination whereby it consults various regional actors who are interested in enhancing Gozo's development and design the regional strategy thereon. Furthermore, the GRDA Board is composed of various stakeholders emanating from different economic and social groups.

Lastly, the GRDA should try to avoid factors which led to the failure of RDAs in Europe particularly English RDAs. One of the factors which led to their abolishment was complete adherence to the central government, with board members and their objectives being directly set by the Ministries. This gives food for thought regarding the case of Gozo, given that the GRDA is not completely autonomous and most of its functions have to be approved by the Minister including the selection of Board members. Moreover, regional entities need to be aware of the responsibilities undertaken by the GRDA to eliminate duplication of resources, as this was another factor that led to the failure of English RDAs.

## **Main Findings and Policy Implications**

This study provides an ex-ante appraisal of the influence that the GRDA could have on Gozo's socio-economic development, based on situations and experiences in other

regions with a degree of similarity to Gozo.

Regression analyses indicate that RDAs generate a positive and significant effect on regional socio-economic development, but an insignificant effect was found on regional GDP per capita. Survey results further confirm that European RDAs have significantly contributed towards the development of the region primarily through the development of innovation-driven strategies. Following an evaluation of the GRDA vis-à-vis theoretical perspectives and practical experiences, it can be deduced that the introduction of this Authority is a step forward in the right direction towards addressing the existing gap between Gozitan needs and national political priorities via a place-based approach.

In order to engender best possible results, greater autonomy could be granted to such regional Authority to ensure that political and bureaucratic obligations would not hinder its efficiency and effectiveness. Particularly due to the fact that although the GRDA Board is not composed of Government officials, most of its activities should be approved by the Minister. The degree of success of the Authority can be further enhanced if it is granted implementation powers and capabilities as this function would enable a more integrated approach towards Gozo's development, and if it focuses more effectively on innovation in all areas of its activities.

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# **Economic Factors Underpinning the Real Estate Market in Gozo**

**Mario Borg & Gevit Duca**

## **Abstract**

The real estate market in Malta and Gozo attracts a lot of interest. This is to be expected given the contribution of this sector to the local economy in terms of value added and employment, the fact that the last few years have saw an intensification of activities, and also due to the externalities that construction generates.

This paper seeks to explore the main supply and demand dynamics that have occurred in the real estate market in Gozo over the past decade. The main objective is that of presenting for discussion the question on whether the supply coming to the market can be understood by demand fundamentals, or whether the Island is collectively over-investing and over allocating resources to property development, thereby creating an excess supply situation.

## **Keywords:**

Gozo, Real-Estate, Socio-Economic development, Externalities.



## **Authors Bio-Note**

### **Mario Borg:**

Mario Borg spent over 10 years at the Economic Policy Department working mainly in economic forecasting, policy analysis and policy design. He subsequently was appointed a Director of Economic and Business Statistics at the National Statistics Office (NSO). During the past years, he formed part of the Government of Malta National Blockchain Taskforce (2017-2018) and the Board of Governors of the MFSA (2017-2020). Before being appointed as Chief Executive Officer at the Gozo Regional Development Authority, he worked as a Consultant at MIMCOL.

Mario Borg holds a first degree in economics and an MA in small island states from the University of Malta and a MSc in economics from the University of York, UK.

### **Gevit Duca:**

An Economist and Accountant by profession. Has worked in risk management at FIMBank plc and is currently engaged by APS Bank plc, where he occupies the role of Senior Manager in the Credit Risk Department and is secretary to the Board and Management Credit Committees. Prior to moving into the private sector, was employed with the financial regulator (MFSA) and within Government (Economic Policy Department) as an economic analyst and subsequently as Senior Economist. Has a passion for the financial sector and any problem/challenge which requires an analytical mindset.

Gevit Duca's academic background is well blended. Holds an MSc Economics from LSE (London School of Economics), is a CFA charterholder, and an ACCA qualified accountant.

# **Economic Factors Underpinning the Real Estate Market in Gozo**

## **Introduction**

The real estate market in Malta and Gozo attracts a lot of interest. This is not surprising given that this market is and remains a key contributor to the local economy. Its direct contribution, measured by the economic activity of the construction and real estate sub-sectors amounted to circa €1.3bn during 2020, representing around 10% of Malta's economy.

The sector is equally important in terms of employment. As per March 2021, the sector provided direct employment to 78,000 individuals from a stock of labour supply equating to 237,700 individuals - a direct employment contribution of 7.6%<sup>1</sup>.

An additional factor which partly explains the high interest in this market is that property is widely viewed as an investment, with the real estate market possibly representing the dominant asset class in which households opt to invest and store their wealth holdings.

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<sup>1</sup> The multiplier of the real estate sector stands at around 1.28 while construction have the highest multiplier (1.70) among the economic sectors, hence the indirect contribution is significantly higher.

Partly as a result of the above factors, successive administrations have given particular attention to real estate when formulating their policies. Over the last decade, following the property boom of 2006-2009, the real estate market has experienced two phenomena. One is the fact that operators in the sector have understood their strong role in the country's economy and have set-up the Malta Developers Association, a strong lobby group in the local scenario. Secondly, there has been a series of measures introduced by the Authorities, including budget programmes, that helped stimulate and sustain demand in the real estate market.

Gozo has not been insulated from these dynamics. While smaller in size, Gozo is endowed with a proportionately higher degree of undeveloped land (ERA, 2018). The latter has been subjected to considerable pressure over the last decade.

## **Methodology and Objectives**

This paper seeks to explore the main supply and demand dynamics that have occurred in the real estate market in Gozo over the past decade. The main objective is that of presenting for discussion the question on whether the supply coming to the market can be understood by demand fundamentals, or whether the Island is collectively over-investing and over allocating resources to property development, thereby creating an excess supply situation. The paper does not seek to assess whether current price levels are in sync with a market price equilibrium and hence whether the market is overbought such that a property market bubble prevails.

This paper neither seeks to assess whether Gozo has reached a point of overdevelopment. This is due to the fact that the concept of 'overdevelopment' is qualitative in nature

and a region might end up 'overdeveloped' as defined by some quarters, while the market remains unresponsive to such a situation.

More specifically, this short paper seeks to look at two particular issues:

1. Whether the Gozitan real estate market exhibits any different traits and characteristics from the National market;and
2. Whether the steady stream of real estate development (and hence supply that has been coming to the market in recent years) is justifiable and supportable from a market demand dimension.

The main data sources used in this paper are the Planning Authority (PA) data, Census data, and data from real estate transactions registered with the Commissioner for Revenue (CFR).

## **Supply considerations**

Over the last 5 years, the Maltese economy has witnessed a notable boom in the volume of property developments, including residential developments (Borg, 2021). There are signs that approvals of residential dwellings have been cyclical both in Malta and Gozo. Although the average magnitude of residential applications equates to 773 units, residential dwelling applications were notably more than the average during the period 2005-2009 and during the period 2018-2020.

The degree of cyclicity of residential applications is quite pronounced, with a total of 1,360 applications approved during 2007, and a further 1,750 and 1,353 approved during

2019 and 2020. During that period, the number of applications exceeded the average applications approved in a given year by a factor equivalent or higher than 1.76x. Comparing data in Malta and Gozo suggests that the pickup in residential dwelling applications in Gozo tends to follow what occurs in Malta by a time lag of around 2 years. This elicits 2 key conclusions:

1. The market is quite elastic, notwithstanding the scarce supply of land in Malta, with developers increasing the volume of residential dwelling applications in instances when the price of residential real estate increases at a faster pace than the average price trend.
2. Although the supply variable is quite reactive to the price market signal, a degree of inertia appears to prevail in the statistics, in that once the approvals of residential dwellings exceed the average, it takes a number of years for the number of residential dwelling approvals to return to the trend, even if price dynamics may no longer have remained very strong.

Another manner in which the supply dimension of residential property being made available in Gozo may be assessed, is by way of benchmarking the proportion of the island's population relative to the overall population of the two islands. The 2007 census outlines that Gozo had a population of 37,000 individuals, equivalent to 7.7% of the aggregate population.

For most part of the period under review, the number of residential dwelling applications was considerably higher than what would be a priori expected in the context of the proportion of the island's population. Specifically, during the

entire period between 2002-2012, residential dwelling applications in Gozo exceeded the 7.7% population proportion. Dwelling applications converged to Gozo's population proportion solely during the period 2013-2018, and only exhibited a further misalignment from population norms during 2019/20.

This gives rise to the third supply dynamic consideration. Although Malta has long been deemed as the more developed and densely populated island in the archipelago, the data suggests that the gradual but persistent pickup in supply of residential dwellings in Gozo has persisted for two decades, and dates back to the early 2000 and is not necessarily a recent phenomenon. The latter is surprising given that Gozo has always been considered as the more rural island. Specifically, development has largely tended to exceed Gozo's relative proportion of the population for the last two decades.

