

FINAL DRAFT

Ninth EUROPEAN DEVELOPMENT FUND

SINGLE PROGRAMMING DOCUMENT

FRAMEWORK OF CO-OPERATION

BETWEEN

THE OVERSEAS TERRITORY

OF

MONTSERRAT

AND

THE EUROPEAN COMMUNITY

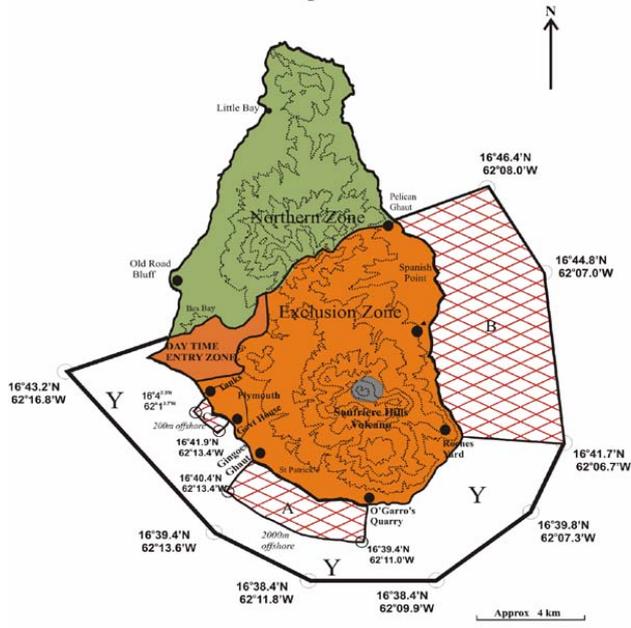
Submitted

By

Government of Montserrat

December 2003

Montserrat Volcanic Risk Map
1st August 2003



**International Maritime
Exclusion Zone**
(2 n offshore)

MONTSERRAT

SUMMARY TERRITORY DATA 2002

Surface	Total – 100 sq. km Habitable – 44 sq. km
Geographic region	Caribbean
Population, total	4,563
Membership of international organisations	CARICOM, OECS, ECCB
Population growth (average % past five years)	11%
Life expectancy at birth (years)	82 years
Fertility rate (births per woman)	6%
Mortality of under 5 years (per 1000 children)	0
Illiteracy total	5%
Illiteracy female (% age 15 and above)	3%
Primary enrolment (% of relevant age group)	100%
Secondary enrolment (% of relevant age group)	100%
Secondary enrolment, female (% of age group)	100%
Unemployment rate (% of labour force)	12%
Unemployment rate, females (% of female labour force)	8%
Poverty rate (percentage population below poverty line)	Not available
HIV incidence (per 1000 population)	Less than 2
Main natural resources (items)	Small forests; Marine resources
Inflation rate (average past three years)	3.40%
GDP per capita	EUR 6,400 EC\$19,300
GDP growth (average % past five years)	-1%
Value added in agriculture (% of GDP)	1.5%
Value added in industry (% of GDP)	35%
Value added in services (% of GDP)	63%
Exports of goods and services (% of GDP)	5%
Imports of goods and services (% of GDP)	78%
Number of visitors	14,779
External debt (percentage of GDP)	13.8%
Foreign direct investment, stock	Not Available
Overall government budget balance (% of GDP)	39% (Deficit)
Fixed lines and mobile phones (per 1000 people)	450
Personal computers (per 1000 people)	198
Internet users	630

MAP OF MONTSERRAT

TABLE OF CONTENTS

Montserrat: Summary Data	2
Volcanic Risk Map of Montserrat	3
PART A: CO-OPERATION STRATEGY	5
List of Abbreviations	6
Executive Summary	7
Chapter 1: EC co-operation objectives	8
Chapter 2: Policy Agenda of OCT	9
Chapter 3: Assessment of the Political, Economic and Social Situation	13
Chapter 4: Assessment of Past and Ongoing EC Co-operation	27
Chapter 5: Response Strategy	30
PART B: INDICATIVE PROGRAMME	
Chapter 6: Indicative Programme	35
Annexes:1	37
2	40
3	41
4	42

PART A : CO-OPERATION STRATEGY

LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific
CARICOM	Caribbean Community
CDERA	Caribbean Disaster and Emergency Response Agency
CEDA	Caribbean Export Development Agency
COTGAR	Caribbean Overseas Territories Government Accounting Reform
CPP	Country Policy Plan
CSME	Caribbean Single Market and Economy
CTO	Caribbean Tourism Organisation
CXC	Caribbean Examinations Council
DFID	Department for International Development
EBAS	European Business Assistance Services
ECCB	Eastern Caribbean Central Bank
ECTEL	Eastern Caribbean Telecommunications
EC\$	East Caribbean Dollar
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
EUR	EURO Currency
FCO	Foreign and Commonwealth Office
GDP	Gross Domestic Product
GOM	Government of Montserrat
HTA	Hotel and Tourism Association
ICT	Information and Communications Technology
IMF	International Monetary Fund
MCCI	Montserrat Chamber of Commerce and Industry
MTB	Montserrat Tourist Board
MVO	Montserrat Volcano Observatory
NGO	Non-Government Organisation
OCT	Overseas Countries and Territories
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
PDP	Physical Development Plan
PPA	Participatory Poverty Assessment
PSD	Private Sector Development
SDP	Sustainable Development Plan
SPD	Single Programming Document
UKG	United Kingdom Government
UWI	University of the West Indies
WTO	World Trade Organisation

EXECUTIVE SUMMARY

Montserrat is a United Kingdom Overseas territory in the Caribbean. The framework for development co-operation between the UK and Montserrat is reflected mainly in the Sustainable Development Plan and the Country Policy Plan. Through this framework, the United Kingdom Government (UKG) has provided a considerable level of support to assist the island in achieving its principal medium-term goal of social and economic recovery after eight years of volcanic activity.

The EU is Montserrat's other major development partner and the island has consistently benefited from this relationship over the years. It has most recently benefited from EC support in strategic activities such as housing development and the re-establishment of essential transport infrastructure.

Under the 9th EDF, Montserrat stands to benefit from an allocation of EUR 11 million. The Government of Montserrat (GOM) has chosen Trade in Services as the focal sector for utilisation of these funds. The overall objective is to develop Trade in Services, and in particular the tourism sector, to lead economic recovery, improve the fiscal stance and promote social advancement. Tourism development would be supported through the development of infrastructure, the promotion of private sector development, and the establishment of a more competitive and modern ICT environment.

Tourism has traditionally been the mainstay of the Montserrat economy. A recent study commissioned by GOM with support from the Government of the Republic of Ireland concludes that tourism remains a sector with high potential for job creation, income generation at the community level, foreign exchange earnings, increasing government revenue and fostering an enterprise economy. The study includes a Tourism Strategy and Plan and a series of action plans for developing the Little Bay area into a tourist and commercial centre, enhancing the island's tourist attractions, effectively promoting the island overseas, and upgrading port facilities to attract a higher number of cruise visitors and yacht passengers.

It is expected that funds allocated under EDF 9 would be used to support a number of these action plans. EC funding is currently being utilised to finance the construction of a new airport, which would significantly increase the level of international access to the island, and thereby facilitate the growth of trade in services such as tourism. It is further anticipated that increased tourism and other economic activity would help to encourage a larger number of Montserratians to return home to live and work, to bring an increased number and range of skills to the island and to provide a relatively larger market for private sector activity.

In April 2003 Montserrat opted for Budgetary Support as the means of implementing the 9th EDF and the Commission, further to a public finance assessment, decided to comply with such request.. GOM has in place a team of professionally trained and experienced public servants together with contracted technical co-operation officers who are capable

of providing efficient, effective and transparent management of the funds to be allocated under the 9th EDF.

CHAPTER 1: EC CO-OPERATION 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 coordinate 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 cross-cutting 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

2.1 Introduction

The policy agenda of the Government of Montserrat (GOM) over the next three to five years aims to achieve substantial social and economic recovery from the far-reaching impact of eight¹ years of volcanic activity.

The consequences of this volcanic activity included the migration of fifty per cent of the island's population; destruction of the main centres of economic and social activity, including the capital city; destruction of major infrastructure and other economic assets; a collapse in private sector activity; significant undermining of the tax base and overall government revenue; social dislocation; significant environmental damage; large fiscal deficits and general economic decline.

