

SINGLE PROGRAMMING DOCUMENT
FOR
OVERSEAS COUNTRIES and TERRITORIES

SUBMITTED TO THE EUROPEAN COMMUNITY

BY
THE GOVERNMENT OF ANGUILLA

March 26, 2004

The Government of Anguilla and the European Commission hereby agree as follows:

- (1) The Government of Anguilla, (represented by Mr. Fabian Fahie, Permanent Secretary, Economic Development, Investment and Commerce), and the European Commission, represented by Ambassador Amos Tincani, Head of Delegation of the European Commission in Barbados & the Eastern Caribbean, hereinafter referred to as the Parties, held discussions in 2003 with a view to determining the general orientations for co-operation for the period 2000 – 2007.

During these discussions, the Single Programming Document (SPD) and an Indicative Programme of Community Aid in favour of Anguilla were drawn up in accordance with the provisions of the EU/OCT Association, as mentioned in the Treaty establishing the European Community and in particular Article 182, as well as in the Council “Overseas Association Decision” 2001/822/EC of 27 November 2001. These discussions complete the programming process in Anguilla.

- (2) The agreement of the two Parties on the annexed Single Programming Document and the Indicative Programme will be regarded as definitive within six (6) weeks of the date of signature, unless either party communicates to the contrary before the end of this period.

Signatures

For the Government of Anguilla

For the European Commission

Date:

Date:

Place:

Place:

Summary country data

Surface	91 square km (35 sq. miles)
Geographic region	Caribbean
Population, total	11,920 (2002)
Membership of regional/international organisations	OECS, ECCB, CARICOM, CDB, CTO, UNECLAC, UNDP
Population growth (average % past five years)	2.8%
Life expectancy at birth (years)	79
Fertility rate (births per woman)	0.4, Total fertility rate = 2
Mortality of under 5 years (per 1000 children)	Ave 2000-2 was 0.932
Illiteracy total	N.A.
Illiteracy female (% age 15 and above)	N.A.
Primary enrolment (% of relevant age group)	100%
Secondary enrolment (% of relevant age group)	100%
Secondary enrolment, female (% of age group)	100% Education is compulsory to age 17
Unemployment rate (% of labour force)	7.8% in July 2002
Unemployment rate, females (% of female labour force)	9.5% in July 2002
Poverty rate (percentage population below poverty line)	18% of households live below poverty line
HIV incidence (per 1000 population)	Estimated at 2 in 2003
Main natural resources (items)	Fisheries (200 mile EFZ & EEZ to the north)
Inflation rate (average past three years)	2.7
GDP per capita	US\$7,500
GDP growth (average % past five years)	2.5% in constant \$
Value added in agriculture (% of GDP)	3.0%
Value added in industry (% of GDP)	Manufacturing, utilities & construction 18%
Value added in services (% of GDP)	53.9% including transportation
Exports of goods and services (% of GDP)	63%
Imports of goods and services (% of GDP)	90%
Number of tourists	43,969 in 2002
External debt (percentage of GDP)	1.01%
Foreign direct investment, flow	US\$32.6 million (2001)
Overall government budget balance (% of GDP)	0.58%
Fixed lines and mobile phones (per 1000 people)	772 (December 2002)
Personal computers (per 1000 people)	27.1% of households had PCs in 2001 census est. 135 per 1,000 people
Internet users	1,391 connections December 2002

PART A: COOPERATION STRATEGY

EXECUTIVE SUMMARY

Anguilla is a United Kingdom Overseas Territory in the Caribbean. A fundamental objective of the partnership for progress and development between the United Kingdom Government (UKG) and the Government of Anguilla (GOA) is economic autonomy for Anguilla. Given Anguilla's physical attributes and resource base this requires considerable investment in the critical areas of transportation and maritime services. Changes in the global transportation industry, governance and the regulatory environment have underscored the need for investment in these areas if Anguilla is to consolidate and build on its achievements to date and progress along the path to economic independence. The level of resources that are needed means that a co-ordinated and focused approach is required by Anguilla's development partners (the United Kingdom Government, European Community, Caribbean Development Bank) as well as the private sector and the NGO community in order to formulate and programme the necessary components.

In April 2003 Anguilla's authorities required the Commission to provide their EDF financial allocation as budgetary support and the Commission, further to a public finance assessment, decided to accept such request. The GOA has decided that the transportation sector, in particular, the development of the air transportation sector in accordance with the strategic plan for transport outlined in the United Front Administration's agenda and the Strategic Country Programme (SCP) agreed with the UKG to cover the period 2000/01 – 20004/05, should be the focal sector for support under EDF 9 programming. Support will cover physical infrastructure, capacity building and institutional development initiatives. Under the EDF 9 cycle EURO 8.0 million is available to Anguilla. The balance of previous EDF cycles of approximately EURO 0.29 million are also to be used for this purpose.

The need for the development of the air transport sector is a consequence of changes in the air services industry. The long term growth trend in the air transport sector serving Anguilla and other small Caribbean territories is towards increasing scale, reflected in the increasing size of the smallest aircraft used by airlines to serve these markets, leading to the need to provide appropriate and usually expanded airport facilities and services to meet the internationally accepted operating standards. Anguilla is the last remaining premier upscale tourism destination in the Caribbean, which is required to upgrade its facilities. Other territories such as the British Virgin Islands, Nevis and Canouan (island in the St. Vincent and the Grenadines chain), which were in a similar situation will have upgraded their air transportation infrastructure to meet the required industry standards by the end of 2003.

The tourism-led economic model being pursued by Anguilla focuses on the development of luxury tourism facilities for the affluent tourist. This necessitates the provision of appropriate transport facilities for the island that also cater to the requirements of this type of tourist, accustomed to and expecting facilities of a high calibre, efficiently operated and maintained. The airport facilities thereby constitute a key part of the Anguilla tourism product, as it is the locus of the first point of contact on arrival in Anguilla. It is essential therefore that the airport facilities reflect and are consistent with the strategy of developing a high-end industry meeting

the demand of the affluent travellers. The expanded and improved air transport facilities and services would facilitate increased visitor arrivals and allow the GOA to generate greater surpluses from tourism, which it could in turn invest in new growth poles such as international business and financial services, information and communication technologies, e-commerce and fisheries and in doing so diversify economic activity.

CHAPTER 1: EC COOPERATION OBJECTIVES

In accordance with Article 182 of the Treaty Establishing the European Community, the purpose of the association between the European Community and the Overseas Countries and Territories shall be:

“to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Community as a whole”.

These objectives have been confirmed and reinforced in Article 1 of the Council Decision of 27 November 2001 on the Association of the Overseas Countries and Territories with the European Community. In accordance with Article 1, such objectives will be pursued in accordance with the principles set out in Articles 184 to 188 of the Treaty, by focusing on the reduction, prevention and, eventually, eradication of poverty and on sustainable development and gradual integration into the regional and world economies.

In their Statement on the European Community’s Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macroeconomic policies; transport; food security and sustainable rural development; institutional capacity building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macroeconomic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or crosscutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the territorial policy agenda presented in the next chapter constitute the starting point for the formulation of the present SPD, in accordance with the principle of territorial ownership of development strategies.

CHAPTER 2: POLICY AGENDA OF OCT

The broad policy and programme priorities of the Government of Anguilla for the period 2000 – 2005 are outlined in two main documents: (1) the United Front Agreement – which sets out the current administration’s agenda; and, (2) the Strategic Country Programme (SCP) which is the functional document outlining the “partnership for development and progress” between the Government of Anguilla and the United Kingdom Government. In these documents the GOA committed to the following:

- achieving a significant and steady rate of economic growth and improvements in the standard of living of the people of Anguilla;
- distribution of the increased national income generated as a result of economic prosperity to ensure that all the people are able to benefit and poverty is reduced to a minimum;
- strengthening and improving democracy and the systems of governance and expanding the degree of self-determination;
- improving the quality of life and ensuring access by all to acceptable levels of social and community services;
- maintaining a secure, peaceful and stable social environment; and,
- ensuring the planned and sustainable management of the physical resources and natural environment of Anguilla.