Furthermore, benchmarking residential dwelling approvals in Gozo and in Malta, as approved by PA, further confirms the general tendency for the property boom in Gozo to take off with a lag of a few years.

**Table 1: Strong Dominance of Apartments in Residential Dwelling Applications (Gozo)**

<b>Residential dwelling applications relating to apartments</b>	Aggregate	Annual average
Period 2000 - 2020	12,318	587
Period 2005 - 2009	4,487	897
Period 2018 - 2020	3,339	1113
<b>Total residential dwelling applications</b>	Aggregate	Annual average
Period 2000 - 2020	16,212	773
Period 2005 - 2009	5,344	1,069
Period 2018 - 2020	4,158	1,386

Source: Planning Authority.

As outlined in Table 1, the major part of residential dwelling applications during the period 2018-2020 pertained to apartments. Apartments, during the aforementioned period constituted 80% of aggregate applications. This trend has prevailed during the entire period 2000-2020, whereby during the two decades in question, applications pertaining to apartments constituted 75% of aggregate applications.

The strong concentration of apartments in PA applications constitutes a further confirmation that supply is quite reactive to demand dynamics. The Labor force survey outlines an average monthly wage of €1,608 for Q2 2021. In the context, of Directive 16, (Regulation on borrower-based measures), which all retail banks have to abide by, a household of 1 breadwinner earning an average wage will be able to raise a home loan of around €140k, whilst a household of 2 breadwinners earning the average wage would be able to obtain a home loan of €280k. Such home loans would enable the individual/s to purchase an apartment, rather than a terraced house, villa or country house. This partly explains the persistent increase in the supply of apartments as most of the demand is coming from economic agents that could only afford the latter.

Disaggregated data obtained from the Planning Authority suggests that residential development in Gozo has largely been concentrated in 6 key town/villages. These 6 towns essentially underpin around three-fourths of the entire development that has occurred in Gozo over the last two decades. This trend for agglomeration in key zones does not appear to have changed over the years or over the property cycle.

**Table 2: Concentrations of Development in 6 Key towns/villages  
(No. of Residential Dwelling Applications).**

Period	Gh'sielem	Nadur	Qala	Rabat	Xaghra	Żebbuġ	% Of Total
2005-2009	661	387	353	548	779	1,122	72
2018-2020	353	308	430	567	777	452	69
2000-2020	1,733	1,360	1,307	1,786	2,621	2,518	70

*Source: Planning Authority*

## **Key Drivers to Economic Demand 1: Property as an Asset**

There is little doubt that property is widely viewed as a main investment asset. This generally holds globally but it seems more accentuated at a national level. The reasons might be several but can basically be grouped in two: one relates merely to pure speculation while the second consists of a view that property is a form of perpetual bond with rent being a substitute for the coupon.

Viewed along these terms, the steady and stable returns generated - in terms of price appreciation and rental income - provide both a justification and a rationale for this predisposition, underpinned by a degree of self-fulfilling and reinforcing dynamics. The perceived limitation of supply and the intertemporal trajectory of economic returns of the real estate market fuel a core expectation among economic agents that the price of property is bound to continue to increase over time, with the major question being the rate of growth rather than whether the market will witness intertemporal price increases or decreases.

This strong tendency to invest in local real estate is somehow



suboptimal and potentially irrational, given that in the context of Malta's small market one would expect a rational preference to diversify wealth holdings away from Malta. However, a combination of risk aversion partly fuelled by a general lack of financial sophistication and a history whereby households have witnessed sizeable contractions in their equity and bond investments act to reinforce the preferences towards the real estate investment market.

Property prices in Gozo have been on an upward trajectory for a number of years. This partly reflects the buoyant economic activity and the introduction of several government measures which have boosted the property market. The rise in property prices in Gozo can be clearly seen from the quarterly housing market assessment of Djar Malta. According to the latest quarterly report, property prices in Gozo registered a year-on-year increase of 1.9% during the first quarter of 2021. On the other hand, property prices in other Maltese regions fell marginally when compared to the same period a year earlier. Given these developments, the persistent price growth trend in Gozo indicates a continued price conversion across the two islands. Therefore, there exists an increasing possibility of homogeneity between the two markets.

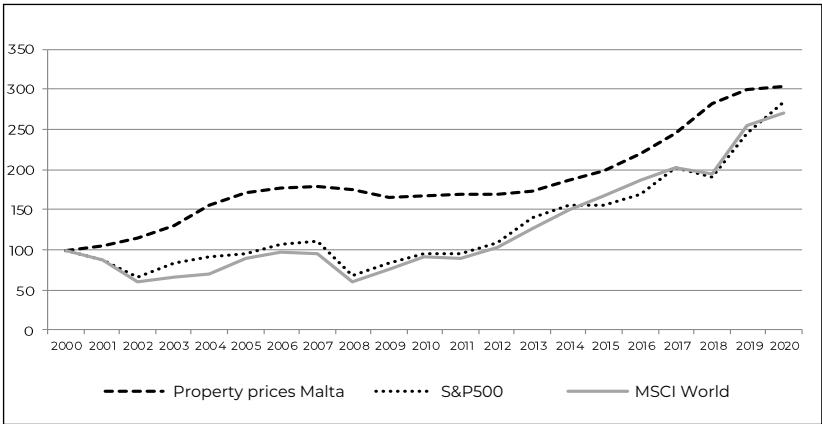
Property prices in Malta when benchmarked over a 20-year period appear to have granted a slightly higher rate of return than stock prices - as benchmarked by the S&P500 index and the MSCI World index. Specifically, since the year 2000, the Maltese property market has generated a return (compounded) of 5.7%, whilst US and World equity markets have generated a respectable 5.4% and 5.1% compound return. It should be underlined that the equity prices have over the period exhibited a higher level of volatility, albeit intrinsically provide a higher level of liquidity, should one want to exit the underlying investment, and considerably lower transaction fees. In this regard, the transaction fee to

enter a property investment equates to roughly 2% at entry stage payable to the notary in relation to the publication and registration of deed and a range of 3% - 5.9% in transaction fees payable to estate agents upon the exit from a transaction.

In contrast, the applicable transaction fee on entry and exit from an equity investment in a stock exchange hovers between 0.5% and 1%.

The above market trends do not take into account the fact that by taking into account a 20-year period when comparing asset market returns, the inter-temporal comparison kick-starts in the year 2000, a time when stock markets the world over were overvalued and in bubble mode (the dot-com crash). Moreover, the fact that in 2004, Malta joined the EU may have provided a one-time base effect to Malta's property market in view of the expected convergence that such a membership tends to bring about.

**Chart 1: The Relative Benchmarking of the Property Market as an Asset Class**



Source: CBM

In fact, restricting the analysis to the period 2007-2020, and hence commencing the assessment to the year prior to the onset of the global financial crisis yields an annual compounded return of 4.2% for the Maltese property market and an 8.4% annual return for the MSCI World index. This confirms that although the Maltese property market has historically generated very encouraging returns, the equity market, which is the appropriate comparison to employ as a benchmark given the underlying risk/return profile of a real estate investment tends to yield equivalent if not higher returns.

Notwithstanding, entire segments of the population still consider the property market as the only valid avenue for their savings giving rise to a situation whereby some households own a number of properties merely as a store of value and a vehicle through which the household can generate long term capital appreciation. This predisposition, intrinsic in Maltese culture may be attributable to the fact that a pronounced home country bias prevails in a backdrop whereby the local stock exchange remains still small and restricted.

Furthermore, Maltese economic agents tend to shun equity investment and tilt towards bond investments. The return rates granted by such assets has in recent years been quite low following the pronounced reduction in interest rates and quantitative easing programmes pursued by Central Banks all over the world.

In conclusion, a combination of home country bias and a subdued interest rate trajectory, coupled with encouraging returns for real estate may provide a strong backdrop for a sustained and persistent level of demand fundamentals for real estate in Malta as an investment class rather than solely as a basic good providing shelter/residence to the household. The latter is coupled with a number of other key

drivers that have sustained economic demand in previous years.

## **Key Drivers to Economic Demand 2: Increased Affluence**

Economic growth enables a country's population to purchase larger and/or additional real estate holdings. Increases in GDP/capita essentially provides three channels through which they impact the underlying demand for real estate.

The first channel is that higher income levels as measured by a country's GDP/capita, enables households within an economy to demand larger or more comfortable housing, in the process rendering segments of the housing stock no longer desirable. Consequently, such residential dwellings would be construed as fully depreciated, thus requiring full replacement thereof.

The second channel is that higher income levels enable households to afford additional property. Thus, if the average income per individual can be assumed to be proxied by GDP per capita, an increase in average income will enable higher demand for residential units in that individuals could opt to utilise a segment of their higher income to purchase a secondary dwelling in the countryside or a summer residence.