GOM's initial policy response was to concentrate on effectively managing the crisis that ensued through the provision of emergency facilities and services. The current medium-term policy has now shifted from crisis management to the creation of opportunities for sustainable economic growth and development. Scientific advice from the Montserrat Volcano Observatory (MVO) suggests that the risk from the volcano is now minimal and that the inhabited north of the island remains safe and amenable to all forms of economic activity.

GOM aims to achieve social and economic recovery largely through the implementation of programmes aimed at revitalising key sectors of the economy such as tourism; the systematic rebuilding of essential infrastructure; rehabilitating the private sector; promoting the development of other services such as the Information and Communications Technology (ICT) industry; and the re-creation of a commercial, cultural and tourism centre strategically located to facilitate and promote increased private sector activity.

2.2 Overall Policy Framework

GOM's medium-term policy demonstrates a balanced approach to the social and economic recovery that is now required. The policy framework is outlined in three main documents. These are:

1. The Sustainable Development Plan (SDP) for the period 2003– 2006;
2. The Country Policy Plan (CPP) which complements the SDP;
3. The Physical Development Plan (PDP) for the period 2000-2009;
4. Budget Speech and Estimates of Revenue and Expenditure March 2003.

¹ 1995 – 2003

The SDP and CPP together comprise the framework of development assistance and co-operation between the United Kingdom and Montserrat. The SDP sets out a broad vision and major goals for development of the island during the Plan period. It provides both governments with an agreed and coherent policy framework and outlines priorities for public and private sector action. It sets out sector-level policies, strategies and objectives, as well as the expected impact and outcome of the development strategies.

The CPP confirms United Kingdom Government's (UKG's) support for GOM's development goals, policies and strategies and translates the broad policy framework into specific projects and other economic activities. It is therefore also a programming instrument that details the manner in which GOM intends to spend its resources during the next three years.

The purpose of the PDP is to facilitate physical planning on a proactive basis. Its stated aim is to provide a framework for land use and development, to give guidance and direction to government, the private sector, Non-Government Organisations (NGO's) and the community, and to provide a basis for the co-ordination and integration of development activities.

The policy objectives were most recently restated in the 2003 Budget Statement approved by the Montserrat legislature in March 2003. They are as follows.

1. To develop, in conjunction with the private sector, programmes that would promote the retention of the present population and encourage Montserradians to return home.
2. To provide economic and financial stability through programmes aimed at stimulating economic activity and growth in key sectors while reducing recurrent budget deficits.
3. To promote Social Development and enhance the quality of life for all people on island.
4. To promote good government and governance by strengthening public administration systems and expanding the role of civil society in national decision-making.
5. To improve and expand external relationships to facilitate the achievement of national , political and economic objectives.
6. To promote environmentally sustainable activities, as well as programmes that support prudent risk management, disaster preparedness and disaster mitigation.

GOM accords highest priority to the second objective since increased economic growth is such an essential precondition for all aspects of development. The policy objective of

expanding external relationships follows closely since external trade and trade in services such as tourism are central to the achievement of economic growth in Montserrat. The objective of population growth recognises the need for a larger labour force to facilitate economic activity, the need for a more economic domestic market size, and the need to make it more feasible for Montserratians to return to their homeland. The remaining three are important cross-cutting objectives that must be achieved to ensure that development is balanced and sustainable.

2.3 Economic Policy

GOM's economic policy is guided by the second objective outlined above. The approach is to develop Montserrat into a largely service-oriented export-led economy. The service industry that has proved most successful for Montserrat is tourism. GOM has taken a policy decision to target the tourism sector as the lead sector in the economy.

An important precondition for tourism growth is the development of the local private sector and the encouragement of foreign private investment. GOM has formulated a Private Sector Development (PSD) strategy on the basis of a study funded by the Department for International Development (DFID), which includes institutional building and the provision of greater access to funding. It also includes the provision of essential infrastructure that would stimulate private investment in hotels, in craft and other small scale manufacturing activity, in shops, in the provision of services, and in general tourism and business activity.

GOM is also presently considering a number of investment policy principles aimed at encouraging both domestic and foreign investment on the island. These arise out of a separate project called *Support for Investment Frameworks in the Caribbean Community*, which produced a Diagnostic Study on Montserrat. This study was undertaken by CARICOM.

The overall policy is to create the proper environment for increased private sector participation in the national economy and to reduce government intervention and ownership over the medium to long-term. GOM is already in the process of privatising some of its operations and is currently reviewing the legal framework and overall incentives regime for private investment.

A central feature of the tourism policy is the development of the Little Bay seaport and its surrounding areas as a thriving commercial and tourist centre, including facilities for cruise tourism. One of the principal policy decisions emanating from the PDP is the development of the Little Bay area as such a centre. The policy is to strengthen the tourism assets of Little Bay so that it can contribute to the long-term socio-economic development of the island. This would be accomplished through the provision of improved tourist facilities, encouraging visitors to stay longer in town and spend more, and thus providing an enabling environment for increased local business opportunities.

The broader economic policy also includes diversification into other service industries. These include the provision of offshore medical training, offshore financial services and the promotion and expansion of Information and Communications Technology (ICT).

Policy initiatives are being pursued to develop the island into a knowledge-based economy and society. One such initiative is the creation of a more competitive environment for the ICT sector. The aim is to provide wider access among the local population to ICT and to facilitate integration into the global information and business network at an economic price.

2.4 Fiscal Policy

GOM is pursuing a fiscal policy that is closely integrated with its economic policy and the achievement of the objective of economic and fiscal stability. GOM's policy is aimed at reducing the fiscal deficit annually and to achieve sustainability by 2012. This would be achieved through the benefits of economic expansion, more effective revenue collection measures, the introduction of creative revenue-raising measures, and more efficient expenditure practices.

2.5 Social Policy

GOM's social policy is geared towards protecting those groups exposed to poverty, hardship and other forms of vulnerability. It aims to achieve this through improving access to basic necessities such as education, health, food and shelter, as well as by supporting empowerment and the building of social capital.

2.6 Environmental Policy

GOM's policy agenda emphasises environmental protection as an integral part of the development process. It is GOM's policy to undertake an environmental assessment of every project that it implements. This approach is adopted by all major government departments and agencies. They recognise the environment as a cross-cutting issue affecting all of GOM's programmes and activities. GOM also works closely with the Montserrat National Trust, an NGO whose principal aim is to protect and enhance Montserrat's natural environment.

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

3.1 Institutional and Political Situation

3.1.1 Constitutional Status

Montserrat is an internally self-governing Overseas Territory of the United Kingdom. The United Kingdom is responsible for Montserrat's external relations, defence and internal security. In December 1989, Montserrat's Constitution was consolidated into one document and the new Constitution came into force in February 1990.

3.1.2 Political Structure

The Montserrat Constitution Order 1989 vests Executive Authority in Her Majesty the Queen. It provides for a Governor appointed by the Queen to exercise executive authority on her behalf. The Governor therefore retains responsibility for internal security (including the police), external affairs, defence, the public service and offshore finance.

The Constitution also provides for an Executive Council over which the Governor presides. It comprises a Chief Minister and three other ministers, as well as the Attorney General and the Financial Secretary who are *ex officio* members. The Legislative Council currently comprises nine elected members and a Speaker. The Attorney General and the Financial Secretary also sit as members of the Legislative Council. Five of the elected members support the Government. There are four members on the opposition side of the Legislature.

3.1.3 Elections and Electoral Reform

Montserrat has a well-established tradition of parliamentary democracy, free elections, participative decision-making and a multiparty political structure that also accommodates active participation by independent candidates. The most recent elections were held in 2001 and were considered to have been generally free and fair.

Elections are constitutionally due to be held every five years on the basis of universal adult suffrage. Parliamentary elections have been held in the Territory on 12 occasions between 1952 and 2002. Generally, the electoral process has produced a high degree of political stability in Montserrat.

3.1.4 The Legal System

The legal system is based on English common law. Montserrat is one of the jurisdictions that share the Eastern Caribbean Supreme Court headquartered in St. Lucia. The island shares a “resident” High Court Judge with Anguilla, although other Judges are available for sittings when the situation justifies it. Appeals from the High Court are heard by the Eastern Caribbean Appeals Court with final appeal to the Privy Council in London.

3.2 Economic Situation

3.2.1 Economic Structure and Performance

Montserrat is an open and dependent micro-economy with few natural resources. Its current population represents a market size that is too small to stimulate significant local production for mainly local consumption. At the same time, the labour force is not large enough to attract large-scale investment with a high demand for labour. As a result, economic activity has traditionally been highly dependent on external trade and trade in services such as tourism, as well as relatively small-scale manufacturing activity.