Economic performance in Anguilla during the 1990s was fitful and uneven, largely as a consequence of negative economic shocks and natural disasters. The challenge coming out of the 1990s has therefore been to stabilise fiscal performance and to pursue a programme of adjustment to ensure the future growth and development of Anguilla on a sustained basis. The general thrust of Government policies in the area of fiscal policy and strategy development will be to increase reliance on domestic revenue sources and at the same time retain Anguilla’s low direct tax (i.e., no income tax) status by:

- (i) improving the administration and collection of tax and other revenue from current sources to maximise the percentage collected out of estimated potential revenue;
- (ii) revising and rationalising where appropriate existing rates of charge to ensure that they are consistent with the modal rates charged in comparable jurisdictions in the region and the net revenue returns from the tax effort are consistent with established efficiency ratios;
- (iii) establishing economic rates of charge to achieve cost recovery for public services accessed directly by individual consumers;

- (iv) making adequate provision for support for those financially unable to meet the costs;
- (v) introducing new revenue measures to replace revenue from temporary sources;
- (vi) implementing revenue saving measures, such as the operation of a US Dollar account to save as much as \$400,000 lost on foreign currency purchases to pay for imports, monitoring of telephone usage, control of use of Government vehicles, and the implementation of water and electricity conservation measures;
- (vii) reviewing the Customs Duty Exemption Policy and Duty Free Shopping Policy and procedures and improving administration and monitoring; and,
- (viii) studying the options available to Anguilla to replace customs duty revenue in the event that there is international movement towards the standardisation of customs taxes at rates below the rates charged by Anguilla and towards the free trade and duty free entry of an increasing number of internationally and regionally traded commodities.

From a functional standpoint, the GOA has taken the decision to separate the Treasury and Inland Revenue functions. It has further decided that the creation of a separate Inland Revenue Department must be accompanied by a programme of institutional strengthening. This will require the provision of the necessary resources to develop an effective and efficient tax administration. To this end, the GOA has approached the UKG for assistance with establishing the Inland Revenue Department and GOA and UKG officials will be holding consultations during the week of October 20 to formulate an Inland Revenue Department Development project which, inter alia, will seek to address the need for the:

- (a) examination of government's broader fiscal policies and the need to direct the tax policies to address these;
- (b) amendment and development of relevant legislation;
- (c) examination of the present tax structure and decision(s) on the range and type of taxes that should be administered;
- (d) development of an organisational structure with the relevant trained personnel to effectively administer the proposed administration;

- (e) Computerisation of the Inland Revenue functions through utilisation of the Standard Integrated Government Tax Administration System (SIGTAS) to enable efficient tax administration and to produce the necessary management information for decision making.

The objective is that the establishment of an Inland Revenue Department will enable the GOA to maximise the collection of potential revenue. This would in turn enable the GOA to fulfil its part of the social contract, which exists between government and people, by providing efficient public services.

While the initiatives indicated above should, in time, bear fruit, it is hoped that the measures implemented over the past 18 months will allow the GOA to attain the targets set for 2003. These are to end the year without a deficit and to generate a surplus to create reserves in the amount of EC\$4 million. The reserves will be allocated among the following funds:

- Maintenance Fund;
- Development Fund;
- General Reserve Fund;
- Fiscal Reserve Fund.

Prudential fiscal management demands making provision for future maintenance and development expenditures, as well for negative shocks, which may arise, such as hurricane related damages.

The GOA will be seeking to facilitate increased economic activity so that average annual growth rates of GDP in the region of 10% can be recorded over the medium term. Economic growth is a natural revenue multiplier in that it contributes to increase government revenue collections. The GOA will be looking to foreign direct investment (FDI) to play a major role in the growth and development of Anguilla. For this reason the GOA takes pride in successfully concluding negotiations in 2002 with a group of investors for a golf tourism project at Rendezvous. This project, which started in January of this year, is expected to involve a minimum investment of EC\$337.5 (US\$125.0) million over ten years. The GOA is proud of the achievement not only for the amount of investment funds that the project will bring to Anguilla but also for the manner in which the discussions and negotiations with the developers were undertaken. It represented the first case where the investment appraisal and approval process was co-ordinated by a central task force. This multi-disciplinary task force has now been reconstituted as the "Tourism Investment Committee" and mandated by Executive Council to appraise all major tourism related investment proposals for Anguilla. The goal for the Tourism Investment Committee is that it be the forerunner of a statutory Investment Promotion Agency (IPA) to facilitate foreign investment in all sectors of the Anguillian economy using the concept of 'investor targeting'. At the present time the Tourism Investment Committee is co-ordinating efforts to develop a mega-yacht marina and duty free shopping complex at Sandy Ground, a golf tourism project for the Eastern (undeveloped) end of the island and an offshore medical school/health tourism project.

The tourism-led economic model being pursued by Anguilla focuses on the development of luxury tourism facilities for the affluent tourist. This necessitates the provision of appropriate

transport facilities for the island that also cater to the requirements of this type of tourist, accustomed to and expecting facilities of a high calibre, efficiently operated and maintained. The airport facilities thereby constitute a key part of the Anguilla tourism product, as it is the locus of the first point of contact on arrival in Anguilla. It is essential therefore that the airport facilities reflect and are consistent with the strategy of developing a high-end industry meeting the demand of the affluent travellers.

The long term growth trend in the air transport sector serving Anguilla is towards increasing scale, reflected in the increasing size of the smallest aircraft used by airlines to serve the Anguillian market, leading to the need to provide appropriate and usually expanded airport facilities and services to meet the internationally accepted operating standards. This is consistent with the growth trend of the air transport sector worldwide. This is none more evident than the decision of American Eagle to withdraw the ATR 42 from service which it currently uses to serve its Eastern Caribbean destinations (including Anguilla) from the San Juan hub in favour of the larger ATR 72 aircraft at the end of 2003.

The transport sector, and in particular the development of air transport facilities and services, have therefore been accorded top priority by the GOA over the short to medium term. Accordingly, the GOA has formulated a Medium Term Air Transport Facilities and Services Development Plan covering:

- a. the development of physical facilities, plant and equipment;
- b. institutional development including the option of creating an airport and seaports authority and covering legal, regulatory, corporate, operational and financial issues, to achieve profit maximisation or loss minimisation;
- c. improvement of the environment for increased availability and reliability of air services serving Anguilla by working out favourable air service agreements with the assistance and advice of the British with the American, Dutch, French, Netherlands Antilles, OECS and British Governments;
- d. increased air access on the basis of agreements made and close co-operation with existing air carriers serving Anguilla and with potential carriers interested in serving Anguilla.

In May 2000 the Government of Anguilla, based on the findings of a “Comparative Airport Study” took the decision to proceed with the development of expanded air transport facilities at the existing airport at Wallblake rather than develop a greenfield site at Brimegin on the northern coast of the island. Since then it has been working in a concerted fashion to ensure that the expanded air transport infrastructure, which is so critical to Anguilla’s future growth and development, is put in place.

With respect to item (a) of the Medium Term Air Transport Facilities and Services Development Plan, in January 2003 the Executive Council of the Government of Anguilla approved the Wallblake Airport Expansion Project consisting of: an accelerated design, tendering and award

of contract programme to be completed by the end of August 2003; an accelerated land acquisition, compensation and resettlement programme to ensure the delivery of the site to the successful contractor by the end of August 2003; and, an accelerated construction programme to commence September 2003 and end in May 2004 and which would involve extending the current runway from 3600ft to 6000ft, expansion of apron parking, terminal upgrade and the upgrade of navigation, communication and rescue and fire fighting equipment.

The implementation programme was revised in June 2003 following submission of the Inception Report by the project consultants, Scott Wilson. The resettlement programme will be completed by the end of October and arrangements for acquisition of the remaining lands and payment of compensation will be finalized by the end of November 2003 to enable the contractor to take possession of the site in December 2003. Completion of the works is now programmed for the end of July, 2004.”

The expanded physical facilities at Wallblake Airport would accommodate the larger ATR 72 aircraft which American Eagle plans to introduce in 2004, most private jets, and up to the Boeing 737 class commercial jet. The Wallblake Airport Expansion Project Board, which was initially formed in 2000, was re-activated in January 2003 and charged with the responsibility of implementing the project. Technical assistance will be sort to formulate an Airport Master Plan, which will be used as the basis for the future development of the physical facilities at Wallblake Airport beyond 2004.