This channel is a particularly key consideration in the case of Gozo, given the double insularity of the island and the slower pace of life and, thus far, a relatively lower level of urban sprawl when compared to Malta. This backdrop renders the island attractive to have a holiday residence.

The third channel or link between higher GDP and higher demand is interlinked with the migration of labour across economies in a context whereby factors of production migrate to in search for an improvement in living conditions.

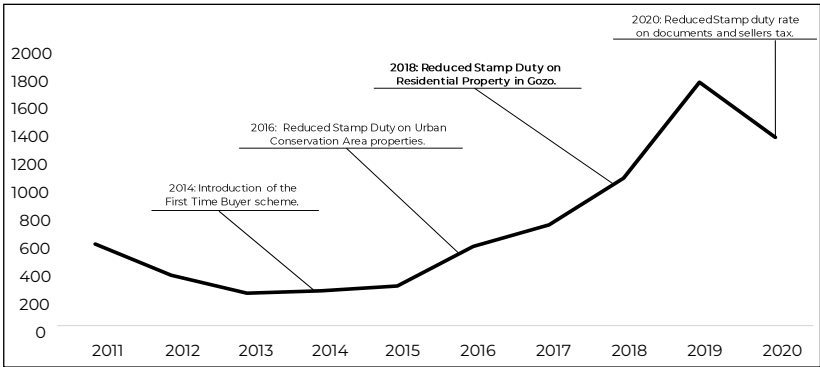
In the last 8 years, this channel has been very prevalent given that the number of individuals migrating to Malta for employment purposes has increased notably. Although the latter has experienced a degree of contraction following the onset of the COVID-19 pandemic, the degree of retrenchment has only partially offset the steep increase recorded in previous years. The volume of foreign workers moving to the country for employment in the context of the robust labour market experienced in recent years unleashed a strong rental market with a number of investors specifically channelling their savings towards this sector given the strong demand and the opportunity to earn a good return.

For Malta, the development of the rental market is a relatively new phenomenon in that the liberalisation of the market in 1995 did not immediately give rise to any significant movement in the market. However, this policy-change unleashed movements that with time gained momentum. Since Malta became a full member of the EU the number of foreigners moving to Malta increased significantly in 2004 there were 4,118 foreign employees working in Malta with the number increasing to 70,400 by 2020. Gozo has also witnessed such development with foreign workers representing a substantial ration of the Gozitan labour force (GRDA Note, November 2021). This subsequently increased the demand for rental property and increased rents, rendering them a highly attractive stream of additional income for middle class households and attracted further investment in property. The attractive rents offered a catalyst for investors to consider the rental market as an investable market and overcome the intrinsic fear of re-regulation of the sector, especially in a market reality whereby some participants are still scarred and suffering lost rents/heavy opportunity costs due to restricted returns on pre 1995 leases.

### Key Drivers to Economic Demand 3: Fiscal Measures

A final factor that has sustained demand for residential dwellings in recent years relates to a number of fiscal measures. Over the past years, the Government incentivised and sustained a wider segment of the population in their attempts to purchase their own property. These measures included the first-time buyer scheme, schemes aimed at second time buyers, and stamp duty deductions in relation to the purchase of properties in Urban Conservation Areas and in Gozo. Further measures consist of grants or targeted support including the equity-sharing scheme and deposit scheme managed by the Housing Authority. Such fiscal schemes and measures widen the demand of individuals seeking to purchase a property, to establish their own residence.

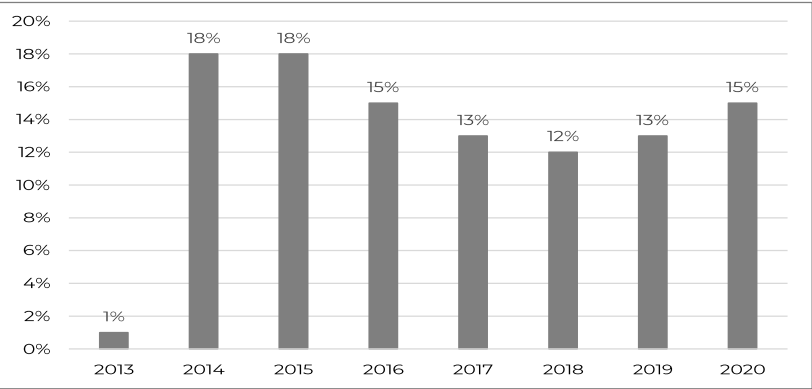
**Chart 2: Fiscal Incentives and Approval of Residential Units in Gozo**



Source: Planning Authority, various Budget speeches

The demand variable in Gozo does not appear to be strongly underpinned by the number of first-time buyers (FTBs). This group of clients is reported to be quite low and stable hovering around the 14% level.

**Chart 3: Percentage (First Time Buyer)**



Source: Commissioner of Revenue.

Note: Range between €70K and €1.2m.

The latter could be attributable to two aspects:

1. A segment of the property demand in Gozo is attributable to individuals seeking a second property on the island as a summer residence/ vacation home or as an investment property to tap into the rental market.
2. A second reason might be that a number of individuals from Gozo, (notably professionals) after finishing their studies in Malta have opted to acquire their first residence in Malta, in view of better employment opportunities in Malta. These eventually might have been able to acquire their second home in Gozo with a view of moving 'back' to Gozo at a later stage in their life.

An important but often overlooked development occurred in July 2021 whereby non-FTB household seeking to buy a second property in Gozo must place a deposit of 25% rather than 15% which was the previous minimum level of deposit under Directive 16 (Regulation on borrowing based measures).

In the context of a €178k average price for transactions conducted during FY2020, the increase in deposit necessitated by the regulations equates to a hefty €18k, which may act as a drag on the market especially in the near term, given the higher level of equity injection that households will have to cough up for a secondary residence.

## **Concluding Remarks**

A scenario whereby demand is high, there could be the possibility that the underlying economic demand at a particular juncture is arbitrarily and unsustainably high and although the market may be in a temporary equilibrium situation, the high level of demand may give rise to:

1. Incorrect market signals to players on the supply side, with the result being that once the temporary high demand due to, for example, excess liquidity or irrational exuberance ends, the supply momentum keeps flowing to the market for a sustained period until a sufficient excess supply necessitates an adjustment.
2. A situation whereby the increase in density of property reduces the attractiveness of the Island by directly defeating the same purpose that buying property in Gozo was deemed an attractive proposition in the first place. More specifically, if too many people opt to buy a second property in Gozo to have 'some rest and tranquility' the scope of having a second property in Gozo will be lost given that Gozo will no longer offer a place of relaxation and tranquility. In essence, it would no longer be rational for investors to channel their savings towards a second property in Gozo.



Besides the issue of re-equilibrium, one must also keep in view the externalities created by development. This assumes greater importance in view of the relatively large stock of properties that are either in a dilapidated state or unoccupied, some of which exhibit intriguing architectural features. The latest available Census (conducted in 2011) sheds light on a sizeable excess housing stock equivalent to 24% of the entire stock of residential dwellings in Gozo – amounting to circa 6,000 units. The latter is considerably higher than what prevailed in Malta in the last Census whereby the excess stock hovered slightly below 18%. One should point out that the negative externalities may not be restricted to short term adverse effects such as noise and dust pollution.

In the longer term such negative externalities take the form of lower utility generated from a dwelling in Gozo both for owners using it as their main residence and those using it as their secondary residence. This is a sort of 'tragedy of the commons' with a resource being overused eventually resulting in collective loss.

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# **A Digital and Green Roadmap for the Island of Gozo**

**Daniel Borg**

## **Abstract**

This article examines the potential and the possibilities of the digital and green economy for the island of Gozo. It outlines key considerations at a policy and an institutional level, including also some proposed actions that would be conducive for the setting up of the digital and green economy on the island. The article concludes that the digital and green economy hold considerable potential for the island of Gozo. Nonetheless certain policy lessons from past initiatives need to be taken into consideration.

## **Keywords:**

Gozo, Green economy, Digitilisation, Regional development.

## **Author's Bio-Note**

Daniel Borg is presently the Chief Executive Officer of the Gozo Business Chamber, and also a Director on the Board of the Gozo Regional Development Authority. He worked as a research and policy analyst within various government entities including the Management Efficiency Unit, the Malta Communications Authority and the Ministry for Gozo. He was also a visiting lecturer within the Department of Public Policy at the University of Malta, and has published and participated in seminars abroad on the topic of the contribution of cultural heritage to tourism in Gozo. His main areas of interest include public policy, public management, tourism, and how the formulation of national policy affects the island of Gozo.