National Output

After a period of growth in the early 1990s the Montserrat economy experienced a period of decline during the second half of the decade. GDP declined by 10% in 1998 and 13% in 1999. GOM was able to contain the rate of decline to as low as 3% in 2000 and 2.8% in 2001. There was then a positive growth rate in 2002 for the first time in more than five years. In that year, the economy grew by 4.6% to reach a total output level of EC\$88 million (EUR 29.3 million) in current prices or EC\$60 million (EUR 20 million) in constant prices (See Annex 5).

Between 1998 and 2003, economic activity has been dominated by Construction and Government Services. These two sectors contributed 23% and 31% respectively to GDP in 2002. Construction has been financed largely by development funding provided to GOM mainly by the UK government and the European Union. Construction activity has primarily involved the provision of housing accommodation for the dislocated population and the rebuilding of public infrastructure. The public sector has therefore been leading economic activity over the past six years.

Tourism

Tourism has traditionally been the mainstay of the economy. Montserrat’s tourism still depends largely on the rental of vacation homes by visitors. The Real Estate and Housing Sector is therefore closely related to Tourism. Hotel accommodation also forms an important aspect of Montserrat’s tourism. The focus has been on small-sized, low impact hotel facilities. GOM is actively encouraging investment in new hotel accommodation, particularly in the Little Bay area.

Cruise tourism was previously an integral part of the industry in Montserrat. The increasing number of day trippers from Antigua in recent years and the ongoing gradual return of smaller cruise ships and yachts indicate that Montserrat still has a viable market in that area.

A recent study commissioned by GOM with support from the Government of the Republic of Ireland concludes that tourism remains a sector with high potential for job creation, income generation at the community level, foreign exchange earnings, increasing government revenue and fostering an enterprise economy. The study includes a Tourism Strategy and Plan whose implementation will begin ahead of the opening of the new airport. It includes a series of action plans for developing the Little Bay area into a tourist and commercial centre, enhancing the island's tourist attractions, effectively promoting the island overseas, and upgrading port facilities to attract a higher number of cruise visitors and yacht passengers.

The number of stay-over tourists who visited Montserrat in 1994 was 21,000. The Caribbean Tourism Organisation (CTO) estimated visitor expenditure in the economy that year at EC\$54 million (EUR 18 million). After a significant decline between 1996 and 1999, the tourism sector has shown a general upward trend. Tourist arrivals in 2000 numbered about 13000. This figure grew to reach almost 16000 in 2001 and in 2002 the total was around 15000. The ECCB annual report for 2001 estimated visitor expenditure in 2000 at around EC\$19 million (EUR 6.3 million). At present there is one hotel with 18 rooms, and five guest houses. Another hotel is about to be refurbished and this would make additional rooms available for the 2004 tourist season. There are presently 65 villas available, with the prospect of the recent re-opening of sections of the Exclusion Zone bringing an additional number back onto the market.

Construction work has started on the new airport at Gerald's, which will improve the prospects for tourism and for economic growth in general. The project will provide a 600m airstrip, control tower and passenger terminal by 2004/2005. When it is completed, it would facilitate the return to Montserrat of regular airline passenger service for the first time in six years. This is expected to provide a tremendous boost to the tourism sector and to generate renewed business confidence in Montserrat. It will provide improved links to the various airline hubs in the Caribbean and invaluable access to the island. It would ensure that Montserrat could once again appear on the schedules of airline agencies around the world and renew its presence in the market.

Agriculture

Agriculture has proved to be a volatile yet important sector over the years. Between 1993 and 1996 the sector's contribution to national output averaged 5.5%. Volcanic eruptions in 1997 dramatically reduced the area of land under cultivation. Agricultural activity is now concentrated in the north of the island and attempts are being made to increase production of fruit, vegetables, eggs and meat for the local market.

Agriculture is undertaken largely on a small-scale subsistence basis. There is a vibrant but small cadre of farmers on the island who receive support from GOM in the form of technical advice, training and other assistance. Agriculture now represents only 2% of GDP. GOM aims to increase this back to pre-volcano levels over the next five years in order to satisfy a higher proportion of household and tourist demand.

Financial Services

Offshore services such as medical education and offshore finance are still considered important areas of economic activity that can also enhance government revenue. In recent years, significant changes have been made in the offshore finance industry. These include changes in legislation to ensure that the industry is conducted and regulated in line with international standards. GOM has also established a regulatory commission that has been co-operating fully with the EU, the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) and other international and regional bodies involved in monitoring and regulating the global industry. GOM's aim is to find the right approach to continue to attract business for the sector while ensuring that Montserrat adheres to international standards. The contribution of the sector to the economy is currently small but GOM considers it to have considerable potential for future growth.

Offshore Medical Education

Up to the mid 1990s the Montserrat economy gained tremendous benefits from the presence of a medical school on the island. The institution catered to 300 students and generated up to EC\$6.6 million (EUR 2.2 million) a year in the economy. Two new medical schools have recently obtained permission from GOM to operate on the island. These are expected to generate employment and foreign exchange earnings and to provide spin-offs in other sectors of the economy. This activity is also expected once again to make a significant contribution to economic growth.

Information and Communications Technology

The Communications sector contributes significantly to annual economic output. Between 1998 and 2003, its contribution to GDP has ranged between 4% and 7%. The sector is dominated by one multinational company, which has continued to invest in modern communication infrastructure. Communication with the outside world is via Microwave link to neighbouring Antigua. The local infrastructure consists of a mixture of underground Fibre Optic and Copper cables; overhead copper lines for fixed line services; and wireless antennae sites for mobile telephone services. The company offers a range of Telephony and Internet services. Advanced TDMA Digital 1 Technology is

employed to offer a range of services, including voicemail, text messaging and global roaming.

The cost of communication services in Montserrat is considered high. Although this may be partly attributable to the cost of infrastructure needed to service a small domestic clientele, there appears to be scope for reducing existing rates. Some members of the Organisation of Eastern Caribbean States (OECS) have established the Eastern Caribbean Telecommunications (ECTEL) body to promote the liberalisation of the industry. This has already resulted in an increase in the number of service providers and a lowering of the rates for some services in those countries. Montserrat is a member of the OECS but not of ECTEL. Nevertheless, as a member of the OECS, the territory is expected to benefit from the lessons learnt by ECTEL and to proceed shortly on a path leading to the establishment of a more competitive industry. One indication of this was the formation in November 2002 of an ICT Task Force to formulate an ICT policy and to advise GOM on how to establish a new competitive regime that would function as a catalyst for the development of a modern, sophisticated and dynamic sector.

The 2001 Census found that 1500 households (75%) in Montserrat have telephone connections. It is estimated that there are 400-500 mobile phone customers. The Census also found that 366 households possessed a computer and 300 of these had Internet access. All government offices have both telephone and computer facilities. All businesses have telephones and a high percentage also have computers.

There is a small but growing pool of relatively highly skilled technical personnel operating not only in the field of communication but also in the area of information technology. This represents a core group that could readily be expanded to meet the needs of a growing ICT sector in Montserrat. Such an expansion may be achieved through the recruitment of regional personnel as well as through the return of trained and experienced Montserratians residing overseas.

Mining and Quarrying

As a result of ongoing construction activity, the Mining and Quarrying sector has assumed importance in recent years. In addition, a private initiative is being seriously pursued for exporting volcanic ash to other islands for possible use in cement making and other products.

Labour and Employment

The structure of the labour force has changed in recent years. There is a higher level of dependency on GOM for employment. However, this is expected to change as private sector activity increases. In addition, there are a high proportion of Caribbean citizens in the labour force. This factor, together with the possibility that Montserratians would return from abroad, indicates that the potential labour force is far greater than the present

actual size. This is a key factor in assessing the availability of the human resources necessary to bring about economic growth on the island.

The 2001 census revealed that the population of Montserrat was 4500 divided among 2082 households. The male population was 54% compared with females who made up 46% of the population. The number of persons who fell within the age range of 15 to 64 years was 2900 or 65% of the population.

In 2001, immigrants represented 18% of the population. This provides an interesting and beneficial mix of people and skills on the island. It demonstrates that Montserrat has a forward-looking and fairly liberal population policy. It also indicates that the island still has an attraction for people seeking a suitable place to live and work. The majority of migrant workers originate from other Caribbean countries, and many are allowed to bring their families with them.