In terms of item (b) of the Medium Term Air Transport Facilities and Services Development Plan, the Wallblake Airport Expansion Project will generate new organisational and operational demands, which must be addressed in order to achieve the efficient and effective delivery of airport services from the expanded facilities. It is imperative that organisational changes are made to ensure that the revenue raising potential of Wallblake Airport is exploited to the fullest. Financial polices and strategies will need to be developed and implemented in an organisational and operational environment that encourages the management to focus on making the Airport cover its operating costs and contribute as much as possible to debt servicing and in the long run cover debt servicing in full if at all possible. The development programme will also necessitate major improvements and enhancements to the airport services and improved standards of operation on a sustained basis. Additionally, the recent international terrorist events have required greater attention to be focused on strengthening airport security and improving the technical standards of operation of airports in general. The present Airport Departmental structure is not conducive to the enhanced role that is required of the management organisation. It is necessary therefore to create a commercial environment and institutional arrangements in which the Airport is managed and operated. Several options may be considered:

- i) Maintain the present departmental structure and operations;
- ii) Reform and strengthen the existing departmental structure, including the merging of airport and seaports management into one department;
- iii) Create a statutory corporation to operate the airport or the combined airport and seaports;
- iv) Establish an operating company wholly owned by the government;
- v) Create a joint public-private sector company in which the GOA maintains a major stake;
- vi) Privatise the airport by divesting all of the GOA’s equity, with the exception of a golden share.

It is planned that consultants will be retained to advise on the merits of the various options and to recommend the most appropriate option over the short, medium and long run. UK DFID has indicated in principle support for this area as a future component of the Medium Term Air Transport Facilities and Services Development Plan. The Wallblake Airport Expansion Project Board will also oversee this aspect of the Development Plan.

Concerning items (c) and (d), an “Airlift Sub-committee” of the Wallblake Airport Expansion Project Board has been formed to address these components of the Development Plan. In the short-term the focus will be on attracting a Fixed Base Operation (FBO) at Wallblake Airport to accommodate private jets to service Anguilla’s high-end tourism clientele and attracting at least one new commercial carrier to provide competition and redundancy on the San Juan-Anguilla – San Juan route which is so vital to Anguilla’s tourism industry. In the medium term, the emphasis will be on attracting one commercial carrier flying from the north-eastern American sea-board (Anguilla’s primary tourism market) direct to Anguilla on a weekly or bi-weekly basis to meet the anticipated growth in demand that will occur over the next 3-5 years as the hotel plant on the island expands.

The expanded and improved air transport facilities and services would facilitate increased visitor arrivals and allow the GOA to generate greater surpluses from tourism, which it could in turn invest in new growth poles such as international business and financial services, information and communication technologies, e-commerce and fisheries and in doing so diversify economic activity.

It is therefore evident that the emphasis on the development of air transport facilities and services cannot be viewed in isolation. Instead, it should be viewed as an attempt to provide inputs and services, which are critical to the further development of the tourism sector and the economy in general. The UKG has agreed in principle to provide technical assistance to the GOA to formulate a national strategy for sustainable development, which will include detailed strategic plans and programmes for transport, tourism and other sectors to form an integrated development plan for Anguilla. Work on the national strategy for sustainable development is expected to start in early 2004.

CHAPTER 3: ASSESSMENT OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

3.1 Institutional and Political Situation

Anguilla is an Overseas Territory of the United Kingdom. Its system of Government is as follows. The constitution provides for a Governor whose function is to exercise the executive authority of the Crown on behalf of Her Majesty. The Governor has special responsibility for defence, external affairs, internal security (including the police) and the public service. The Governor exercises executive authority in all other areas, in accordance with the advice of the Executive Council, comprising the Chief Minister and three other elected Ministers, the Attorney General and Deputy Governor, unless, in the interest of public order, public faith or good government he is of the opinion that it is inexpedient to follow the advice of the Council. The Ministers are assigned areas of responsibility other than those reserved to the Governor. Legislative power rests with the House of Assembly subject to the reserved legislative powers vested in the Governor and the UK Secretary of State for the Foreign and Commonwealth Office's power of disallowance. The House of Assembly consists of a Speaker of the House, the Deputy Governor, the Attorney General, seven elected members and two nominated members.

The Governor is appointed by the United Kingdom Government, normally for a term of three years. The elected members of the House of Assembly are elected by direct popular vote to serve five-year terms. The Chief Minister is usually the leader of the political party, which wins the general elections. The last elections were held in March 2000 with the Anguilla National Alliance (ANA) winning 3 seats, the Anguilla United Movement (AUM) winning 2 seats, the Anguilla Democratic Party (ADP) winning 1 seat and an independent candidate winning the other seat. The ANA and ADP agreed to form a coalition government and their "United Front" administration has been in power since then. Under the constitution the next general elections must be held by June 2005.

As mentioned, Anguilla is an Overseas Territory of the United Kingdom. Its direct relationship with the United Kingdom goes back to 1967 when it opted out of the proposed Associated State of St. Kitts-Nevis-Anguilla with central administration from St Kitts. The Anguilla Act of 1971 made allowance for the separate interim administration of Anguilla by the United Kingdom. It was not until December 19th 1980, following the Anguilla Act of 1980, that Anguilla became formally separated from the Associated State.

The resolution of Anguilla's status in 1980 signalled the beginning of a concerted partnership between successive UK and Anguilla governments to foster the development of Anguilla and its people. In that sense, Anguilla can be said to have undergone two "development decades" (the 1980s, 1990s) and is approaching the halfway point of its third development decade. Anguilla has made significant strides during this period. An important milestone along the way during this time was the cessation of UKG recurrent budgetary assistance or grant-in-aid in 1985. Since then Anguilla has met its own recurrent budgetary needs and an increasing share of its capital investment needs as well.

Over the past ten years in particular the Anguilla and UK governments have focused on targeted plans of action aimed at engendering socio-economic development. The first of these formalised development accords was agreed to in 1993 and was known as the Country Policy Plan (CPP). The CPP had as its basic goal, “co-operation and partnership aimed at promoting good government and self-sustainable growth and economic autonomy for Anguilla over the medium to long term”. The CPP summarised the agreed objectives and priorities for Anguilla over the period 1993/94 to 1998/1999.

The Strategic Country Programme (SCP), 2000/01 to 2004/05, is the successor to the CPP. In the SCP the GOA and UKG recommitted to the same general principles guiding the partnership for development as outlined in the CPP. In terms of the provision of resources, UKG accepted that there was “a case for continued technical assistance to Anguilla to enable the Government to achieve its objectives”. This was a major departure from the CPP where UKG agreed that there was “a case for a further tranche of capital aid and technical assistance to Anguilla to enable the Government to achieve its objectives”. The change in the nature of UKG assistance was consistent, however, with a provision in the CPP where the GOA signalled its “wish to cease to be reliant on capital grants and aid to fund Anguilla’s public investment needs and sees the aid programme as a means of helping it in this”. The end of the SCP coincides with the end of the current administration’s term of office.

UKG in both the CPP and the SCP pledged its commitment to the principle of self-determination with regard to Anguilla and the other UK Overseas Territories and full independence when it is the clearly and constitutionally expressed wish of the people. A Constitutional and Electoral Reform Committee has been undertaking public consultations for over a year now and the GOA is due to make firm proposals to UKG for constitutional reform by January 2004 based on that body’s findings. In the public consultations and debates, which the Constitutional and Electoral Reform Committee has had, the concept of “free association” with the United Kingdom has received quite some attention. Essentially, it is a “half-way house” towards full independence whereby Anguilla would attain full internal self-government, with defence and external relations remaining the preserve of the United Kingdom. Perhaps the best known example of a free association arrangement is the Cook Islands and Niue in free association with New Zealand.

At the same time that Anguillians are considering their constitutional development, especially with regard to their relationship vis-à-vis the United Kingdom, they must also consider their relationship with their Caribbean neighbours. Anguilla has associate membership in the Organisation of Eastern Caribbean States (OECS) and the Caribbean Community and Common Market (CARICOM). It is a full member of the Eastern Caribbean Central Bank (ECCB) which is the central bank of the OECS countries which all share a common currency, the Eastern Caribbean dollar (pegged at the rate of EC\$1.00 = US\$0.37 since 1976). Anguilla is also a member of ECCB initiatives such as the Eastern Caribbean Securities Exchange (ECSE).

The next elections in Anguilla, which are constitutionally due by June 2005 will therefore be a watershed event. Anguillians will entrust the leaders who they will elect at that time with the responsibility for charting Anguilla’s future in an increasingly complex world. Of paramount importance will be the nature of Anguilla’s relationship with the United Kingdom and by extension, the European Union. However, Anguilla’s geographic location in the Caribbean and

the Americas means that it will also have to adopt a clear stance as regards the OECS, CARICOM, any EU-Caribbean Economic Partnership Agreement, the Association of Caribbean States the Free Trade Area of the Americas and other regional and hemispheric initiatives. As an associate member of CARICOM, Anguilla is not subject to the common external tariff. However, its tariff structure is reasonably consistent with other OECS countries in that few items carry a tariff higher than the maximum allowed under phase four of the CET reduction. . As a UK Overseas Territory Anguilla would have to seek the permission of the UKG to become a member of the Free Trade Area of the Americas.