# **A Digital and Green Roadmap for the Island of Gozo**

## **Introduction and Background**

Gozo is the second largest island in the Maltese archipelago with a population of 34,430 people (National Statistics Office, 2021c, p.13) and a land area of 68 square kilometres (NSO, 2020, p.9). Though the digital and the green economy are considered as two potential areas for economic growth on the island, as they align themselves with its characteristics, this article sets to question Gozo's real possibilities and potentialities in these areas. It sets to form this analysis by outlining the developments in various policy areas on these subjects, both nationally and internationally. As regards policy, Malta's membership of the European Union has been an important influencer in the local policy scenario. Consequently this article will also outline the policy direction at a supra national level, and question the underlying conditions for Gozo to achieve its full potential in these respective areas.

## **Defining the Green and Digital Economy**

The United Nations Environmental Programme (UNEP) defines the green economy as:



Low carbon, resource efficient and socially inclusive. In a green economy, growth in employment and income are driven by public and private investment into such economic activities, infrastructure and assets that allow reduced carbon emissions and pollution, enhanced energy and resource efficiency, and prevention of the loss of biodiversity and ecosystem services (UNEP, 2022).

The green economy is intrinsically tied to green jobs. Green jobs are defined as:

Decent jobs that contribute to, preserve, or restore the environment, whether they are in traditional sectors such as manufacturing and construction, or in newer and quickly growing green sectors such as renewable energy and energy efficiency. These jobs include the technicians educated through technical institutions and the business managers, marketers, financiers, engineers and others typically educated through universities (Nishimura and Rowe, 2022, p.7).

Sectors which can be identified as providing green job opportunities include the renewable energy sector where with added investment it is estimated that employment opportunities could increase from 77.5 million people in 2019 to 42 million in 2050, apart from increased job openings in areas related to energy efficiency and power grids. Other sectors include "infrastructure sectors where energy services are key inputs" (p.9), especially in areas related to construction, transportation and sanitation. Other related areas include organic farming, sustainable agriculture, and the adoption of sustainable agribusiness and fisheries practices (ibid).

According to Bukht and Heeks the digital economy should be defined as "that part of economic output derived solely or primarily from digital technologies with a business model based on digital goods and services" (2017, p.13). This definition is set to differentiate between a "digital economy" and a "digitalized economy" highlighting not the conduction of processes through digital means but the creation of value through digital technologies. Through this definition the digital economy is seen as creating long lasting value to a local economy.

According to Dahlman, Mealy and Wermelinger:

Given the right infrastructure, countries at any stage of development can use digital technologies to accelerate the delivery of broad-based, high quality healthcare, education and government services. The more countries develop and setup the grounds of their digital economies, the more they can move into areas where they become a supplier of digitally-enabled products and services in the contested global digital eco-system (2016, p.9).

Apart from the infrastructure, strategic planning is also a necessary pre-condition to maximise the impact of digitalization (ibid).

## **The International Scenario**

The impact of climate change, the need for Europe's economy to advance holistically and to remain competitive, and the impact of COVID-19 have surely been important factors which have seen the European Union focus its efforts on the green and digital economy.

As regards the green economy an important milestone document in terms of policy is definitely 'The European Green Deal' which was issued in 2019. As defined by the same document, the European Green Deal is a:

Growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use (European Commission, 2019, p.2).

Key actions related to this strategy included: (a) the decarbonizing and heightened energy efficiency of Europe's power grids; (b) reducing energy poverty by implementing financing schemes for households to renovate their houses to reduce energy bills; (c) fostering "the deployment of innovative technologies and infrastructure, such as smart grids, hydrogen networks or carbon capture, storage and utilisation, energy storage, also enabling sector integration" (ibid, p.6); (d) the modernization of "energy intensive industries such as steel, chemicals and cement", and the targeting of "resource intensive sectors such as textiles, construction, electronics, and plastics" (ibid, p.7); and (e) the focusing of efforts to develop commercial applications in breakthrough technologies such as "clean hydrogen, fuel cells and other alternative fuels, energy storage, and carbon capture, storage and utilization" (ibid, p.8).

Transport and agriculture are also two important sectors which have been targeted by The Green Deal.

The COVID-19 pandemic has surely made certain changes which were urgent, much more necessary. Digitalisation is one of these areas. This is because digitalisation could bring

people together digitally, when this was not possible physically. As indicated by the European Commission Communication, the '2030 Digital Compass: The European Way for the Digital Decade', "one of the key lessons of the pandemic is that digitalisation can bring people together independently of where they are physically located" (2021, p.2).

The nexus between the digital and green economy is very strong:

Digital technologies can significantly contribute to the achievement of the European Green Deal objectives. The uptake of digital solutions and the use of data will help in the transition to a climate neutral, circular and more resilient economy. The substitution of business travel by videoconferencing reduces emissions while digital technologies allow greener processes in agriculture, energy, buildings, industry or city planning and services, thus contributing to Europe's proposed goal to reduce greenhouse gas emissions by at least 55% by 2030 and better protection of our environment (ibid, p.3).

The European Green Deal had also highlighted how "Europe must leverage the potential of the digital transformation, which is a key enabler for reaching the Green Deal Objectives" (European Commission, 2019, p.7). Digitalisation is in fact seen as a key enabler to attain the objectives set out in the Green Deal:

The Commission will explore measures to ensure that digital technologies such as artificial intelligence, 5G, cloud and edge computing and the internet of things can accelerate and maximise the impact of policies to

deal with climate change and protect the environment. Digitalisation also presents new opportunities for distance monitoring of air and water pollution, or for monitoring and optimising how energy and natural resources are used (ibid, p.9).

In its communication on the 2030 Digital Compass the European Commission also identified 3 main areas where it needed to achieve leadership principally “connectivity, microelectronics, and the ability to process vast data” (European Commission, 2021, p.5). In the transition towards the digital economy, Digital Innovation Hubs are seen as playing an important role in the digital transition, and the achievement of the targets set for 2030, where:

More than 200 European Digital Innovation Hubs and industrial clusters across the EU should support digital transformation of both innovative and non-digital SMEs, and connect digital suppliers to local ecosystems (ibid, p. 10).

The EU’s targets for 2030 extend also to rural areas where digitalisation is seen as playing a key role in the development of “smart villages” i.e. “communities in rural areas that use innovative solutions to improve their resilience building on local strengths and opportunities” (ibid, p.11).

## **The Local Policy Context**

2021 saw some important national policy documents published in the areas related to the digital and the green economy. The focus of these documents was principally a national one, though some of them did include a regional perspective and specifically highlighted the policy

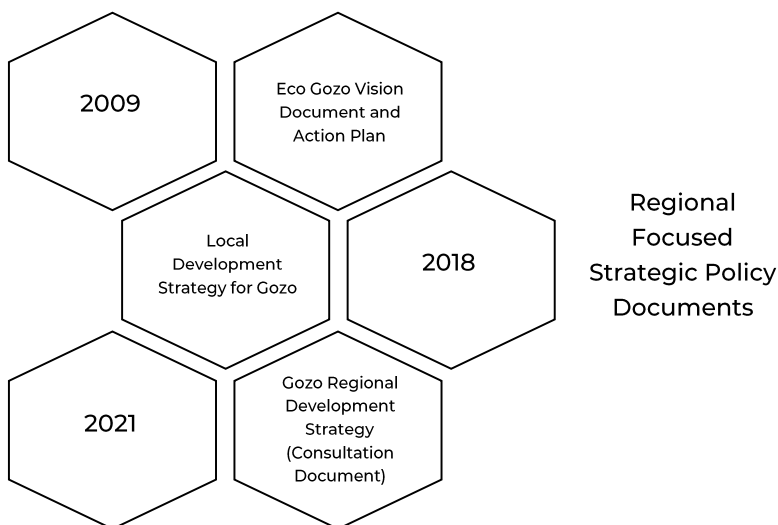
direction to be undertaken in the island of Gozo. Nonetheless the focus generally adopted in these national policy documents is a generic one.

Government's proposed Economic Vision 2021 – 2031 indicates Government's commitment to transform 'Gozo into a carbon neutral island' (MIMCOL, 2021, p.34). This commitment is again reiterated in 'Malta's Low Carbon Development Strategy' issued for consultation in June 2021. In this document, it is highlighted how 'the island of Gozo can become carbon neutral before Malta's 2050 target' (MECP, 2021, p.16).

The proposed national economic vision for the coming ten years also highlights how:

Malta and Gozo can act as global testbeds for new decarbonizing technologies. The small size of our islands lends itself to the testing and adoption of clean air technologies, in terms of both energy production and transportation, which if successful could be adopted globally (2021, p.48).

As regards specific policy documents for Gozo one should consider three documents which were published between 2009 and 2021, each proposing a strategic direction for the island of Gozo.



**Figure 1: Regional Focused Strategic Policy Documents**

One of the most ambitious in this regard was the Eco-Gozo Vision adopted by the Government and which would have seen Gozo become an eco-island by 2020. That vision saw the establishment of the Eco-Gozo Regional Development Directorate within the Ministry for Gozo in 2009. An action plan covering the period 2010 and 2012 was also published in 2009. Strategically it can be seen as the first holistic strategic policy document for the island of Gozo.