The number of persons who were economically active in 2001 was 2029. A total of 1,760 of these were employed and 269 were unemployed. The unemployment rate was 13%. During the past two years, there has been an increase in the number of people employed and the unemployment rate is now less than 10%. This is still significant in a society that has traditionally had low levels of unemployment. Moreover, the public sector employs 43% of the working population while 35% are employed by the private sector and 14% are self-employed. These two factors demonstrate the need for supporting the development of areas such as tourism that are most likely to create new employment opportunities, especially in the private sector.

Private Sector Development

In recent years the private sector in Montserrat has come to benefit from a number of initiatives. In the late 1990s DFID established a revolving fund to make business loans available. The funding was granted to the National Development Foundation (NDF), which operated the scheme. This resulted in the establishment of an increasing number of small and micro businesses and the expansion of existing operations.

The current Private Sector Development (PSD) Strategy includes access to finance through a Loan Guarantee Fund and a Venture Capital Fund, as well as technical assistance and institutional support for the Montserrat Chamber of Commerce and Industry (MCCI). The MCCI has already received assistance from GOM in establishing an office that would act as the liaison with GOM and overseas organisations, and as a channel for overall institutional support. In addition, a consolidated incentives regime for foreign and domestic investment will be prepared and implemented in the near future.

GOM is also seeking to access EU-funded private sector initiatives such as INTERREG III, PROINVEST and Caribbean Export.

The construction of the new airport at Gerald's is expected to have a substantial impact on economic growth. The impact of such a major investment is usually magnified in a small economy. It would generate increased private sector activity and would complement and support the other economic initiatives being pursued by GOM. Together with the possibilities for developing an organised, efficient and thriving tourism and commercial centre at Little Bay, these initiatives are expected to produce improvements in economic performance over the medium-term. The assessment is that the Montserrat economy is likely to grow at an average of about 5% a year over the next three years.

Public Finance Assessment

As the public finance Management pointed out the transparency, accountability and effectiveness of the budget system, procedures and management practices, and the openness and transparency of the procurement system, which is in addition compatible with international standards, it is recommended to allow the 9th EDF support to be provided to Montserrat through non-targeted Budgetary support.

A Budgetary Support would indeed provide the Government with the necessary speed, cost-effectiveness, flexibility, and awareness in the implementation of the policy aiming at escaping from the emergency situation towards a more sustainable development-based on the development of local private industries and services.

3.2.2 Trade and Regional Integration

Montserrat is a member of the Caribbean Community and Common Market (CARICOM), a grouping of Caribbean countries that fosters intra-regional trade and co-operation. The island's main trade partners are the United States, the United Kingdom and CARICOM countries.

Trade liberalisation is also an important aspect of Economic Partnership Agreements (EPAs). The EU is concluding EPAs with ACP countries compatible with WTO rulings. Montserrat wishes to be associated with this process.

The domestic economy is highly dependent on external trade. It relies on imports for most of its domestic demand. The main imports are fuel, food, building material, capital equipment and machinery and other manufactured goods. The level of exports is now negligible. GOM is seeking to finance the trade gap through increased tourism earnings.

Montserrat's export sector previously benefited from the access it had to the European Market as an OCT. GOM is seeking to use its special relationship with the EU to encourage domestic and foreign investors to become more active in the export sector.

3.2.3 Monetary Performance

Montserrat is a member of the Eastern Caribbean Central Bank (ECCB). The regional currency is the Eastern Caribbean Dollar (\$EC), which is pegged to the United States Dollar at the fixed rate of EC\$2.70. The currency has maintained a strong level of stability and the exchange rate has remained the same for more than twenty-five years. Monetary policy is centralised and is determined by the regional Board of Governors on which Montserrat has representation. The focus of this policy is to maintain a strong currency that would contribute to a stable economic and investment climate.

3.2.4 Public Finances

One of the principal aspects of the co-operation between GOM and UKG over the past eight years has been working together to ensure prudent fiscal management in the face of challenging circumstances. The adoption of measures aimed at reducing the budgetary deficit over time has been the dominant theme in negotiations relating to budgetary aid.

During the first half of the 1990s, GOM maintained a healthy fiscal position. Between 1990 and 1995, the balance on the current account of the budget was positive in every year except 1993 when there was a small deficit of EC\$0.5 million (EUR 0.17 million). During the other years, there was an average surplus of EC\$5.6 million (EUR 1.9 million).

After 1995, GOM was forced to increase expenditure dramatically to deal with the effects of the volcanic crisis. During the first half of the 1990s, current expenditure remained below EC\$40 million (EUR 13.3 million). Average annual expenditure was EC\$37 million (EUR 12.3 million). In 1996, this figure increased to EC\$54 million (EUR 18 million) and has remained at a high level. In 2002, current expenditure was EC\$62 million (EUR 20.7 million).

During the period 1990-1995, average current revenue was EC\$41 million (EUR 13.7 million) a year. In 1996, the figure decreased to EC\$33.6 million (EUR 11.2 million), and remained at an average of EC\$27 million (EUR 9 million) up to 2002.

This performance has resulted in significant fiscal deficits during the past seven years. This deficit has been financed by UKG on an annual basis. The deficit for 2003 has been projected at EC\$ 42 million (EUR 14 million). It is set to decrease by 5% in 2004 and by a further 25% in 2005 to EC\$30 million or EUR 10 million (See Annex 5). Thereafter, it is expected to continue a declining trend until sustainability is achieved by 2012. One of the main factors that would lead to a significant reduction in the deficit is the completion of the new airport by 2004/2005. The airport completion would substantially reduce expenditure on external transport arrangements.

During 2002-2003 GOM commissioned a Public Finance Review funded by DFID. The purpose of the review was to make recommendations for the reform and development of the public finance system in Montserrat to support a more streamlined, efficient and economical Government operation, as well as to promote the development of the private sector.

The Review was completed in January 2003 and has made a number of recommendations for revenue enhancement and for reducing expenditure. These include charging more economic rates for the provision of public services, instituting user charges for other services, privatising some government functions and rationalising others. GOM has increased utility rates and transport fees as a means of reducing the subsidy levels. It has also increased its efforts to collect outstanding taxes. Expenditure on other budget items will also be reduced as the population becomes more settled in the north of the island, and as the private sector becomes more involved in the provision of services that presently remain GOM's responsibility.

UKG is providing technical assistance and training to ensure that these recommendations are implemented effectively. Recent additions to GOM staff under the technical assistance programme include a Tax Adviser, a Customs Adviser and an Accountant-General. They are working in the main government departments responsible for revenue collection. GOM also retains its own qualified and experienced staff, including the Financial Secretary, the Auditor-General, the Director of Development and other Senior Accounting Officers. The foregoing suggests that GOM has in place a team of professionals that is capable of providing transparent and effective fiscal management.

An EU consultant visited Montserrat in September 2003 to conduct a Public Finance Review to assess Montserrat's preparedness for using budgetary support as the disbursement method for EDF 9. The preliminary results of the review endorse the Government of Montserrat's request for budgetary support.

3.3 Social Situation

GOM is committed to the Millennium Development Goals (MDGs) established by the United Nations in 2000 to eradicate extreme poverty; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS and other diseases; ensure environmental sustainability, and to develop a global partnership for development. Montserrat has already surpassed some of the targets but the MDGs together with their associated targets and indicators provide a framework within which GOM will work to ensure overall development of the island.

The social situation in Montserrat changed significantly as a result of the volcanic eruptions. The volcanic activity caused disruptions to family, community and social structures and weakened the social fabric of the island. Several assessments were undertaken between 1997 and 2002 and the results have been used as a basis for GOM's social policies and programmes up to the present time.

Some of the social consequences of volcanic activity included the separation of families with different members relocating overseas or to different locations on Montserrat; the relocation overseas of a disproportionate number of women and their children while their male partners remained at home; forced relocation of the majority of households, many of whom had to share inadequate housing accommodation; the loss of a variety of means of

livelihood such as small farming and micro-business; increased unemployment, increased vulnerability and dependency, and higher levels of poverty.

As a result of all this, GOM put in place social safety nets to prevent poverty, especially in households that had been forced to relocate from other parts of the island. The programmes included a food voucher scheme, emergency shelters, rental assistance and housing schemes. This represented a cultural change for large numbers of displaced persons since Montserrat previously had a relatively low level of dependency and vulnerability. GOM is now providing regular and direct welfare assistance to over 300 persons or 7% of the population a year. In addition, it is providing housing and rental assistance to 100 households. It supports three homes for the elderly, and has recently constructed warden-supported apartments for 50 elderly persons.