Anguilla has a strong record of good governance and the Government of Anguilla is committed to promoting and protecting the highest attainable standards of civil, political, social, economic, cultural and human rights. As a UK Overseas Territory Anguilla is obliged to implement human rights policies in line with the international standards accepted by UKG and in accordance with the Anguilla Constitution. The Anguilla legal system is based on UK Common Law as exercised by the Eastern Caribbean Supreme Court of Justice, with the UK Privy Council being the highest Court of Appeal.

3.2 Economic Situation

3.2.1 Context

After many years as essentially a subsistence economy, Anguilla has developed rapidly over the last 20 or so years due, almost entirely, to the expansion of the tourism industry on the island. Starting from a base of 8,172 visitor arrivals in 1980 Anguilla has averaged over 100,000 visitors annually since 1991. Gross Domestic Product has more than tripled to EC\$240 million over the last 15 years and median household and per capita incomes are currently around EC\$47,000 (US\$17,700) and EC\$14,000 (US\$5,300) respectively. As a direct result the population has increased by over 70% since 1982 from 6,680 to 11,561 compared to an increase of barely 1,000 in the preceding 20 years. A large part of this increase has been due to in-migration, mainly from other Caribbean countries. Non-Anguillians now make up 28% of the population.

Unemployment remains low at around 8% although this is higher than in 2001, before the events of September 11th, 2001. This increase highlights the island's dependency on tourism, 60% of GDP and 48% of employment when the direct, indirect and induced impacts are taken into account. This dependence makes the island highly vulnerable to trends in international and regional tourism.

3.2.2 Economic Activity and Economic Growth

Anguilla's economic development really began in earnest in 1980 following its formal secession from the Associated State of St. Kitts-Nevis-Anguilla. Economic activity became centred on tourism and the industry continues to dominate economic output. Table 1 below presents gross domestic product by economic activity (current prices) in 2002. As Table 1 shows, hotel and restaurants at 27.8% accounts for the greatest share of economic activity. Other tertiary sector

activities are also important with government services, banking and insurance and communications accounting for 18.2%, 14.5% and 9.4% of GDP, respectively. As an active member of the Caribbean Financial Action Task Force (CFATF), Anguilla has adopted the necessary legislation and regulations for oversight of the off shore and on shore financial sectors which meet OECD requirements for preventing money laundering and other crime-related financial transactions. Primary activities (agriculture and fishing and mining and quarrying) are relatively unimportant in terms of GDP. Manufacturing is also relatively insignificant, accounting for only 1.5% of GDP. Overall, when the inter-sectoral linkages are taken into account tourism accounts for close to 60% of Anguilla gross domestic product as in addition to hotels and restaurants, it also cuts across banking, communications, transport and other industries.

Table 1: Gross Domestic Product by Economic Activity, 2002

Activity	Share (EC\$ million)	Share (%)
Agriculture & Fishing	7.10	3.0
Mining & Quarrying	2.17	0.9
Manufacturing	3.54	1.5
Electricity & Water	14.75	6.2
Construction	24.75	10.3
Wholesale & Retail	17.31	7.2
Hotels & Restaurants	66.50	27.8
Transport	14.63	6.1
Communications	22.51	9.4
Banks & Insurance	34.61	14.5
Real Estate & Housing	8.27	3.5
Government	43.55	18.2
Other Services	5.30	2.2
Less Imputed Service Charge	25.48	10.8
Total	239.50	100.0

In terms of economic performance, Anguilla enjoyed quite robust growth rates during the 1980s driven largely by construction activity in the tourism industry as foreign investors embarked upon the first round of major investment in hotel plant on the island. Economic performance since then has been fitful and uneven and has been impacted by several external shocks and natural disasters (hurricanes). Table 2 below presents the trend in real GDP growth (1990 prices) between 1993 and 2002.

Table 2: Real GDP Growth (%), 1993 – 2002

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
7.5	7.1	-4.1	3.5	9.2	5.2	8.7	-0.3	2.1	-3.2

The average annual rate of growth during the period 1993 to 2002 was 3.57% compared to 9.99% recorded over the period 1983 to 1992. The major contributing factor to the decline in

economic performance during the 1990s was the impact of hurricanes on an almost annual basis including major ones in August 1995 and November 1999. This serves to highlight the vulnerability of the Anguillian economy so that gains made can quickly be reversed.

3.2.3. Public finance assessment

Further to the preliminary assessment of the transparency, accountability and effectiveness of public expenditure management and of the openness and transparency of public procurement, the Commission concluded that Anguilla's public expenditure management is sufficiently robust that EC budget support is an appropriate and convenient mechanism to support the island. The use of budget support to repay the short-term loan taken out for the airport extension is sensible, as it ensures that tourist arrivals can continue at existing if not increased levels and that the country can return to an overall budget surplus. Both of these factors will improve macro economic performance and stability and lay the foundation for the resumption of economic growth.

3.2.4 Trade

Anguilla is a highly open economy with an import trade quotient of close to 80% of GDP. The United States is Anguilla's main trading partner and accounts for 59% of all imports to Anguilla. Anguilla is an associate member of OECS and CARICOM and trade with member territories account for most of its remaining imports, including oil which is imported from Trinidad and Tobago. In the context of its associate membership of OECS and CARICOM Anguilla is harmonising its trade regime with that of other countries in the region. Total imports to Anguilla during 2002 were EC\$188.7 million.

Anguilla's merchandise exports are negligible, amounting to EC\$1.7 million in 2002. The major export item is concrete blocks to neighbouring islands such as St. Martin/St. Maarten and St. Eustatius. Given the situation with imports and exports, Anguilla recorded a deficit of EC\$187.0 million on its merchandise trade balance. This deficit, however, was largely offset by the export of tourism services with visitor expenditure estimated at EC\$149.3 million in 2002.

3.3.5 Government Finances

A summary of the state of the Government of Anguilla's Finances between 1998 and 2002 is provided in Table 3 below.

Table 3: Government Finances, 1998 – 2002 (EC\$ million)

EC\$ million	1998	1999	2000	2001	2002
Total Revenue	88.3	77.7	76.5	72.7	84.4
Current Expenditure	75.6	69.5	73.9	79.6	81.8
Capital Expenditure	12.3	10.8	12.5	7.9	1.6
Overall Surplus/Deficit	0.4	-2.6	-9.9	-14.8	1.0

As Table 3 shows, public sector finances steadily declined over the period 1999 to 2001 after registering a small surplus in 1998. This performance can be explained as follows. In 1999 Anguilla was struck by a major hurricane the economic impact of which was some US\$75.0 million, according to UNECLAC. The damage to hotel plant meant that most hotels were closed during the peak of the 1999/2000 tourism season (i.e., November 1999 to March 2000). Since tourism accounts for about 50% of government revenue collections when all the levels of impact (direct, indirect and induced) are taken into account, this impacted negatively on overall revenue collections. For example, indirect taxes, mainly in the form of customs duties account for about 40% of government revenue collections. Within this customs duties collections from tourism generated activity accounts for about 55% of total customs duties receipts. At the same time, the GOA was required to make significant expenditures relating to the hurricane reconstruction effort. The situation was compounded in 2000 by the downturn in global economic activity as the long run of economic expansion in the US came to an end. As the main source of visitor arrivals (65%), tourism activity in Anguilla is inextricably linked to demand conditions in the US. The cyclical and seasonal variations in tourism demand in 2001 were exacerbated by the events of September 11, which served to further curtail travel.

Other causes of the trend towards budget deficits over the period 1999 to 2001 include: (a) unplanned expenditures to meet international standards in areas such as civil aviation and the provision of fire services; (b) litigation; (c) regional commitments not billed previously, such as contributions to the Eastern Caribbean Supreme Court; (d) land acquisitions for road construction not reflected in the budget; and (e) major increases in the deficits of the Water Department.

In response to these developments in March 2002 the GOA agreed with the UKG a Fiscal Stabilisation Plan to cover the period 2002 - 2005. On the expenditure side, the central element of the plan was to reduce overall expenditure in 2002 by 7% from the amount budgeted. This was to be accomplished by: (a) implementing a partial freeze on hiring new public servants; (b) tightening controls on Government's purchase of goods and services; (c) implementing cost saving measures to reduce Government's operating costs; (d) restricting capital expenditure to when capital revenue became available to fund projects; (e) converting the accumulated overdraft to a long-term loan to reduce debt service costs; and (f) transformation of the operations of the Water Department to facilitate its operation on a commercial basis. On the revenue side, emphasis was placed on improving revenue collections by reducing arrears to Government, increasing the rate of some taxes, introducing new taxes and stimulating economic activity by concluding agreements with private developers for multi-million dollar investments in tourism projects.