The action plan covered four main priority areas: (a) economy; (b) environment; (c) society; and (d) identity and culture. In the area of the economy the Plan first sets out by identifying some generic key actions in this area:

- The creation of an eco-friendly business park to attract companies in the financial services, ICT and technology sectors;
- A one-stop shop for potential investors in Gozo;

- The carrying out of a human resources supply and demand analysis;
- The creation of additional schemes and the modification of existing ones to positively discriminate investment in Gozo;
- The assessment of the level of “IT connectivity required by Gozo to support a healthy level of activity in the sector” (MGOZ, 2009, p.9);
- The undertaking of a graduate study to analyse the skills of Gozitan graduates and the areas in which they are currently working; and
- The development of a plan for “higher employment diversification” (ibid, p.9).

After identifying these generic key actions, the Action Plan focused on two specific economic segments: (a) tourism; and (b) transportation.

In the area of tourism, the Action Plan identified the following key actions:

- The undertaking of a market analysis to identify the most suitable Marketing, Incentives, Conference and Events (MICE) which are in line with the Eco-Gozo vision;
- The provision of new infrastructure for temporary yachting facilities, and the examination of the possibilities of new berthing facilities for cruise liners;
- The launching and promotion of the website portal [www.visitgozo.com](http://www.visitgozo.com)<sup>ii</sup>;
- The implementation of a national marketing campaign promoting Gozo as a diving destination;



- The development of the Gozo tourism brand in line with the eco-Gozo vision;
- The inclusion of tourism awareness in the eco-schools programme;
- The adoption of a regional agro-tourism policy for Gozo;
- Supporting and marketing existing high-quality festivals and cultural events at an international level; and
- The introduction of fishing experience offers for tourists (ibid, pp.13-14).

In the area of transportation, the Action Plan outlined:

- The introduction of an electric-cab system in Victoria;
- The creation of pedestrian zones in towns and villages in Gozo;
- The introduction of hybrid and electric cars, and the use of bio fuels in the Government's fleet of transport vehicles (ibid, p.15).

It can be noted that while the Action Plan outlined generic economic areas it focused on the areas of tourism and transportation. This is understandable given the contribution within the Gozitan economy of the tourism sector and also the negative contribution of the transport sector to pollution. As indicated by the consultation document on the Low Carbon Development Strategy (2021):

Road transport is the main source of particulate matter and noise and represents important shares in

the emissions of a number of other pollutants, including nitrogen oxides, volatile organic compounds, ozone, sulphur dioxide, metallic compounds and benzene (p.43).

Another important strategic document for the island of Gozo was the Local Development Strategy for Gozo and Comino published by the Gozo Action Group Foundation<sup>iii</sup> through the Programme Leader<sup>iv</sup> under the Rural Development Programme 2014-2020. The Local Development Strategy set out “the needs and priorities for the region of Gozo for the 2014 – 2020 funding period and outlines the measures proposed for funding under the Leader Programme” (GAGF, 2018, p.1). As regards the subject matter being treated by this paper i.e. the potential of the green and digital economy for Gozo, the Local Development Strategy had highlighted as one of its main actions the development of “an ICT media platform for the valorisation of the Gozitan lifestyle concept” (ibid, p.73). Through this action, there was the intention of creating an ICT media platform targeting a global audience which would have as its main objectives that of:

- Showcasing the products of micro and small enterprises and providing an e-commerce portal;
- Presenting activities of NGOs and providing opportunities for their integration with those of other NGOs and businesses;
- Preserving Gozitan identity, culture and natural heritage for future generations through oral history and audio-visual material;
- Providing opportunities for the strengthening of social cohesion in Gozo between different actors

and across generations; and

- Sustaining the presence of Gozo in the social media (ibid, p.76).

The Gozo Regional Development Authority was officially launched on the 14 September 2020. Governed by a Board of Directors constituted principally from Gozitan stakeholders, the Authority has a “regulatory and consultative role” with the responsibility of “developing and streamlining regional policies and . . . overseeing their implementation through the adoption of modern management tools” (GRDA, 2022). Together with the Gozo Civic Council established in 1961, and the Ministry for Gozo established in 1987, the establishment of the Gozo Regional Development Authority can be seen as a very important milestone in the evolution of Gozo's governance scenario.

In July 2021 the Gozo Regional Development Authority issued for consultation the Regional Development Strategy for Gozo. The Regional Development Strategy identified 8 key priority areas. Of particular interest for the scope of this article are the following actions:

- The development of a green car park in Victoria and Mġarr Harbour (M1.2);
- The creation of new eco-friendly parks (M1.3);
- Smart litter and conservation management (M1.4);
- Promoting green buildings (M1.5). More specifically this measure mentions “demand side incentives for households and business owners, such as tax credits, grants and feed-in tariffs to increase their investment in green buildings” and incentives directed to residential and commercial property owners to build green roofs (GRDA, 2021 p.14);

- The greening of commercial and private vehicles (M1.6);
- The development of a multi-pronged strategy targeted towards generating renewable energy with specific actions being identified including the creation of small solar parks built on green roofs, and the identification of public buildings to be transformed into energy efficient buildings (ibid, p.15);
- The establishment of a sustainable construction fund (M1.8) to be utilised by the construction industry in Gozo to incentivise among others the energy and water efficiency in new and existing buildings (ibid);
- The development of a pilot public carbon-trading scheme in Gozo (M1.10);
- The provision of tax credits for new and growing businesses (M3.1);
- Enhancing national business promotion schemes for business in Gozo (M3.2);
- The development of a Gozo Human Development Fund to fund higher educational opportunities (M3.6);
- Increasing incentives to attract foreign talent to Gozo (M3.11);
- Incentivising youth to pursue further and higher educational opportunities (M3.12);
- Encouraging youth entrepreneurship (M3.13) by establishing a fund to “support the development of entrepreneurial ideas which embrace digitalisation” (ibid, p. 20);
- Creating a bursary to fund PhD and Master research

programmes related to Gozo's rural economy and community (M3.14);

- The introduction of prizes for start-ups, the formation of an incubator, and the establishment of a network of business angels for areas related to the strategy (M3.16)
- Creating support structures for New Economy<sup>vii</sup> Sectors (M4.1);
- Conducting a study to be able to identify the digital skills gap (M4.2);
- Providing support to Gozitan SMEs to “become more competitive in their business/production processes, and products or services using digital technologies” (ibid, p. 22);
- Providing funding opportunities (M4.4) to private and public entities which might include “a Gozo Digital Fund to support enterprises in the digital economy in Gozo and a SMART Manufacturing Fund to incentivise the manufacturing industry to focus on high-added product” (ibid);
- Though M4.5 focuses on attracting financial services activities it is highlighted in this measure that this “would not only attract quality jobs to the island, but also encourage the setting up of new technology-based start-ups seeking early-stage finance in Gozo” (ibid);
- Attracting digital working nomads<sup>viii</sup>(M4.6);
- Introducing “additional fiscal incentives for the development of intellectual property in Gozo” (M4.7) linked with developing Gozo as a “testbed for research, development and testing of innovative technologies and solutions” (ibid, p.23);
- Establish a Gozo Centre for Research and Innovation

in Agriculture (M4.8) with the intent of serving “as a testing hub for new and innovative technology practices, a demonstration site and a knowledge exchange centre for such technology and practices for farmers” (p.23) and the launching of a Gozo Agri-tech investment fund;

- Piloting the introduction of innovative and technological practices in the educational sector related to the medical field (M4.9); and
- Investing in interactive and digital educational facilities related to the new and digital economies (M4.10).

## **The Economic Scenario in Gozo**

The Eco-Gozo Vision Document had identified the following key issues with respect to Gozo’s Economic Development:

- Double insularity and smallness;
- Peripherality;
- Lack of opportunities in the employment sector;
- Diminishing working population;
- Lack of experienced staff;
- Lack of marketing of Gozo; and
- Bureaucracy (MGOZ, 2012, p.13).

In a survey conducted as part of the exercise leading to the formulation of the Eco-Gozo Vision in 2008 the following main reasons were highlighted for companies not considering investing in Gozo:

- Added transportation costs;

- Longer distances to travel for people visiting from abroad (such as company directors and potential customers), thus resulting in more time spent travelling;
- Shortage of human resources skills and experience;
- Gozo is distant from the 'centre' where regulators, logistical and support services can be accessed;
- Some companies do not see a need for them to expand;
- Some companies are not aware of what Gozo can offer both in terms of incentives and human resources (ibid, p.16).

The Local Development Strategy for Gozo highlighted certain difficulties faced by the island of Gozo, mainly that Gozo is “less diversified in terms of economic activities it engages in, making it more reliant on certain sectors” (GAGF, 2018, p.19).