The current strategy is to ensure that *protection through social welfare* is complemented with the *promotion of social development initiatives* based on the principle of helping people to help themselves and the building of social capital.

It was on this basis that a Participatory Poverty Assessment (PPA) was begun in July 2000 and continued until 2002. This was a qualitative assessment of the social situation on Montserrat and was conducted with the participation of focus groups. It found that small groups of people were experiencing poverty and hardship and that these were defined not merely in terms of tangible measurements such as income, but also with respect to feeling a sense of security, well-being and empowerment, as well as the rebuilding of family and community networks.

Based on the information derived from the PPA, GOM has adopted the following core social principles as the bedrock of its overall social policy.

- Tackling poverty and hardship
- Reducing marginalisation and social exclusion
- Promoting social justice and equity
- Supporting the empowerment of people
- Increasing Social Capital
- Providing improved access to basic necessities such as education, health, food and shelter
- Maintaining an appropriate balance between social and “productive” expenditure.

GOM is also ensuring that social considerations are included in all of its programmes and projects and that they are fully integrated into government planning. For example, GOM commissioned a full social impact assessment for the development of the new Gerald’s Airport. This included interviews with the major stakeholders, including members of the community. Their views and recommendations were taken into full consideration in formulating a Plan of Action, including mitigation measures aimed at ensuring continued availability of housing and livelihoods.

Health Care

On-island health care remains at a good standard. The single hospital has been upgraded on an annual basis and now comprises 30 beds, an operating theatre, a laboratory facility, a pharmacy, and a casualty department. There is one doctor for about every 1000 persons on Montserrat, including a surgeon and an anaesthesiologist. In addition, regular clinics are held by doctors visiting from overseas. There are four health centres providing effective primary health care in different communities on the island. GOM is also providing assistance to persons in need of specialised health care that is not available on the island. Arrangements are normally made for such health care to be obtained overseas.

Education

Montserrat has also maintained a high standard of education ranging from early childhood to tertiary level instruction. There are four early childhood centres catering for almost 130 children, three primary schools with a total enrolment of 450, and one secondary school with a population of 300. Enrolment is 100% in both primary and secondary school and education at the two levels is free. Almost all students attend school until age 16 or 17 when most of them take secondary school examinations conducted by the Caribbean Examinations Council (CXC). A range of academic and a limited number of technical subjects are offered.

The CXC also offers the Caribbean Advanced Proficiency Examination (CAPE), which qualifies successful students to enter the first year of university. The course lasts a further two years in high school. The University of the West Indies (UWI) conducts an external programme that allows adults to work and study at the same time.

GOM has formulated an Education Development Plan for the period 2002-2007, which provides overall direction for the development of education in Montserrat. It includes plans for a community college to be funded by the EU. It would offer integrated tertiary level education, including technical and academic training.

3.4 Gender

As a UK Overseas Territory, Montserrat is guided by the international conventions and practices on the rights of women adopted by UKG. In practice, the role of gender in development is recognised by GOM as a cross-cutting issue that must influence its policies and programmes. Montserrat practises gender equality in all aspects of life on the island, including full participation in decision-making. Three of the nine members of the Executive Council and four of the six Permanent Secretaries in government are women.

3.5 The Environment

The main environmental consideration for Montserrat remains the impact that the volcano has caused on the southern portions of the island. Although the northern sections are occasionally affected by ash fall, the landscape in the north has remained relatively unaffected by the eruptions. GOM and UKG undertake regular assessments of the air quality on the island.

Past activity at the volcano has served to heighten environmental awareness on Montserrat, especially the need to preserve the remaining terrestrial and marine resources of the island. Special attention is therefore given to environmental considerations in the preparation of development projects, as well as in regular activity in the North.

Montserrat has in place sound environmental procedures and guidelines. These were tested, for example, by the environmental assessment of the Gerald's airport project. The results of the assessment were found to be acceptable by the EU and DFID, which are jointly funding the project.

Montserrat continues to participate in regional programmes for disaster preparedness and mitigation. It cooperates in this area closely with the Caribbean Disaster Emergency Response Agency (CDERA), the organisation responsible for disaster mitigation and relief in the Caribbean.

3.6 Medium-Term Challenges

3.6.1 Economic challenge

One of the most important challenges is to maintain a pattern of positive economic growth following the turnaround that occurred in 2002 after six years of negative growth. The current aim is to generate growth of about 5% a year over the next three years. In order to achieve this, Montserrat would need to begin immediately on the promotional and other activities necessary to bring about substantial growth in the tourism sector. It is this sector that has been the traditional lead sector in the economy and GOM's current economic policy is based on the same premise.

The revitalisation of the tourism sector is itself a significant challenge given the developments that have affected Montserrat's tourism in recent years. Success in tourism is also highly dependent on international factors, including international terrorism and economic conditions in the main markets of Europe and North America. GOM and the Montserrat Tourist Board (MTB) have been seeking to find ways of using the island's uniqueness to attract a new and different clientele to the island, in addition to maintaining traditional visitors.

GOM also needs to access the resources necessary for public investment in strengthening the tourism assets of the island. Funding would be needed to kick-start the process, and the injection of investment at an early stage would lead to tourism growth and faster economic and fiscal sustainability.

GOM will attempt to rehabilitate the private sector through access to finance, provision of a strategically located commercial centre, adequate and suitable business space and provision of business support services.

A further challenge is the liberalisation of the ICT industry to put it on a more competitive basis and to encourage greater use by Government, the Business sector and the wider community. Liberalisation calls for the enactment of new legislation and the formulation of regulations to govern the ICT sector. Greater access to ICT would depend on costs, and liberalisation is likely to result in greater competition and lower costs. The Montserrat market is a small one and GOM's approach would have to be pragmatic if it is to achieve its goals for the sector. Much would depend on the level of interest shown by potential competitors. GOM has already been approached by prospective operators and is studying proposals from them to become service providers.

Montserrat is one of the Caribbean OCTs that are seeking to become involved in and benefit from the 9th EDF Caribbean Regional Indicative Programme (CRIP 9). The CRIP9 aims to establish a pro-competitive and integrated regulatory framework for communication services, the promotion of access to ICTs and the development of the Information Society.

3.6.2 Population Growth

Another challenge for GOM is to successfully increase the island's population by encouraging large numbers of Montserrat citizens to return. The goal is to increase the population from about 4,500 to around 7,500 in the next five years. This would boost the size of the labour force, improve the domestic skills base and increase the size of the market for domestic commercial and economic activity. It would also demonstrate growing confidence in the future of the island. This would in turn enhance the overall prospects for social and economic improvements.

3.6.3 The Fiscal Challenge

The challenge is to progressively and substantially reduce the annual budget deficit in line with the current DFID Aid Framework. This projects a phased reduction of budgetary aid over the next three years and a gradual move back towards the funding of mainly development expenditure. DFID has agreed that GOM should assume greater responsibility for managing the budget deficit, including implementing a number of measures for increasing local revenue and reducing expenditure. The current Aid Framework is as follows.

	2003/2004		2004/2005		2005/2006	
	<i>EC\$m</i>	<i>EURm</i>	<i>EC\$m</i>	<i>EURm</i>	<i>EC\$m</i>	<i>EURm</i>
Budgetary Aid	44.1	14.7	40.1	13.4	30.2	10.1
Development Aid	34.0	11.3	20.8	6.9	22.3	7.4
Total	78.1	26.0	60.9	20.3	52.5	17.5

In order to be successful, GOM would have to achieve the projected levels of increased economic activity to generate higher levels of revenue. The development of tourism and other private sector-led activities would provide a real opportunity for this to be brought about.

3.6.4 International and Regional Challenges

The international trade commitments negotiated in the context of the World Trade Organisation (WTO) represent a growing challenge for Montserrat's open, dependent micro-economy. The CARICOM region is presently seeking to come to terms with the effects of globalization and international trade commitments under the WTO rules.

As a member of CARICOM and at the same time retaining its OCT status, Montserrat is now assessing its position in relation to progressive trade liberalisation and the possible impact on its fiscal and economic situation.