The GOA's Fiscal Stabilisation Plan had a marked impact and there was a significant turn around in the government's finances so that a surplus of EC\$1.0 million was recorded at the end of 2002. A crucial part of this was the tight rein on expenditure. The Government intends to continue to impose a similar sense of fiscal discipline in 2003. The whole process of financial management will be given added emphasis in 2003 and will be overseen by a "Fiscal Review Team" (comprising the Director of Finance, the Auditor Advisor, the Director of Internal Audit,

the Director of Inland Revenue, the Accountant General and the Comptroller of Customs) which will report to a high level “Fiscal Evaluation Group” (comprising the Minister of Finance and Economic Development, the Permanent Secretary for Finance, the Permanent Secretary for Economic Development and the Deputy Governor). The Fiscal Review Team will monitor financial performance on a monthly basis using budget profiling techniques and make recommendations to the Fiscal Evaluation Group on what course of action to take.

The Government of Anguilla adheres to best practices in the management of its finances and its Accounts are audited on an annual basis by the UK Government’s National Audit Office.

3.3 Social Situation

3.3.1 Social Sector

As mentioned previously, Anguilla has made significant strides since the early 1980s. The fruits of the expanded economic development and the consequent increase in government revenues can be seen in the provision of free education and heavily subsidised healthcare. There is virtually 100% enrolment at both primary and secondary levels. On the health side, infectious and waterborne diseases have been virtually eliminated. In consequence, infant mortality is low (around 6 per 1000) and life expectancy is high (74 years).

Housing on the island is generally solidly built (hurricane-proof), provided with safe water, electricity and good sanitation; overcrowding affects under 10% of households. Ownership of many modern consumer goods is high: vehicles (74%), telephone (84%), TV (90%), washing machines (79%) and refrigerators (95%).

A recent (2002) Country Poverty Assessment (CPA), conducted by the Caribbean Development Bank and funded by the UK Department for International Development found that the current level of poverty in Anguilla is low by Caribbean standards - around 20% of households and 23% of the population. Indigence or severe poverty is very low at around 2% of households. (In the study the indigence and poverty lines are taken as EC\$3,100 (US\$1,200) and EC\$7,900 (US\$3,000) respectively for an adult per annum). The CPA distinguished between two principal categories of poor household: the indigent and the vulnerable on the one hand, and the working poor on the other. The working poor have a high dependency on the tourism sector and are more likely to be involved in lower paid and less secure occupations, both of which increase their vulnerability to any economic downturn. This vulnerability is exacerbated by the high cost of living, which means that any reduction in income can have a serious impact on household finances, especially given that almost all food is imported and is subject to import duties. The CPA found that, overall, poverty in Anguilla is not severe at present – most poor households enjoy a reasonable standard of living, own their property, have good access to education and health services and have at least one person in employment. It concluded that the principal determinant of future income poverty in Anguilla would be the health of the tourism sector.

Without growth in this sector unemployment will increase and government revenues will decline making it difficult to sustain current education, health and general social development policies.

The overall objective of the GOA for the social sector over the medium term is to consolidate on the achievements to date and improve access, equity and quality in the provision of health, education and other social services taking due consideration, for example, of the impact of demographic changes, available resources, consumer expectations and demand and in accordance with international agreements. Key targets are:

- (a) Equitable provision of social services (facilities) targeting, in particular, socially disadvantaged groups;
- (b) Development of mechanisms for public participation in social service delivery (i.e. in decision making about the kind of services provided, location, quality and effectiveness of these);
- (c) Strengthen institutional mechanisms for the advancement of gender affairs and for socially excluded groups in government and civil society;
- (d) Development of decentralised health services and appropriate health care financing mechanisms;
- (e) Development of appropriate programmes for offenders and those at risk of offending;
- (f) Development of appropriate programmes to eliminate anti-social behaviour.

Social services are heavily subsidised and will remain so over the medium term. In the 2003 Recurrent Expenditure Estimates 33.7% of the budget or EC\$30.3 million has been allocated to Social Development. Education, Secondary Health Care, and Primary Health Care account for EC\$13.3 million, EC\$8.3 and EC\$4.9 million, respectively, of the social development budget. This emphasis must be maintained, as it is by focusing on investment in education, health and other social infrastructure that the GOA can ensure the proper foundation for the long-term development of the island is provided. Such resources can only be provided, however, by the strong performance of the main revenue heads, which are in turn dependent on the performance of the tourism industry.

In terms of regional initiatives, Anguilla participated in a UNDP Conference to “Discuss Methods of Attaining the Millennium Development Goals (MDGs) in the Caribbean”, which was held in Anguilla from July 7-9, 2003. The objectives of the conference were to:

- Sensitise the highest political levels and reinforce need for the achievement of the MDGs in CARICOM;
- Familiarise Policy Makers, Directors of Statistics, Directors of Planning and other relevant personnel on the framework which has been emerging for monitoring

progress under the MDG indicators, and for producing a harmonised set of indicators for assessing and evaluating the status of the MDGs across countries;

- Sensitise stakeholders such as civil society, the private sector and regional institutions of higher learning on their respective roles in monitoring and evaluating of the MDGs and the work required to collect and compile the MDG indicators.

All countries in the Caribbean are expected to produce a report outlining their progress to achieving these goals by the end of 2004. The UNDP is co-ordinating this effort. Anguilla's performance will be a part of the OECS report.

3.3.2 Gender

One of the key targets in the GOA's social sector action plan is to strengthen institutional mechanisms for the advancement of gender affairs. To this end a Women's Desk was established in the Chief Minister's Office with the overall responsibility for co-ordinating the mainstreaming of gender affairs. Anguilla as a UK Overseas Territory is a signatory to international conventions on the rights of women. In May 2003 the Government of Anguilla indicated to the UKG its willingness to have extended to it the provisions of the Convention on the Elimination of Discrimination against Women (CEDAW). A key initiative currently being undertaken by the Women's Desk is a Family Law and Domestic Violence Legislative Reform Programme.

3.3.3 Environment

The Government of Anguilla's objective statement on the environment is to support the livelihoods of the people of Anguilla through sustainable management of the environment. Key targets are to:

- (a) Ensure that appropriate, applicable and affordable environmental policies and processes exist within government which support the sustainable management of the environment;
- (b) Ensure sustainable use of terrestrial and inshore and offshore marine resources;
- (c) Facilitate adherence to the obligations of applicable regional and international environmental treaties and agreements;
- (d) Facilitate initiatives for enhancement and beautification of the environment.

3.4 Medium Term Challenges

Economic performance in Anguilla during the 1990s was fitful and uneven, largely as a consequence of negative economic shocks and natural disasters. The challenge for Anguilla coming out of the 1990s has therefore been to stabilise fiscal performance and to pursue a programme of adjustment to ensure the future growth and development of Anguilla on a sustained basis. The objective of the Government of Anguilla in the short to medium-term is to sustain moderate growth rates in revenue performance by creating the conditions for robust economic growth. This per force requires continued concentration on tourism as the leading sector capable of generating surpluses, which would enable the GOA to make critical investments in physical and social infrastructure such as airport development, seaport development, road development, water development, education development, health development and general social development. As a small, open economy, growth and development in Anguilla is inextricably linked to demand conditions in the global economy, in particular the US economy. The following are the assumptions about the external and internal environment in the medium term (2003 – 2005).

External

- The global economy will experience slow recovery in 2003 and 2004, led by recovery of the US economy and the EU economy with more robust growth rates being anticipated by 2005.
- The downward trend in the flow of official development aid grants to moderate income developing countries will continue, despite the additional hardships these countries are and will be facing, as a result of the impacts of the terrorist events of September 11, 2001 and the war with Iraq in 2003.
- Interest rates will begin to rise gradually over the period 2003-2005, but should not reach the level of the rates prevailing at the height of the US led world economic expansion of the 1990s.
- The rate of direct private investment flows into developing countries for private sector enterprise development will be sustained, as the recovery of capital markets will remain unsteady.
- Capital markets will achieve moderate recovery.
- The recovery of world tourism will be slow following the September 11, 2001 terrorist attacks in the USA and the fallout from the war with Iraq in 2003. Falling global tourism will be particularly severe on the international airline companies many of which found themselves in a precarious position following the events of September 11, 2001, including American Airlines/American Eagle, the principal carrier of tourists to Anguilla.
- Compliance with “good governance” standards - taken to mean the adherence to minimum internationally accepted standards in the provision of financial services, transport and security in addition to traditional areas such as social, cultural and human rights - will place additional

burdens on resource strapped developing countries, in particular very small countries such as Anguilla.