The same document also highlights that:

Investment in Gozo is faced with a number of obstacles including the difficulties in connecting with the main island of Malta and abroad due to a relatively lower development in infrastructure. This implies higher costs for entrepreneurs, leading to inefficiencies and loss in competitiveness (ibid, p.20).

Other important points highlighted by the strategy included also “the migration of younger, higher skilled individuals from Gozo to mainland Malta” (ibid, p.21).

But apart from the considerations relating to Gozo's difficulties,

what are the main drivers of the island's economy at present? In a study conducted in 2015 by the Ministry for Tourism, it was estimated that tourism contributes around 50% of Gozo's Gross Domestic Product, and around 20% in terms of both direct and indirect employment (Ministry for Tourism, 2015, p.7). The recent increases in domestic tourism highlight that the island of Gozo is very much reliant on this sector. In 2020, Gozo had an increase in domestic tourists of 206,782 an increase of 40.7% over 2019, with an overall domestic tourism expenditure of € 57.8 million. This represented an increase of 61.2% over the previous year (National Statistics Office, 2021a). This means that during this period domestic tourism very much at least helped to make up for some of the losses experienced from foreign inbound tourism.

Construction and real estate are also another two sectors on which the economy on the island of Gozo is still very much reliant on, more than the main island of Malta. The construction industry contributes more than the double to the Gross Value Added, when compared to the main island of Malta. In 2020 this economic niche contributed to the Gozitan economy 10.2%, when compared to 4.37% to the main island of Malta. On the other hand, the real estate sector in terms of % of Gross Value Added in 2020 contributed 10.67%, when in Malta the percentage contribution was 6.16% (National Statistics Office, 2021b). This goes to show that the economy in Gozo is still very much reliant on sectors such as tourism, construction, and real estate.

### **Concluding Remarks: Is a Digital and Green Road Map for Gozo possible?**

Following this analysis the following considerations are being set out for Gozo to really achieve its full potential in the digital and green economy sectors:



- As regards the digital economy some hurdles which related to Gozo's digital infrastructure have been surpassed. Gozo has a Digital Innovation Hub, and also a second fibre optic link<sup>ix</sup>. The Digital Innovation Hub in Xewkija is crucial for Gozo to consolidate its efforts in the digital sector. Digital Innovation Hubs were one of the 2019 National Productivity Report recommendations for Malta. In fact, Malta's Competitiveness Report for 2020 highlighted that this was an important development with respect to recommendation 4.3 of the 2019 report which highlighted the development of "the capacity of existing innovation hubs, setting up sectoral innovation hubs, and connecting with European integrated hub network" (National Productivity Board, 2020, p.325).

Prior to its inauguration in 2020, Gozo only had one fibre optic link between the two islands. In terms of redundancy for companies operating in the digital sector, this was considered as a main stumbling block for their operations. This was because if the only fibre optic link between the two islands was damaged they would have to completely halt their operations.

This means that now that the digital infrastructure for the island is in place, there should be a holistic competitive incentive package based on what the island wants to achieve in this sector.

- The proposed Gozo Regional Development Strategy clearly points out to important actions which can lead to the establishment of the digital and green economy in Gozo. It is now important that these actions materialise and that the required

funding is allocated for these actions.

It is important that in terms of economic development in Gozo, the green and digital economies are set as priorities for the coming years, and that the interlinkages between the two sectors are examined and strengthened.

While one may argue towards the formulation of a distinct economic strategy for Gozo, its inclusion in a regional development strategy is more important, as it shows that no sector in Gozo can advance on its own without the input of the other sectors, and that each sector can benefit from the growth to be experienced in the other sectors.

It is also important to note that while the Eco Gozo Vision document and subsequent action plan represented important milestones for the island, as they were perhaps the first documents of their kind that saw a real focused strategic thinking about Gozo, the Eco Gozo vision began to blur along the years. The Action Plan issued in 2009 was not followed by subsequent action plans, and though the Directorate that was established remained in place, the sentiment is that the vision did not remain as focused as it was the beginning.

This policy lesson should serve well for the Gozo Regional Development Strategy. The latter may be seen on the part of Government as the first real endeavour after the Eco Gozo strategic document for a holistic strategy for the island. If the green and digital economy are to become important contributors to the island of Gozo, there should be not only a solid foundation, but renewed efforts for

this strategy to be implemented and renewed to fit the context and tackle the challenges that Gozo constantly faces. It should not be wrong to say that political consensus would also aid the continuation, and garner the support required for its successful implementation along the years.

- The setting up of a Foundation 'Sustainable Gozo' in collaboration with the Gozo Business Chamber. 'Sustainable Gozo' would be a dedicated structure similar to other structures which have been set up on the main island of Malta to promote specific areas such as technology and trade. Examples include Tech.mt<sup>x</sup>, and Trade Malta<sup>xi</sup> which are public-private partnerships, between the Government of Malta, and the Malta Chamber of Commerce and Industry. This venture would be responsible to assist enterprises in Gozo to become carbon neutral while promoting the green economy on a local and national basis. It would also be responsible to develop an ambitious programme in collaboration with national and regional entities such as Malta Enterprise, the Ministry for Gozo, and the Gozo Regional Development Authority, to attract international start-ups in the green economy sectors to Gozo. Given its regional nature and specific conditions, Gozo cannot be the same as Malta on a policy level. However, Gozo must not be seen as an annex but as an important potential contributor to the national economy.
- Consider innovative forms of financing to promote the 'green economy in Gozo' such as specifically the issuing of green bonds<sup>xii</sup> which would finance the energy transition on the island of Gozo. Spinaci (2022) highlights how this market is constantly

growing and how important such an instrument may be for the European Union countries to finance their green transition.

The considerations being made here are not meant to be all-encompassing, however, the green and digital economies hold considerable potential for the island of Gozo, and can push the island economy to really diversify its economy. Nonetheless, as the Eco Gozo Vision Document and Action Plan have shown, that it is important that the vision and actions remain focused on the original goals. The creation of the Gozo Regional Development Authority, and the formulation of the Regional Development Strategy, while being important steps need to be sustained along the years. The challenges faced by the Gozo Regional Development Authority are significant. The Authority first needs to align Gozo's priorities to the national ones, ensuring that national authorities take responsibility for key actions to really promote Gozo's green and digital economy.

The current set-up of Government and the progress made in recent years has seen the creation of specialised authorities in various sectors. The creation of the Ministry for Gozo in 1987 was an important strategic step for the island. Given Malta's current government structure having a dedicated minister in Cabinet on Gozitan affairs helped Gozitans have a voice where decisions are taken. However, while the Ministry has served a very important purpose since its inception and was a key catalyst in Gozo's economic development in the past years, it cannot do things on its own within the current policy and economic scenario. From a policy perspective, it needs to tap further in the resources of national entities.

However, this will also mean a different mindset. Gozo's economy should not be seen as a sub-set of the national

economy from a policy perspective but should be considered as distinct on its own. In this sense, Gozo's economic distinctiveness should not mean isolation. Society and the economy go hand in hand, and while Gozo may only be considered as a region for statistical purposes, it is a fully-fledged region for all other intents and purposes. Its society and economy have evolved differently along the years from the main island of Malta. This also means that its economy should contribute differently but in a positive way to the national economy, if put in the right conditions to do so.

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## Notes:

- i. Malta joined the European Union in 2004.
- ii. The [www.visitgozo.com](http://www.visitgozo.com) is the main tourism portal for the island of Gozo. It is managed by the Ministry for Gozo and was launched in 2013.
- iii. As indicated in their website: The Gozo Action Group Foundation (GAGF) is a foundation composed of a group of local councils and private entities operating within the Island of Gozo in Malta. The Foundation is responsible to

implement the LEADER Programme under the Rural Development Programme for Malta (2014-2020) within its territory, amongst others. The Foundation's overarching objective is to develop the rural localities in its territory so as to improve the quality of life and make this territory more economically prosperous.

The foundation is made up of the 14 Gozitan Local Councils that are represented on the Decision Committee by three mayors, the general business sector represented by the Gozo Business Chamber, the Gozo Tourism Association, the Maltese Islands Agri Federation (MIAF) and the Gozo NGO Association.

- iv. The programme Leader was initiated in 1991. It is considered “a successful and innovative pilot instrument to mobilise local actors in a bottom-up territorial and integrated approach to pursue local development in rural areas. An important feature of Leader is the implementation of integrated development programmes for local rural areas, drawn up and implemented by broad-based local partnerships, called Local Action Groups (LAGs)” (Parliamentary Secretary for EU Funds, 2022).
- v. Apart from the Chairperson and Vice Chairperson, who are nominated by the Government, the members of the Board are representatives of the most important stakeholders on the island including the business and tourism segments, the Diocese of Gozo, the Gozo Regional Committee, and the Gozo Regional Council.
- vi. Bezzina (2011) highlights that the first Gozo Civic Committee was set up provisionally in 1958. The committee was made up of Anton Tabone, Ġużeppi Cauchi, Rikkardu Buhagiar, and Ġorġ Xerri. Its main objective was to bring to the attention of Central Government

the complaints of the Gozitan community. On June 12, 1959 the second Gozo Civic Committee was formed with 17 members. 14 members were elected while 3 were coopted. The Government re-designated the Civic Committee as the Gozo Civil Council on June 12, 1959 and granted it official recognition on April 4. Bezzina (2011) highlights how “the Gozo Civic Council was a statutory local government”. It was elected by general suffrage on June 4, 1961 and officially inaugurated on July 10 of the same year. The Council was dissolved through an Act of Parliament of December 4, 1973.