CARICOM itself is currently implementing a Common External Tariff (CET). Montserrat is operating under derogation from the agreed rates. The members of CARICOM are also in the process of establishing a Caribbean Single Market and Economy (CSME). The CSME is to include a fully functioning common market, and the harmonisation of macroeconomic policies. It is also expected eventually to lead to monetary integration. GOM is currently engaged in discussions with CARICOM and UKG to determine the constitutional, legal and cost implications for Montserrat. The nature and timing of Montserrat's involvement in the CSME is expected to become clearer during the course of 2004.

GOM depends on customs duties and other trade taxes for more than 40% of its current revenue. It will need to find ways of generating replacement revenue. GOM is dealing with the challenge by investigating the feasibility of introducing a tax on domestic transactions. The expectation is that more detailed work would be undertaken during the next eighteen months and that sound recommendations would be provided in good time. Montserrat remains committed to the principles of regional integration and recognises the benefits to be derived through the integration efforts.

Trade liberalisation is also an important aspect of Economic Partnership Agreements (EPAs). The EU is concluding EPAs with ACP countries compatible with WTO rulings. Montserrat wishes to be associated with this process.

It is in regard to the foregoing that Montserrat is making itself one of the Caribbean OCTs that are seeking to become involved in and benefit from the 9th EDF Caribbean Regional Indicative Programme (CRIP 9). The programme focuses on projects relating to trade and regional integration in the Caribbean region. The overall aim is the beneficial integration of the Caribbean region into the world economy through sustainable economic growth, regional cohesion and stability, continued improvements in living

standards and poverty reduction. Under the programme, the EU is providing EC\$171 million (EUR 57 million) for the period 2003-2007.

CHAPTER 4: ASSESSMENT OF PAST AND ONGOING EC CO-OPERATION

4.1 EC Support under Previous EDF Cycles

EU funds have been used effectively in Montserrat and have contributed significantly to the achievement of GOM's development objectives. Projects have been generally well managed despite the occasional delay during implementation. The experience that GOM officials have gained from previous projects will have a positive effect on the implementation of the 9th EDF.

Since 1976 EC assistance to Montserrat under the fourth to eighth EDFs has totalled EC\$97.5 million (EUR 32.5 million). Under the 4th and 5th EDFs funding was made available for water improvement and road projects. One of the major road projects that received EDF funding was the St. John's to Trants Ring Road. This provided an alternative, shorter route between the airport and destinations in the north of the island. This road proved to be crucial even after the airport closed in 1997. It has provided access to large areas of land in the north and north-east that are now being used for a variety of important purposes, including housing and agriculture.

Following Hurricane Hugo in September 1989, funds earmarked under the 6th EDF for new projects in the transport sector were diverted to the reconstruction of Plymouth Port Jetty, which was completed in June 1993.

Expenditure under the 7th and 8th EDFs was suspended during the period 1996 to 1998. This came as a result of the volcanic eruptions that took place during that time. Funds from the 7th EDF had been earmarked for improvements to the W H Bramble Airport. However, the process of reallocating these funds was resumed in 1999 and funds have now been allocated to the construction of the airport at Gerald's.

Under the 8th EDF, Housing and Resettlement was made the focal sector for Montserrat. As a result of the volcanic eruptions of 1997, Montserrat lost the vast majority of its housing stock, and a major housing crisis ensued. The objective is to provide adequate, affordable and appropriate housing accommodation for residents displaced by volcanic activity. This project is still timely and effective in resettling a significant section of the population, including female-headed households and elderly persons since a great need for housing exists as evidenced by the housing register. The aim is to provide housing through the development, sub-division and allocation of residential land, as well as the construction of residential buildings on these developed lands. Construction is expected to begin in early 2004.

Both the W H Bramble Airport and the Plymouth Seaport were rendered unusable by the volcanic eruptions. After consideration of all the available options for providing Montserrat with air and sea access, it was decided in 2001 that the most feasible option was to develop new facilities in new locations in the North. EDF Funds were therefore re-allocated to the development of a new airport at Gerald's in order to provide the island with a fixed wing facility for the first time since 1997. Construction work on the new facility commenced in 2002 and is expected to be completed by 2004/2005.

Montserrat has also utilised development assistance under a number of regional projects. One of these is the Caribbean Export Development Agency (CEDA) which provides technical assistance and training for export manufacturers in OECS countries and in Montserrat. Another is the ASYCUDA project, which is designed to improve the collection of customs revenue. Computer equipment was also installed at the customs offices. Montserrat has also benefited from the Regional Trade Fair Programme, the NGO Programme and from Emergency Aid.

Under the OECS Tertiary Education Project, Montserrat is to benefit from the construction of a Learning Resource Centre and classroom for its Community College at a cost of EC\$1.5 million (EUR 0.5 million). Montserrat also receives assistance through the project in the form of teacher training co-ordinated by the office of university services at the UWI. The island has benefited from the OECS Tourism Development Programme which provides support to the OECS region for market development and promotion in Europe. It also stands to benefit from the Caribbean Regional Tourism Development Programme, which is assisting ACPs and OCTs in the Caribbean to achieve sustainable growth in their tourism sectors.

4.2 Programmes of Other Member States – The United Kingdom Government

The UKG is the only Member State significantly involved in Montserrat's development at this stage, although the government of the Republic of Ireland has recently funded an important project to study the state of tourism on the island and to develop the sector. DFID is the UKG's department of government responsible for promoting development and reducing poverty. Funding has been provided to Montserrat mainly through the negotiated strategy paper called the CPP. DFID funds are being utilised not only for the development programme, but also to provide budgetary aid to meet annual deficits on GOM's recurrent budget. The purpose is to maintain a reasonable level of public services as effectively and efficiently as possible.

From the start of the volcanic crisis until March 1998, UKG provided EC\$260 million (EUR 86.7 million) in assistance to Montserrat. From April 1998 to March 2001, Montserrat was allocated EC\$330 million (EUR 110 million). In 2001, a new Aid Framework was announced with funding of EC\$317 million (EUR 106 million) to cover the period 2001-2006, including a total of EC\$134.6 million (EUR 44.9 million) for the period 2003-2006. In 2003, funding for this latter period was increased by EC\$22 million (EUR 7.3 million) a year.

DFID funding has been used to provide significant investment in a large variety of areas, including the provision of essential transport infrastructure, housing development, and support for the delivery of both private and public sector services.

A draft Sustainable Development Plan (SDP) for the next five years (2003-2006) is now being negotiated. The process is a consultative one and involves key personnel from DFID and GOM. A number of broad goals have already been drafted. These are outlined in Chapter 2 of this SPD and will guide UK/Montserrat development co-operation over the period. The next SDP is scheduled to be finalised and agreed by March 2004.

UKG has also provided support to GOM's accounting and financial management functions through the Caribbean Overseas Territories Government Accounting Reform (COTGAR) project. Other assistance from the UKG has been provided through the Foreign and Commonwealth Office (FCO) from its Good Governance Fund.

UKG has employed a partnership approach to development co-operation with Montserrat. This has ensured local ownership of projects and other development initiatives and has contributed significantly to the successful implementation of GOM's development agenda.

CHAPTER 5: RESPONSE STRATEGY

5.1 Principal Elements

In the light of the assessment of Montserrat's current fiscal and economic situation, its policy agenda and the areas of co-operation identified in the OCT Decision of 2001, the following elements are the principal factors for consideration in the EC response strategy.

1. The need to return Montserrat to a path of sustainable economic and social development.
2. The wide-ranging benefits to be derived from the development of sustainable tourism as the lead sector of the Montserrat economy; its potential for stimulating other sectors of the economy; its potential for enhancing the fiscal situation; and Montserrat's previous experience and success in the industry.
3. The recent completion in 2003 of a Tourism Strategy and Plan and the need for support to ensure its timely and effective implementation.
4. The need to provide the infrastructure necessary to facilitate and encourage domestic and foreign investment in hotels and vacation villas, commercial establishments and other tourism assets and services.
5. The need to revitalise the private sector in support of tourism development, the recent completion in 2003 of a Private Sector Development Strategy and Plan and the need for support to ensure its timely and effective implementation.
6. The completion in 2003 of a development plan for a commercial and tourism centre at Little Bay and the need for support for its timely and effective implementation.
7. The need to restructure the Montserrat economy so as to reduce the level of government intervention and to increase the role of the private sector in economic development.
8. The recognition by GOM of the social and economic benefits to be derived from the development of knowledge-based economy and society; the need to provide wider access to ICT at more economic rates; and the need to develop a more competitive and regulated ICT environment.
9. The identification in the OCT Decision 2001 of Trade in Services as a principal area for OCT-EC Co-operation, including support for the promotion of sustainable tourism and the development of ICT.
10. Previous involvement by the EC in developing supportive infrastructure, such as the Montserrat seaport, as well as the EC's current involvement in developing a

new airport that would stimulate tourism development, increased private sector activity and increased trade.