Internal

- The expansion of Wallblake Airport to provide for 5200ft of TORA in both directions must be implemented to sustain the present tourism industry and facilitate planned expansion. While the planning for the expansion of Wallblake Airport has been on-going for sometime, this was given added urgency in December 2002 when American Eagle, the principal carrier of tourists from the all important US market and residents of the island, informed the Government of Anguilla that it would be phasing out the use of the ATR 42 during 2003 and introducing the larger ATR 72 aircraft effective January 1, 2004.
- In light of this development, the Executive Council of the Government of Anguilla has approved the Wallblake Airport Expansion Project consisting of: an accelerated design, tendering and award of contract programme to be completed by the end of August 2003; an accelerated land acquisition, compensation and resettlement programme to ensure the delivery of the site to the successful contractor by the end of August 2003; and, an accelerated construction programme to commence September 2003 and end in May 2004. The expanded facilities at Wallblake Airport would accommodate the larger ATR 72 aircraft, which American Eagle plans to introduce in 2004.
- Current services delivered to the public by Government will be maintained at 2001 levels, in real terms.
- Local funding will be provided for service improvements in the course of implementation, for the local cost components of programmes and projects funded by external donor grants and concessionary loans that are subject to time bound agreements and which address fundamental needs as well as replacements and enhancements, necessary to conform with obligatory international standards and conventions.
- Anguilla's status as a low direct tax (i.e., no income tax) jurisdiction, which gives it a competitive advantage will be maintained.
- The basic infrastructure for sustained economic and social development is grossly inadequate in a number of critical areas (e.g. transportation and communication infrastructure, telecommunications services, tertiary education, standards management, integrated planning).
- Improved and more activist revenue and tax management and collection strategies and procedures are required to significantly improve revenue efficiency.
- In the context of global reductions in import duties and regional trade liberalisation, the options available to Anguilla to replace customs duty revenue by other sources of revenue are being examined.

- A new round of major private sector direct investment, which will broaden the tourism product and diversify the economy, will commence in the period under consideration.
- Construction activity will be quite robust in 2003 associated with the Wallblake Airport Expansion Project, EDF, CDB and GOA road development projects, and the commencement of the multi-million dollar golf tourism project in the Western part of the island. This should give a boost to general economic activity as construction normally accounts for the third largest share of gross domestic product behind tourism and government services.
- Tourism activity could increase even in an environment of terrorist scares, the fallout from the war with Iraq and the SARS epidemic, if the Caribbean is viewed by Americans as a safe destination relative to Europe and Asia.

Of the developments listed above, the intention of American Eagle to phase out the ATR 42 which it uses on the Puerto Rico – Anguilla – Puerto Rico route is without question the single most important development facing Anguilla. Without the expanded airport facilities to accommodate the larger ATR 72 aircraft, which American Eagle plans to introduce in 2004, Anguilla's tourism industry and economy in general would grind to a halt. This would result in economic, financial and social distress and threaten the political stability and very fabric of the country.

Visitor arrival records show that 60% of all tourists from the US arrive through the all-important San Juan (Puerto Rico) gateway. They book their whole journey on American Airlines/Eagle. The fact that the US accounts for 65% of all tourist arrivals to Anguilla means that the consequences to Anguilla of American Eagle pulling out would be profound – economic disaster. A recent study by Tourism & Transport Consult (TTC) International (which was funded by the European Union) of the impact of tourism on the Anguilla economy (i.e., taking the inter-sectoral linkages with construction, transport, banking and financial services, telecommunications, etc., into account) has shown that it accounts for 51.3% of gross domestic product. Assuming GDP in current market prices of EC\$239.5 million in 2002, the cost to Anguilla of not proceeding with the expansion of Wallblake Airport could be as much as EC\$122.9 (US\$45.5) million because to be without the air access that American Eagle provides is tantamount to shutting down the tourism industry. To put this into perspective, UNECLAC estimated that the economic damage caused by Hurricane Luis in 1995 to the Anguilla economy was EC\$149.31 (US\$55.3) million.

Other relevant indicators of the economic impact of tourism for Anguilla highlighted by the TTC study are as follows: tourist expenditure supports approximately 2,853 jobs representing 18 jobs for every US\$1 million of visitor expenditure – thus tourism related employment is equivalent to 48.1% of average annual employment; government revenue as a result of tourism (e.g. hotel accommodation tax, airport embarkation tax, import duties) amounts to approximately US\$23.1 million or 73.9 per cent of total government current revenue - i.e., the direct, indirect and induced impact of tourist expenditure.

In September 2002, ACP-EU negotiations have started with a view to establishing Economic Partnership Agreements (EPAs) by 1 January 2008. These will progressively remove barriers to trade between ACP and EU, and enhance co-operation in all areas related to trade. EPAs will be negotiated with ACP regions, engaged in a regional economic integration process, including the Caribbean. While the question of possible OCT involvement in EPAs remains open, Anguilla should be aware of any impact and opportunities for its trade relations with the EU and its ACP neighbours, possibly by undertaking a study.

CHAPTER 4: ASSESSMENT OF PAST AND ONGOING EC COOPERATION

4.1 EC Support under Previous EDF Cycles

Since 1976, EC assistance to Anguilla under the 4th to 8th EDF cycles totalled EUR 9.55 million. Major projects funded under the 4th, 5th and 6th EDFs were the upgrading of infrastructure, including the construction of Road Bay Jetty, a new electricity power station, and a road improvement project. The tourism sector has benefited from a loan of EUR 1.5 million from the European Investment Bank (EIB). The funds were used for the construction of a locally owned 25-room hotel, the ‘Anguilla Great House’. Anguilla has also received assistance, under EDF regional programmes, to participate in European tourism fairs and trade shows.

Under the 7th EDF, Anguilla received a grant allocation of some EUR 3.0 million. Of this amount, 80% was used for the development of the water supply, storage and distribution system. The project was successfully completed in 1995. Under the 8th EDF, EUR 1.75 million was made available to Anguilla. The funds, along with the balance under Lome IV, were allocated to a road development and maintenance programme, intended to improve access to commercial and tourism sites. The majority of the funds are being used to construct a new development road linking the ferry terminal at Blowing Point (which is the major entry point of visitors to the island, primarily day-trippers from St. Martin/Maarten) to the Valley (the capital town) via Little Harbour. Little Harbour is currently the site of a 25-room hotel, with a 150-room hotel currently under construction. Actual construction of the road will commence in July of this year.

In addition to its indicative programme allocations, Anguilla has benefited, through the regional resources of the EDF, from the activities of several regional organisations, including the University of the West Indies, the Caribbean Tourism Organisation, the Caribbean Agricultural Research and Development Institute and the Caribbean Food Corporation. An amount of EUR 2.1 million has been allocated from the resources of Lome IV to the British Overseas Territory / Caribbean OCT for regional co-operation.

Regional Projects of direct interest to Anguilla include: the Caribbean Export Development Agency which provides technical assistance and training for export manufacturers in the OECS; under the ASYCUDA project, designed to improve customs collections computer equipment was installed at the Customs Offices in Anguilla; and, the Caribbean Regional Tourism Development Programmes aims to assist ACP States and OCTs to achieve sustainable growth in their tourism operations. The programme, to which EUR 9.0 million has been allocated, falls into two main areas of activity, market development in Europe and product development in the Caribbean. Anguilla has particularly benefited from technical assistance measures for the development of a marketing plan.

In terms of the experience, since Anguilla’s support under the previous EDF agreements was for the most part dedicated to infrastructure development, the Ministry of Infrastructure, Communications and Utilities has developed quite some expertise in implementing and managing infrastructure projects which should prove invaluable in implementing the focal sector support strategy outlined in this document which will concentrate on the air transport sector. While the “project approach” has worked reasonably well in the past, the option of a “budgetary

support” implementation mechanism for EDF 9 is quite timely, as it fits into the GOA’s desire to move into multi-year programme budgeting the success of which is predicated on well defined sectoral strategies with the resource requirements identified and properly budgeted.

Anguilla is also eligible under the EU’s support programme for Strengthening fishery products health conditions in ACP/OCT countries, which the Commission approved in December 2001. This is all the more relevant since EU imports of Anguillan fishery products for human consumption are currently not authorised.