- vii. According to the OECD (2004) in its glossary of statistical terms the term ‘new economy’ “describes aspects or sectors of an economy that are producing or using innovative or new technologies.”
- viii. Hannonen defines 'digital nomads' as a “category of mobile professionals who perform their work remotely from anywhere in the world” (2020, p.2).
- ix. The second fibre optic link is operated by the Government owned ‘Gozo Fibre Optic Cable Ltd’ (The Times of Malta, 2020).
- x. As indicated in its website Tech.mt is a public private-partnership “established in 2019 by the Government of Malta and the Malta Chamber of Commerce and Industry, to promote Malta as a tech centre for innovative technologies” (Tech.mt, 2022).
- xi. As indicated in their website Trade Malta a public private partnership between the Government of Malta and the Malta Chamber of Commerce and Industry that helps businesses go international.
- xii. Stefano Spinaci (2022) defines green bonds as: "Committed

to financing or re-financing investments, projects, expenditure or assets helping to address climate and environmental issues. Both governments and companies use them to finance the transition to a more sustainable and low-carbon economy (p.1)."



# **Domestic Tourism The Recovery Pathway**

**Joe Muscat**

## **Abstract**

The most effective measure to control the spread of COVID-19, was the quarantine introduced by most countries to their respective regions. These measures impacted directly the leisure and hospitality industry world wide, effectively bringing international tourism almost to a standstill especially during 2020 and most of 2021.

However, the recovery process after the lockdown was characterized by rises in domestic tourism across the globe. This increase of the domestic tourism was also experienced on the Maltese islands, with Gozo enjoying substantial increases.

The covid pandemic experience has strengthened domestic tourism for Gozo and was the key element to the recovery of this sector.

## **Keywords:**

Gozo, Tourism, COVID-19, Resilience.

## **Author's Bio-Note**

Having worked in the Gozitan tourist industry since 1979, in one of the leading Gozitan Hotels, Joe Muscat joined the Gozo Tourism Association in 2011 on full-time basis and presently occupies the post of Chief Executive Officer of the same Association.

He is one of the founder members of the Gozo Tourism Association, and has served on the Association's council since its inception in 1999. Throughout these years he has been successively endorsed up to 2010, as General Secretary of this Association which represents the diverse sectors of the tourism industry on the island, ranging from accommodation, to catering and other establishments offering various tourist services.

As Vice- Chairman of the Gozo Regional Committee (GRC), Joe Muscat currently sits as one of its representative on the Maltese Council for Economic and Social Development (MCESD).

Presently Joe Muscat is also a Director on the Malta Tourism Authority (MTA) Board, appointed as the person representing the Gozitan tourism sector, Director on the recently appointed Gozo Regional Development Authority (GRDA) Board and member on the Dwejra Steering Committee.



## **Domestic Tourism**

### **The Recovery Pathway**

The outbreak of the coronavirus (COVID-19) pandemic has had several profound negative impacts on the global economy, society, and the tourism and hospitality industry, since March 2020. These repercussions undoubtedly affected also the Maltese islands, and in particular the local tourism industry.

During the five-year period 2015 to 2019, Malta was breaking year on year record numbers of tourist arrivals, with 2019 hitting a record figure of nearly 2.8 million foreign arrivals. Regionally, Gozo was also experiencing a period of relatively steady numbers of foreign arrivals, with the highest being recorded in 2018. However, this pattern of increases in foreign tourists was disrupted and dismantled in 2020, with the COVID-19 pandemic outbreak, which crippled the tourism industry worldwide.

## Effect of Covid on Foreign Arrivals to the Maltese Islands

**Table 1: Inbound Foreign Tourists to the Maltese Islands 2015-2020**

	2015	2016	2017	2018	2019	2020
Malta	1,617,785	1,796,708	2,090,679	2,393,841	2,572,261	618,842
Gozo	165,581	169,220	183,159	204,849	180,978	39,724
Total	1,783,366	1,965,928	2,273,838	2,598,690	2,753,239	658,566

Source: NSO.

The above table (1) clearly indicates the increases from foreign arrivals up to 2019, and the substantial dip in 2020. As can be seen, the foreign arrivals to the Maltese islands in 2020 dropped by nearly 2.1 million, when compared to the previous year 2019. Furthermore, while the decrease for Malta was 76% that of Gozo was 78% less on the previous year.

From the outset of the COVID-19 pandemic, it was evidently clear that the measures being introduced locally and worldwide to restrict, limit or ban totally travel from one country to another were going to have their toll on the tourism sector also on Gozo.

In this scenario, and as early as March 2020, the Gozitan tourism sector understood that, two immediate options for the survival of the Gozitan tourism establishments were, direct Government assistance and attracting the domestic market. The first option was immediately put in motion, since on 23<sup>rd</sup> March, 2020, the wage supplement was announced.

This measure proved to be pivotal and the life line for the Gozitan tourism establishments to keep the majority of their staff in employment. During successive months, other mitigating measures were launched by Government which also helped to maintain the touristic sector alive.

However, the latter option, that of the domestic market was crucial in maintaining the Gozitan tourism establishment slowly ticking along these challenging times of the pandemic. At the Gozo Tourism Association, we considered that since the mobility restrictions were being implemented due to the COVID-19 spread, outbound Maltese tourists could replace their planned trips to international destinations with overnight stays in Gozo. It was becoming quickly evident that no considerable international tourists could be expected during the summer of 2020, and that domestic tourism and staycations would prevail.

By mid-March 2020, the ferry trips between Malta and Sicily were stopped, while on 21<sup>st</sup> March 2020, the Malta International Airport was practically closed until 30<sup>th</sup> June. For a short spell of time between 3<sup>rd</sup> April, and 4<sup>th</sup> May, 2020, non-essential travel between Malta and Gozo was also prohibited. With all these travel restrictions in place it was practically stranding all Maltese residents at home, leaving them with no option of holidaying, and for some weeks not even on the sister island.

But once the inter-island non-essential travel ban was lifted, in early May 2020, Gozo restarted receiving domestic visitors. Knowing very well that destination Gozo was the natural choice for short weekend breakaways for the people living on the mainland, it was also opportune to entice this segment to opt for breaks even during the week. Thus, in July, 2020, a scheme was announced by Gozo Channel

supported by the Ministry for Gozo and welcomed by the Gozo Tourism Association, offering reduced ferry rates for Maltese residents who opt to cross over to Gozo between Mondays and Thursdays.

## The Impact of Domestic Visitors to Gozo

**Table 2: Domestic Arrivals in All Gozitan Accommodation 2015-2020**

	2015	2016	2017	2018	2019	2020
Collective	51,749	47,397	64,263	59,746	58,152	58,813
Other rented	76,364	96,728	100,196	96,725	88,792	147,969
Non rented	60,487	74,147	72,379	70,650	68,328	141,708
Total	188,600	218,272	236,838	227,121	215,272	348,490

Source: NSO.

As can be deduced from the above table (2), during 2020 the domestic arrivals to Gozo increased by 133,218 or 62% more on the previous year 2019. This increase was in fact spread across the three categories of the available Gozitan accommodation. The “collective accommodation” consisting of hotels, guesthouses and boutique hotels had the least increase in arrivals during 2020 as only 661 arrivals more or 1% were registered on 2019. However, the category “other rented” comprising of apartments, farmhouses, houses of character and villas recorded an increase in domestic arrivals of 59,177 or 66% more over the previous year. While the “non-rented” category, which basically includes private residences or stays with friends and relatives scored the highest increase that of 73,380 or 107% more.

Furthermore, 2020 being the first year of the COVID-19 pandemic, proved to be the best year for domestic arrivals in Gozo for the past six years. when compared to the best year 2017, as Gozo recorded 111,652 more domestic visitors in 2020, an increase of 47%.

**Table 3: Domestic Bed Nights in All Gozitan Accommodation 2015-2020**

	2015	2016	2017	2018	2019	2020
Collective	124,459	100,303	137,677	141,510	124,280	141,358
Other rented	230,487	298,072	346,415	294,747	289,451	473,503
Non rented	177,645	183,043	178,829	173,532	157,769	425,179
Total	532,591	581,418	662,921	609,789	571,500	1,040,040

Source: NSO.