5.2 EC Support Strategy

Under the 8th EDF, the EC had based its co-operation with Montserrat on a survival strategy geared mainly towards the effective resettlement of displaced people. In recognition of GOM's change of policy from crisis management to promoting sustainable economic and social development, it is proposed that the support strategy should reflect this change of emphasis. The proposed strategy is to employ the resources available to Montserrat under the 9th EDF to support Trade in Services with the emphasis on the promotion of sustainable tourism.

The strategy targets three main areas that must be addressed to ensure the successful development of tourism. Essential infrastructure would be required; the private sector must be prepared and encouraged to invest and participate in the sector; and ICT development is necessary for integration into the global tourism information network, for the use and convenience of visitors and for creating a knowledge-based tourism destination. The following form part of this strategy.

- Provision of support for tourism development through human resource training, institutional development, technical assistance, the promotion of private investment in the sector, marketing and promotion, and research and information.
- Provision of support for transforming the Little Bay waterfront into a physical setting that is visually interesting, distinctive, comfortable and inviting for tourists and local residents, including appropriately sized marina and yachting facilities tastefully created to fit the overall character of Little Bay and the island as a whole.
- Enhancement and protection of the marine environment through the creation of a marine park that would charge visitors user fees to be utilised in the effective management of the park.
- Strengthening of Montserrat's tourism assets to attract a higher number of stay-over and cruise visitors to the island and increase the level of visitor expenditure in the economy.
- Promotion of private sector development through the provision of supportive infrastructure at Little Bay, investment incentives, institutional support and capacity building in order to put the sector in a position to benefit from new business opportunities and to generate further business activity.
- Support for the formulation and implementation of an effective ICT policy and regulatory framework; development of a competitive telecommunications environment that would bring rates closer to costs; technical assistance, training

and exposure to new technologies and ICT standards; and the development of new ICT facilities on Montserrat.

- Support for programmes and activities aimed at strengthening the air and sea transport sectors, thereby increasing trade opportunities.

5.2 Proposed Focal sector for EU Support

It is proposed that Trade in Services be treated as the focal sector and that the resources available under the 9th EDF be concentrated on this area of support. It is under this sector that there is scope for support for sustainable tourism through infrastructure development, private sector development and ICT development.

The promotion of tourism as the lead sector of the economy and the strengthening of Montserrat's tourism assets would contribute to the long-term socio-economic development of the island. Investment is needed to provide improved tourism facilities, to support capacity building in the sector and to create the enabling environment for increased local business opportunities.

GOM is cognisant of the central role that the previous capital of Plymouth played in Montserrat's development up to 1997. Since its destruction, economic and social activity has shifted to the North of the island. The absence of a town has resulted in business, commercial and other economic development activity following an unorganised pattern. The private sector has experienced difficulty in obtaining adequate and appropriate business space and many have relocated on several occasions. They have found it challenging and costly to establish and conduct business from unsuitable locations. The creation of a tourism and commercial centre would significantly reduce the cost of doing business and enhance the opportunity for business development on the island.

GOM views it as undesirable and untenable for the public sector to continue to lead economic activity in Montserrat. It considers the development of a well-organised town centre at Little Bay with the associated development of port facilities as pivotal for private sector development and regeneration. This would in turn reduce the need for government intervention and lead to higher rates of economic growth.

GOM has made a policy decision to make Montserrat a mainly service-oriented economy. A competitive and progressive ICT sector is central to any modern economy and society and especially to one which is service-based. The availability of quality ICT facilities would help to attract business visitors and vacationers alike and would assist Montserrat in providing instant and updated information to clients around the world.

5.3 Coherence and Complementarity with EU Policy

One of the main policy objectives of the EU is to promote the economic and social development of the OCTs more effectively. Under the current OCT Decision, Trade in Services has been identified as an area of co-operation. Support for sustainable tourism, ICT and private sector development fall under the Trade in Services sector. The proposed strategy is therefore consistent with EU policy.

The development of the commercial and tourism centre complements the ongoing airport project, which is largely funded by resources from the 8th EDF. The airport project would stimulate increases in tourism and would facilitate increased private sector activity. Similarly, the Little Bay development would provide facilities and services that would attract visitors to Montserrat and encourage them to spend more in the economy.

Montserrat is to benefit from the establishment of a Community College under the 8th EDF and also from the regional tertiary education project. The college will provide training in a variety of areas including entrepreneurial training, tourism skills and ICT.

Montserrat has previously accessed resources from the European Investment Bank (EUR 2 million) for port development on the island. Further development of the port area would demonstrate continuity and consistency in the policy objectives of the EU.

The EU-funded OECS Tourism Development Programme provides support to the OECS region for market development and promotion in Europe. The Caribbean Regional Tourism Development Programme assists countries in the region including Montserrat to achieve sustainable growth in their tourism sectors. The funds available under these programmes are directed towards initiatives in the areas of human resource development, product improvement, industry research and the environment. The choice of Trade in Services as the area of co-operation under the 9th EDF represents complementarity with these programmes.

5.4 Consistency with Government Policy and Donor Assistance

In July 2003 the Executive Council of the Government of Montserrat adopted a Decision to commit the funding available under the 9th EDF to the Trade in Services sector. In particular, Council anticipates that the funds would be used to promote sustainable tourism, private sector activity and ICT development. The Decision is consistent with the objectives of the SDP and the budgetary proposals presented in Parliament in March 2003. GOM's plans for the Little Bay area development are also consistent with the Physical Development Plan.

The UK Government has provided funding for the preparation of proposals and plans for the development of Little Bay. The consultants' report provides a comprehensive analysis of the development options, including design and development guidelines and cost estimates. The options include the creation of a retail, commercial and tourism centre, as well as infrastructure to support hotel and residential villa development.

DFID is providing EC\$2 million (EUR 0.67 million) to develop the following in Little Bay.

- Roads with associated sidewalks and utilities
- Serviced residential and commercial lots
- Sites for the Cultural Centre, a Public Market, a Recreational Area and a new Government Headquarters
- Sites with potential for Hotel Development.

DFID has already provided EC\$3 million (EUR 1 million) to construct and expand port facilities at Little Bay.

A group of non-government institutions and individuals have raised more than \$2 million for the construction of a Cultural Centre at Little Bay. GOM has committed an area of land for this purpose and design drawings have been completed. The Montserrat community has also established a site at Little Bay for outdoor cultural events. In addition, GOM has already undertaken considerable work on the proposed sports ground in Little Bay.

PART B: INDICATIVE PROGRAMME

CHAPTER 6: INDICATIVE PROGRAMME

6.1 Financing Envelope

Implementation of the EC's response strategy will be financed through the 9th EDF under which an amount of EUR 11 million is available. Montserrat has chosen the option of budgetary support as the means of implementation.

6.2 Focal Sector

6.2.1 Overall Objective

The overall objective is to develop Trade in Services, and in particular the tourism sector to lead economic recovery, improve the fiscal stance and promote social advancement in Montserrat.

6.2.2 Specific Purposes

The specific purposes are as follows.

- To support the development of infrastructure in order to facilitate and encourage tourism development.
- To promote private sector development in support of tourism development.
- To promote and establish a more competitive and modern ICT environment to facilitate and support tourism and general development.

6.2.3 Results

- Capacity of Montserrat Tourist Board strengthened.
- Hotels and Tourism Association established.
- Nature and Heritage resources improved and effectively managed.
- Little Bay infrastructure, port, waterfront and ancillary facilities upgraded and marina established.
- MCCI strengthened to provide effective business support services.
- Investment Incentives Regime consolidated, updated, approved and promoted.

- New Telecommunication and IT legislative and regulatory framework established.
- Infrastructure for a range of ICT services provided.