4.2 Programmes of the United Kingdom Government

Over the last ten years UK assistance has been delivered as part of targeted development programmes, namely the Country Policy Plan (CPP), 1993 – 1999 and the Strategic Country Programme (SCP), 2000 – 2005.

Under the CPP the UKG agreed to allocate a total of £10.5 (EC\$42.0) million from the funds managed by the Dependent Territories Regional Secretariat in Anguilla for the period 1993/94 to 1996/97, including an indicative figure of £2.5 (EC\$10) million of funds available for the collective benefit and support of the Dependent Territories in the Caribbean. The CPP was extended in 1997 for a further two years.

Major infrastructure projects completed as part of the CPP included: the Prison; the Sandy Ground Police Marine Base; the Teachers Resource Centre; the Post Office; the Police Headquarters; and, the Parliamentary/Court House Building.

Under the SCP the UKG agreed to allocate to Anguilla a total of £8.3 (EC\$33.2) million from the funds managed by the Overseas Territories Department (OTD) of the Department for International Development (DFID) for the period 2000/01 to 2004/05.

Anguilla will additionally continue to benefit from the DFID Caribbean Overseas Territories Regional Programme through activities such as the COTGAR (Caribbean Overseas Territories Government Accounting Reform) project and the HIV/AIDS programme supported through CAREC. In addition, UKG is committed to providing emergency aid in response to natural disaster situations. UKG will also work closely with GOA to promote access by GOA to supplementary sources of UKG funding such as the Foreign and Commonwealth Office (FCO) Environment Funds and DFID’s Overseas Territories Global Environment Programme. Anguilla will also have access to an appropriate share of the FCO’s Good Government Fund.

In 2002 the FCO established an Economic Diversification Fund for Anguilla. This is a new programme is managed by the Anguilla Development Board and will extend over three years, with the first year’s funding to total EC\$600,000. The lending policy is to give priority to non-traditional projects that will:

- reduce imports and minimise the outflow of foreign exchange;
- increase exports and foreign exchange earnings;

- generate employment; and
- provide linkages within the economy.

The areas of lending will include fishing, agriculture, arts and crafts and the trades. Interest rates on the loans will be in the range of 4 – 6% (well below commercial rates). Loan amounts will be from EC\$4,000 to \$40,000 with a maximum length of 10 years. Loan applicants are required to provide at least 5% of the value of the loan in terms of collateral.

Infrastructure projects completed as part of the SCP are the Campus B of the Comprehensive School, Renovation of the West End Primary School and Welches Polyclinic. Capacity building initiatives include the COTGAR project, support for the establishment of the Anguilla Health Authority and necessary implementation initiatives, and, in collaboration with the Caribbean Development Bank, the conduct of a Country Poverty Assessment (CPA) to further the social development objectives of the GOA.

4.3 Other Donor Support

Anguilla's other remaining significant donor is the Caribbean Development Bank (CDB) which has financed port development, road development and electricity development projects in the past. It has also provided funds for on lending by the Anguilla Development Bank, which lends to the small business and enterprise sector. For 2003 the CDB is providing EC\$9.9 million in loan funds for the rehabilitation of roads damaged by Hurricane Lenny in 1999. The CDB has indicated that it is prepared to consider requests from the GOA for additional loan funding of up to EC\$13.1 million for road and port development for 2004 – 2005.

CHAPTER 5: RESPONSE STRATEGY

5.1 Principal Elements

Given the situation outlined in Chapter 3 (country analysis) and Chapter 4 (past performance and result of EC co-operation), the following elements are the principal factors for consideration in the EC response strategy:

- The challenges and opportunities presented by globalisation, trade liberalisation, and “good governance” (taken to mean adherence to minimum internationally accepted standards in the provision of financial services, transport and security in addition to traditional areas such as social, cultural and human rights) and the need to adapt a country of limited natural resources to these new realities.
- The implementation of a medium-term strategy by the Government of Anguilla where per force the concentration on tourism will continue with the objective of generating enough surpluses from this sector to in turn invest in other growth poles such as international business and financial services, e-commerce, and fisheries. This will be complemented by efforts to diversify Anguilla's tourism product as well as the source market of tourism arrivals.
- Generating sustained surpluses from the tourism sector will require significant investment in the transport sector, in particular, air transport. Air transport is taken as the provision, operation and maintenance of airport facilities to meet internationally accepted standards of safety and security (ICAO) as well as demand and supply changes in the industry, air traffic control and air navigation regulation, the formulation and adoption of appropriate civil aviation regulations, and the promotion of air routes and services for the island.
- The sectors covered by past and on-going EC co-operation as well as by co-operation from other development partners.

5.2 The EC Support Strategy

Taking into account the initiatives being funded by the Government of Anguilla and other donors for the most pressing needs of Anguilla and in view of the already existing schemes of both bilateral and regional EC funds, the funds under the 9th EDF programming cycle are to be used for the development of the transport sector, in particular air transport facilities and services to enable Anguilla to maintain its current level of economic activity and establish the conditions conducive to sustained growth and development through the development of an integrated and comprehensive sector strategy.

The need for the development and transformation of the transportation sector, in particular the air transport sector, is a consequence of changes in the air services industry. The long term growth trend in the air transport sector serving Anguilla and other small Caribbean territories is towards increasing scale, reflected in the increasing size of the smallest aircraft used by airlines to serve these markets, leading to the need to provide appropriate and usually expanded airport facilities

and services to meet the internationally accepted operating standards. Anguilla is the last remaining premier upscale tourism destination in the Caribbean, which is required to upgrade its facilities. Other territories such as the British Virgin Islands, Nevis and Canouan (island in the Grenadines, part of St. Vincent and the Grenadines), which were in a similar situation have upgraded or will have upgraded their air transportation infrastructure to meet the required industry standards by the end of 2003.

In view of the funds available, the Government of Anguilla sees an opportunity for the EC in conjunction with the United Kingdom Government and the Caribbean Development Bank to take a leading role in developing this sector wide approach.

5.3 Proposed Focal Sector for EU Support

It is proposed that the transportation sector, in particular, the development of the air transportation sector in accordance with the strategic plan for transport outlined in the United Front administration programme agenda and the Strategic Country Programme agreed to with the United Kingdom Government to cover the period 2000/01 – 2004/05, be the focal sector for support under EDF 9 programming. Support will cover both physical infrastructure and capacity building and institutional development initiatives.

This focus is justified for the following reason. A fundamental objective of the partnership for progress and development between the UKG and GOA is economic independence for Anguilla. Given Anguilla's physical attributes and resource base this requires considerable investment in the critical areas of transportation and maritime services. Changes in the global transportation industry, governance and regulatory environment have underscored the need for investment in these areas if Anguilla is to consolidate and build on its achievements to date and progress along the path to economic independence. The level of resources that are required means that a co-ordinated and focused approach is required by Anguilla's development partners (the UKG, EC, CDB) as well as the private sector and the NGO community in order to formulate, programme and implement the components required.

5.4 Coherence with EU Policy

The selection of the transport sector as the focal sector for EC support is justified for the following reasons:

- Support for the transport sector constitutes an integral part of the association between the European Community and the Overseas Countries and Territories for the reduction, prevention and eventual eradication of poverty and promotion of the sustainable development of the OCTs.
- There is the recognition that in many cases their small size notwithstanding, the OCTs are just as subject (perhaps even more so) to the pressures and challenges of the global industry and economy and therefore must have the necessary human and physical capital infrastructure to ensure sustainable economic growth and poverty eradication in such an environment. Anguilla

has benefited from previous EC bilateral assistance to the transport sector as well regional projects geared to sustaining and expanding the demand for the region's products (e.g. Anguilla has benefited from the Caribbean Regional Tourism Development Programme which aims to assist ACP States and OCTs to achieve sustainable growth in their tourism operations) and therefore facilitate economic growth and development. The proposed focal sector support under EDF 9 would provide the opportunity to consolidate and build on such initiatives.

- Improving and developing transport sector programmes, facilities, services and mechanisms will allow Anguilla to maintain its current level of tourism activity and facilitate the overall expansion of tourism and development and diversification of the Anguillian economy.

5.5 Consistency with Government Policy and Donor Interventions

The GOA's policy objective for the air transportation sector is to ensure that Anguilla develops and maintains a properly regulated and resourced aviation sector which meets internationally required standards of safety and security and is adaptable to changing industry needs. Key targets are to:

- (a) **Implement** UK CAA recommendations on aviation safety and security; and,
- (b) Develop air transportation links to meet the demands of the resident population, tourists and other visitors to the island and in so doing facilitate economic growth and development.