The increases in domestic arrivals in Gozitan accommodation was further corroborated by the increases in bed nights, as show in the above table (3). The bed nights in the collective bracket increased by 17,078 or 14% on the previous year 2019. A considerable increase of 184,052 or 63% bed nights was recorded in the “other rented” accommodation in Gozo for 2020, when compared with 2019. While an overwhelming increase of 267,410 bed nights more was achieved in the non-rented category in 2020, an impressive increase of 169% on 2019.

Cumulatively, the domestic bed nights in Gozitan accommodation surpassed for the first time the million mark as 1,040,040 bed nights were reached in 2020, reflecting an

increase of 468,540 or 82% more bed nights on 2019.

There are two main underlying reasons in these registered increases, both in arrivals and bed nights as well as in the respective categories. Here the social distancing covid measure played also its part, with the domestic visitors opting to stay more in “other rented” establishments, which category provides isolation in itself and privacy in non-shared accommodation. Furthermore, the non-rented section which embraces the private residences mostly owned by Maltese was more frequented by its owners and their respective relatives and friends, obviously in lieu of holiday breaks overseas.

**Table 4: Comparative Domestic Length of Stay by All Accommodation Type**

	2015	2016	2017	2018	2019	2020
Collective arrivals	51,749	47,397	64,263	59,746	58,152	58,813
Collective bed nights	124,459	100,303	137,677	141,510	124,280	141,358
<b>Length of stay</b>	<b>2.40</b>	<b>2.11</b>	<b>2.14</b>	<b>2.36</b>	<b>2.13</b>	<b>2.40</b>
Other rented arrivals	76,364	96,728	100,196	96,725	88,792	147,969
Other rented bed nights	230,487	298,072	346,415	294,747	289,451	473,503
<b>Length of stay</b>	<b>3.02</b>	<b>3.08</b>	<b>3.45</b>	<b>3.04</b>	<b>3.26</b>	<b>3.20</b>
Non rented arrivals	60,487	74,147	72,379	70,650	68,328	141,708
Non rented bed nights	177,645	183,043	178,829	173,532	157,769	425,179
<b>Length of stay</b>	<b>2.93</b>	<b>2.46</b>	<b>2.47</b>	<b>2.45</b>	<b>2.31</b>	<b>3.00</b>

Source: NSO.

The impact of the domestic visitors to Gozo during the first year of the pandemic was not only felt in the arrivals, but also as mentioned earlier, in the number of nights. This consequently increased the average length of stay of the domestic market in practically all the three types of accommodation on offer, even reaching three nights in the other rented and non-rented segments (table 4). This further emphasised the fact that during the first year of the pandemic with multitudes of restrictions to travel abroad, the mainland residents opted to take their holiday breaks along the course of the whole year on the island of Gozo.

## Sustained Positive Arrivals' Trends in 2021

**Table 5: Foreign Arrivals and Bed Nights in Collective Accommodation January to December 2017-2021.**

	Jan-Dec 2017	Jan-Dec 2018	Jan-Dec 2019	Jan-Dec 2020	Jan-Dec 2021
Arrivals	53,072	55,444	49,943	10,971	20,393
Bed nights	249,578	255,211	219,336	41,963	83,769
Length of stay	4.70	4.60	4.39	3.82	4.10

Source: NSO.

The same trend of low arrivals from the foreign visitors to overnight in Gozitan accommodation continued even during 2021. At time of writing this article, NSO did not publish as yet the figures for all types of Gozitan accommodation for whole year of 2021, yet the statistics for the

collective accommodation only confirms this, since during last year 2021, Gozo experienced more foreign arrivals than the previous year 2020 in Hotels and Guesthouses. Yet these were never near to the levels of the pre-pandemic years.

In fact, and as shown in the above table (5), Gozitan hotels and guesthouses registered an increase of 9,422 more foreign tourists or 85% during the whole year of 2021, when compared with same period of 2020. Even the bed nights spent on Gozo, increased by 41,806 between January and December 2021 or almost 100% (99.6%) more on the same period of 2020.

The numbers for 2021, also demonstrate that the foreign tourists opted to stay in Gozitan accommodation for a longer period than in the previous year. In fact, during 2021, the average length of stay of foreign tourists in Gozitan hotels and guesthouses reached 4.10 nights, when compared to 3.82 of 2020.

As stated earlier, the arrivals for 2021 are far less than those achieved during the pre-pandemic years. In fact, arrivals of foreign tourist between January and December of 2021 were 35,051 or 63% less on the best year 2018. This was also reflected in bed nights as the decrease for same period was 171,442 or 67% less bed nights than 2018.



**Table 6: Domestic Arrivals and Bed Nights in Collective Accommodation January to December 2017-2021.**

	Jan-Dec 2017	Jan-Dec 2018	Jan-Dec 2019	Jan-Dec 2020	Jan-Dec 2021
Arrivals	53,072	55,444	49,943	10,971	20,393
Bed nights	249,578	255,211	219,336	41,963	83,769
Length of stay	4.70	4.60	4.39	3.82	4.10

Source: NSO.

During last year 2021, the Gozitan hotels and guesthouses continued to attract domestic visitors to overnight in their accommodation. Even on previous pre-pandemic years, increases from domestic visitors are evident, as can be deduced from the above table (6). It is worth noting that these statistics, do not cover the accommodation in the “other rented” segments which covers apartments, farmhouses and villas, as well as the “non-rented” holiday homes.

Along the period January to December, 2021, an increase of 8,030 more domestic visitors were reported in Gozitan hotels and guesthouses or 19% more than same period of 2020. This increase translated into 20,856 more bed nights or 23% on 2020. It can be noted that, the average length of stay in this category, in fact remained more or less on the levels of previous years. This clearly indicated that the domestic visitors opted to stay more nights in the other types of accommodation namely the rented (non-collective) and the other rented categories (Malta residents having their

holiday home in Gozo).

**Table 7: Foreign and Domestic Arrivals and Bed Nights in Collective Accommodation January to December 2017-2021.**

	Jan-Dec 2017	Jan-Dec 2018	Jan-Dec 2019	Jan-Dec 2020	Jan-Dec 2021
Arrivals	97,781	99,768	99,074	52,194	69,644
Bed nights	347,943	348,638	320,624	132,964	195,626
Length of stay	3.55	3.49	3.23	2.54	2.81

Source: NSO.

Although at time of print, we do not have as yet the full overview of what actually happened statistically with regards to arrivals both from foreign and local visitors in all the types of Gozitan accommodation, however the above table (7) clearly indicates how the whole year 2021 will end up.

However, from statistics available for the period January to December of 2021, the upward trend in number of arrivals from both the domestic and the foreign markets are noticeable, in the collective accommodation. It is also fair to point out, that to a certain extent the increases derived from the domestic market assisted in partial mitigation of the losses sustained from foreign tourists to Gozo.

Cumulatively, as shown in the table (7) above, the Gozitan collective accommodation units registered 17,450 more arrivals from the foreign and the domestic visitors in hotels and guesthouses during the period January to December 2021,

an encouraging increase of 33%. This increase was translated into 62,662 more bed nights in the January to December period of 2021 on same period of 2020. This increase of 47% in bed nights was also reflected in the average length stay of 2.81 nights when compared to 2.54 nights of 2020.

## **The Potential of the Domestic Market**

As mentioned earlier, and as shown in table (1), during 2020 destination Gozo registered 141,254 (78%) less foreign tourists in all its accommodation when compared with 2019. However, this considerable gap was partially closed by the domestic arrivals. Also as referred to earlier on and as indicated in table (2), overnighting visitors from the mainland in Gozitan accommodation increased by 133,218 (62%) in 2020, when compared with the previous year 2019. This figure falls short by 8,036 domestic arrivals in order to make up for the loss from the aforementioned foreign arrivals.

So, statistically even though in 2020, due to COVID-19, tourism worldwide was forging into the unknown, regionally the domestic market proved once more to be an important contributor towards tourism in Gozo. It is a segment that along with other mitigating measures that were announced from time to time by Government, contributed towards the survival of the Gozitan tourism establishments in sustaining their livelihoods and maintaining jobs in the sector.

It is primarily during these times of the COVID-19 pandemic, when international travel is being negatively affected, that the importance of domestic tourism to Gozo is being more appreciated. Like never before, domestic tourism in Gozo can be considered a solid basis for a quick recovery of the tourism sector on our little island.

Even with the vaccination roll out worldwide, it is essential not to underestimate the impact of the fear effect and its duration, which can also vary for different tourism origin markets. Thus, foreign arrivals to our destination will take some time to reach the levels of 2018-2019. In the meantime, it is proven that domestic tourism has the potential to provide relief for the Gozitan tourism sector.

It is therefore paramount to consolidate and sustain this internal market, whilst maintaining the originality of our tourism destination and provide services and offer that experience that meet the needs of the domestic visitor.

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