6.2.4 Main Activities

- Formulate and Implement programme of Technical Assistance to Montserrat Tourist Board (MTB).
- Establish Hotel and Tourism Association (HTA) to promote public sector and private sector co-operation.
- Formulate and Implement Programme of Technical Assistance to HTA.
- Review, Update and Introduce Legislation, Regulations and Programmes for MTB and HTA.
- Conduct tourism and tourism-related surveys, studies and research programmes.
- Develop nature and heritage resources including trail development and biodiversity parks.
- Develop and implement plans for restoration, improvement and protection of beaches.
- Establish marine areas for protection, designate dive sites, zone marine areas, mark reefs and develop marine park.
- Install moorings and other facilities for marina.
- Install infrastructure and ancillary facilities at Little Bay waterfront and surrounding areas.
- Establish Tourist Centre with Museum, visitor information office and other services.
- Establish Micro-Enterprise Fund and other advice and assistance to support micro-business development in the tourism sector.
- Review and update investment regime.
- Establish Arts and Craft Centre.
- Research and Formulate new legislation and regulations to govern ICT sector.
- Obtain technical assistance and training for development of ICT sector.
- Procure equipment and other items of support for Government Information Systems Unit.

6.3 Monitoring and Indicators

A set of indicators will be established with the EC for monitoring the programme. In addition to these, the indicators included in Annex 1 will be employed in the monitoring of the specific projects to be implemented under the 9th EDF.

ANNEX 1

ASSISTANCE FRAMEWORK IN THE TRADE IN SERVICES SECTOR

	Performance Indicators	Sources of Verification	Assumptions
<p>Long-term Territorial Sector Target:</p> <p>The overall objective is to develop Trade in Services and in particular the tourism sector to lead economic recovery, improve the fiscal stance and promote social advancement in Montserrat.</p>	<ul style="list-style-type: none"> • Tourist arrivals and tourism expenditure increase by 5%-10% per year. • GDP growth of 5% per annum during 2004-2006. • Fiscal sustainability by 2012. 	<ul style="list-style-type: none"> • Records of ECCB and GOM Statistics Unit 	<ul style="list-style-type: none"> • Volcanic activity remains at a tolerable level and confined mainly to the Exclusion Zone. • Economic conditions in the principal tourism markets remain favourable.
<p>Intervention Objectives:</p> <p>1. To support the development of infrastructure in order to facilitate and encourage tourism development.</p> <p>2. To promote private sector development in support of tourism development.</p>	<ul style="list-style-type: none"> • Proportion of required infrastructure installed annually. • Increase in the level of investment in tourism and tourism-related businesses. 	<p>1. Records of the MCCI, MTB and Ministry of Communication and Works.</p>	<ul style="list-style-type: none"> • Infrastructure Development Plans are workable and technically sound. • Private sector finds GOM's incentives regime attractive and responds accordingly.

<p>3. To promote and establish a more competitive and modern ICT environment to facilitate and support tourism and general development.</p>	<ul style="list-style-type: none"> • Reduction in communication tariffs and other customer charges. 	<ul style="list-style-type: none"> • Cable and Wireless rate sheets; records of Ministry of Communication and works; records of Government Information Systems (GIS) Department. 	<ul style="list-style-type: none"> • Local ICT Task Force operates effectively.
<p>Results:</p> <p>1. Capacity of Montserrat Tourist Board strengthened.</p> <p>2. Hotels and Tourism Association Established.</p> <p>3. Nature and Heritage resources improved and effectively managed.</p> <p>4. Little Bay infrastructure, port, waterfront and ancillary facilities upgraded and marina established.</p> <p>5. MCCI strengthened to provide effective business support services.</p> <p>6. Investment Incentives Regime consolidated, updated, approved and promoted.</p>	<ul style="list-style-type: none"> • Number of staff who receive training in tourism skills and frequency of staff training and exposure. • Volume and range of collateral material provided and utilised by MTB. • HTA active by 2005 and 75% of tourism establishments represented on HTA. • Number of trails, beaches and other sites improved and effectively managed. 	<ul style="list-style-type: none"> • MTB Annual Reports. • HTA Reports. • Feedback from travel agencies, visitors and residents. • Reports from Montserrat National Trust. • Reports from Ministry of Communication and Works. • MCCI records • Reports from Government Information Systems (GIS) Department 	<ul style="list-style-type: none"> • Timely completion and approval of SPD and required funds allocated under 9th EDF.

<p>7. New Telecommunication and IT legislative and regulatory framework established.</p> <p>8. Infrastructure for a range of ICT services provided.</p>	<ul style="list-style-type: none"> • Proportion of required infrastructure built annually. • Number of businesses assisted by MCCI annually. • Annual increase in number of ICT service providers. • Level of incentives provided to businesses annually. • Volume and quality of ICT equipment and level of ICT training acquired annually. 		
---	---	--	--

ANNEX 2: INDICATIVE DISBURSEMENT SCHEDULE

	EUR (million)	% Of Total	04/05	05/06	06/07
Territorial Indicative Programme Balances (EDF 6,7,8)	0.1	1.8	0	0	
Territorial Indicative Programme EDF 9	11	44	2.0	5.0	4.0
TOTAL	11.1	100	13.0	7.8	4

ANNEX 3: MONTSERRAT DONOR MATRIX (EUR m) 2003-2005

	Social Development	Productive Sectors
Territorial Govt.	1.5	.420
Private Sector	-	-
Non-State Actors	-	-
European Commission	8.1	10
United Kingdom	9.5	10.7
Caribbean Development Bank	1.3	.229
Other	-	-
Total	20.4	21.3

ANNEX 4: ECONOMIC AND FINANCIAL DATA

GDP by Economic Activity at Factor Cost in Constant (1990) Prices (EC\$M)

SECTORS	ACTUAL			FORECAST		
	2000	2001	2002	2003	2004	2005
Agriculture	1.04	0.86	1.21	1.27	1.35	1.42
Mining and Quarrying	0.07	0.07	0.05	0.05	0.09	0.15
Manufacturing	0.52	0.52	0.52	0.53	0.54	0.55
Electricity and Water	1.43	1.50	1.45	1.51	1.58	1.66
Construction	10.76	9.93	13.84	16.27	17.57	18.27
Wholesale and Retail	2.91	2.68	2.77	3.10	3.41	3.82
Hotels and Restaurants	0.73	0.93	0.85	0.86	0.87	0.89
Transport	3.98	4.08	4.13	4.32	4.59	4.88
Communications	6.92	4.82	4.95	5.07	5.20	5.36
Banks and Insurance	6.48	5.07	6.22	6.53	6.86	7.13
Real Estate and Housing	4.79	4.95	5.14	5.29	5.45	5.62
Government Services	18.40	18.70	19.02	19.50	19.98	20.48
Other Services	4.26	4.47	4.61	4.75	4.89	5.13
<i>Less Imputed Service Charge</i>	<i>3.78</i>	<i>1.73</i>	<i>5.29</i>	<i>5.55</i>	<i>5.83</i>	<i>6.15</i>
TOTAL	58.51	56.85	59.47	63.50	66.55	69.21
Growth Rate	-3.0%	-2.8%	4.6%	6.8%	4.8%	4.0%

EUR 1 = EC\$3

Public Finance Data 2000 – 2005 (EC\$M)

	ACTUAL			FORECAST		
	2000	2001	2002	2003	2004	2005
CURRENT REVENUE	27.40	26.56	27.98	28.24	30.45	32.32
Tax Revenue	25.46	24.76	26.74	26.38	28.55	30.37
Taxes on Income & Profits	9.65	9.90	10.24	9.73	10.86	11.97
Taxes on Property	0.82	0.79	0.83	0.98	0.99	1.20
Taxes on Domestic Goods and Services	3.32	2.58	2.76	2.90	3.01	3.10
Taxes on International Trade and Transactions	11.67	11.49	12.91	12.77	13.69	14.10
Non-Tax Revenue	1.94	1.80	1.24	1.86	1.90	1.95
CURRENT EXPENDITURE	50.03	52.24	62.12	69.80	69.95	62.37
Goods and Services	23.57	23.64	30.72	35.91	35.15	27.10
Personal Emoluments	20.70	22.52	24.77	26.94	27.75	28.03
Interest Payments	0.64	0.57	0.57	0.61	0.62	0.62
Transfers	5.12	5.51	6.06	6.34	6.43	6.62
CURRENT ACCOUNT BALANCE (Before Grants)	(22.63)	(25.68)	(34.14)	(41.56)	(39.50)	(30.05)
CURRENT GRANTS	25.79	27.80	35.09	44.10	40.10	30.20
CURRENT ACCOUNT BALANCE (After Grants)	3.16	2.12	0.95	2.54	0.60	0.15
% Change in Budgetary Deficit		13%	33%	22%	-5%	-24%