In keeping with its development plan for the sector agreed to, both the GOA and UKG have been devoting increased resources to the air transport sector in recent years. The UKG funded a Comparative Airport Study, which was undertaken by the UK firm of WS Atkins (final report submitted in June 2000) at a cost of EC\$266,405 and which was geared at determining the most suitable site in Anguilla for airport development and the scope of the development, which would take place over the short to medium term. This report recommended the existing site at Wallblake, rather than Brimigen (a greenfield site on the northern coast of the island) as the most optimal site for future airport development in Anguilla. The UKG also funded an Extension to Wallblake Airport Runway Options and Funding Study which was also undertaken by WS Atkins (final report submitted in February 2002) at a cost of EC\$203,595. The UKG is now funding the services of the consultants who will design the expanded facilities (runway, terminal upgrade, apron, navigational lighting), which are required at Wallblake Airport. After a tendering process in line with EU regulations the UK firm of Scott Wilson Kirkpatrick was awarded the design and supervision contract in December 2002. They commenced work in January 2003 and the contract will extend to June 2004 at an overall cost of EC\$1.5 million. The UKG has further agreed to provide technical assistance to review and revise the strategic model proposed for the Management of Airport and Seaports Departments including recommendations for the merging and re-structuring and re-organisation of the Airport and Seaports Departments from traditional Governments Department to a commercially oriented organisation.

PART B: INDICATIVE PROGRAMME

CHAPTER 6: INDICATIVE PROGRAMME

6.1 Financing Envelope

The implementation of the response strategy of the EC will be financed through a number of different financing instruments, which include the following:

6.1.1 9th EDF Allocation: EUR 8.0 million

This allocation will be used to fund the development activities identified in the context of the response strategy, namely in the transportation sector (see section 5.3). Support will cover both physical infrastructure and capacity building and institutional development initiatives. The allocation will be disbursed by way of budgetary support over the duration of the 9th EDF in “tranches” linked to progress in implementation of the sectoral programme.

6.1.2 Previous EDF Allocations

Anguilla has approximately EUR 0.29 million remaining from previous EDF allocations (EDF 6,7 and 8), which will also be devoted to securing technical assistance to support the initiatives in the focal sector. Studies funded using these resources could include an Airport Master Plan for Wallblake Airport covering the medium to long-term and a Strategic Plan for developing air access to Anguilla and optimising its air transportation resources.

6.1.3 9th EDF OCT Regional Funds

Additional assistance may be forthcoming from 9th EDF OCT regional funds to support strategic planning and management in public services, tourism and other areas and from the Caribbean Regional Indicative Programme (CRIP).

6.2 Focal Sector

6.2.1 Overall Objective

The overall objective of the intervention in the air transportation sector is to ensure that Anguilla develops and maintains a properly regulated and resourced aviation sector which meets internationally required standards of safety and security and is adaptable to changing industry needs and in so doing facilitate sustained economic growth and development.

6.2.2 Specific Purposes

Particular attention will be given to the following areas:

- the development of physical facilities, plant and equipment;
- institutional development including the option of creating an airport and seaports authority and covering legal, regulatory, corporate, operational and financial issues, to achieve profit maximisation or loss minimisation;
- improvement of the environment for increased availability and reliability of air services serving Anguilla by working out favourable air service agreements with the assistance and advice of the British with the American, Dutch, French, Netherlands Antilles, OECS and British Governments;
- increased air access on the basis of agreements made and close co-operation with existing air carriers serving Anguilla and with potential carriers interested in serving Anguilla.

Such specific objectives will be pursued in the context of a policy framework based on policy dialogue with the other development partners to address the needs for:

- a medium term sectoral strategy and expenditure framework;
- an annual programme including an annual budget;
- a set of indicators for sector performance, monitoring and evaluation commonly agreed with the other development partners.

6.3 Monitoring and Indicators

A set of indicators commonly agreed with the other development partners will be identified to assess sector performance. These will include air transportation sector indicators, budget indicators and other general economic indicators. See specific indicators in the logical framework (Annex 1).

ANNEX 1: ASSISTANCE FRAMEWORK IN THE AIR TRANSPORT SECTOR

INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
<p>Long-term Territorial Sector Target(s): To develop air transport facilities and services to meet the demands of the expanding tourism industry and the needs of the island in general and in doing so facilitate the growth and development of Anguilla.</p>	<p>1. Tourist arrivals through Wallblake Airport increase at an annual average rate of 10% over the period 2003 – 2005. 2. Total passenger movements through Wallblake Airport increase at an annual average rate of 8% over the period 2003-2005.</p>	<p>Airport Dept. reports. Airport Dept. reports.</p>	<p>GOA and donor resources are provided in support of the focal sector development.</p>
<p>Intervention Objective: To develop efficient, dynamic and sustainable air transport facilities and services for Anguilla including expanded and more efficient airport operations and greater air access to Anguilla.</p>	<p>1. Upgraded and expanded physical facilities, plant and equipment operational. 2. Airlines and other stakeholders are aware of and increase their utilisation of the expanded facilities at Wallblake. 3. Airport Department transformed into commercially oriented entity. 4. Improved air access to Anguilla both through increased frequency of flights by the established carriers and the introduction of new carrier services</p>	<p>Project Board reports. Airport Dept. reports. Statistics Dept reports. Treasury Dept reports. Project Board reports. Airport Dept. reports</p>	<p>GOA and donor resources are provided in support of the focal sector development.</p>
<p>Results:</p> <ol style="list-style-type: none"> 1. Airport expansion completed and expanded facilities operational. 2. A well-structured Airport Dept. provided with the personnel and other resources required in place by Dec 3, 2004. 3. Mechanisms for the collection of increased air transport revenues instituted by June 3, 2003. 4. An Air Transport Development Strategy (ATDS) formulated by December 2002. 5. An Air Transport Dev. Advisory Committee (ATDAC) formed to implement the ATDS. 6. Airport Master Plan formulated by December 31, 2004. 	<ol style="list-style-type: none"> 1. Extended runway, upgraded terminal and new road diversion in use by June 2004, October 2004 and January 2005. 2. Restructured airport operations, possibly Airport Authority, commence January 1, 2005. 3. Revenue generated by the air transport sector increases at annual average rate of 30% over the period 2003-2005 4. Implementation of ATDS commenced January 1, 2003. 5. The Wallblake Airport Expansion Project Board formed in 2000 currently serves as the ATDAC. 6. Airport Master Plan used as the basis for the future development of Wallblake Airport commencing January 1, 2005. 	<p>Project Board reports. Project Board reports. Airport Dept. reports. Project Board reports. Project Board reports. Airport Dept. reports.</p>	<p>Required funding is obtained.</p>

ANNEX 2: INDICATIVE TIMETABLE AND TIMELINE

	EUR (million)	%	April 2004	April 2005	June 2005
NIP Balance					
EDF 6, 7, 8	0.29				0.29
NIP EDF 9	8.00		4.00	4.00	-
Total	8.29		4.00	4.00	0.29

ANNEX 3: ANGUILLA DONOR MATRIX (EURO): 2003-2005

OCT Matrix	Economic Development	Social Development	Productivity Sector
1. Territorial Authorities	1,474,994	1,284,035	8,124,156
2. Private Sector	-	-	-
3. Non-state actors	-	-	-
4. European Commission	-	-	8,290,000
5. United Kingdom (DFID)	1,471,991	2,568,729	578,369
6. Other (CDB)	-	-	7,706,186

Note: All figures are indicative planning figures.

ANNEX 3: LIST OF ACRONYMS

ADP - Anguilla Democratic Party - ANA - Anguilla National Alliance
AUM – Anguilla United Movement
CARICOM – Caribbean Community and Common Market
CEDAW – Convention on the Elimination of Discrimination Against Women
CDB – Caribbean Development Bank
COTGAR – Caribbean Overseas Territories Government Accounting Reform
CPA – Country Poverty Assessment
CPP – Country Policy Plan
CRIP – Caribbean Regional Indicative Programme
DFID – Department for International Development
ECCB – Eastern Caribbean Central Bank
ECSE – Eastern Caribbean Securities Exchange
EIB – European Investment Bank
FCO – Foreign and Commonwealth Office
GOA – Government of Anguilla
MDGs – Millennium Development Goals
OECS – Organisation of Eastern Caribbean States
SCP - Strategic Country Programme
UK CAA – United Kingdom Civil Aviation Administration
UKG - United Kingdom Government
UNECLAC – United Nations Economic Commission for Latin America and the Caribbean